Bayou Preservation Association, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2019 and 2018

Bayou Preservation Association, Inc.

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Blazek & Vetterling
CERTIFIED PUBLIC ACCOUNTANTS

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, 2019 and 2018, 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 Bayou Preservation Association, Inc. as of December 31, 2019 and 2018 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 7, 2020

2900 Weslayan, Suite 200 Houston, Texas 77027-5132 (713) 439-5757 Fax (713) 439-5758

Bayou Preservation Association, Inc.

Statements of Financial Position as of December 31, 2019 and 2018

	2019	2018
ASSETS		
Cash	$ 366,679	$ 281,184
Prepaid and other assets	16,329	10,357
Endowment investments *(Notes 4 and 5)*	276,198	246,658
Property, net *(Note 6)*	961	10,889
TOTAL ASSETS	$ 660,167	$ 549,088
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 8,056	$ 5,503
Net assets:		
Without donor restrictions	281,161	244,706
With donor restrictions *(Notes 7 and 8)*	370,950	298,879
Total net assets	652,111	543,585
TOTAL LIABILITIES AND NET ASSETS	$ 660,167	$ 549,088

See accompanying notes to financial statements.

Bayou Preservation Association, Inc.

Statement of Activities for the year ended December 31, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Other contributions	$ 200,955	$ 83,896	$ 284,851
Symposium	21,635		21,635
Special events	168,231		168,231
Direct donor benefit costs	(51,601)		(51,601)
Contract fees	15,069		15,069
Net investment return	9	29,540	29,549
Total revenue	354,298	113,436	467,734
Net assets released from restrictions:			
Expenditure for program purposes	41,365	(41,365)	
Total	395,663	72,071	467,734
EXPENSES:			
Preservation of bayous programs	174,159		174,159
Management and general	110,400		110,400
Fundraising	74,649		74,649
Total expenses	359,208		359,208
CHANGES IN NET ASSETS	36,455	72,071	108,526
Net assets, beginning of year	244,706	298,879	543,585
Net assets, end of year	$ 281,161	$ 370,950	$ 652,111

See accompanying notes to financial statements.

Bayou Preservation Association, Inc.

Statement of Activities for the year ended December 31, 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Other contributions	$ 230,562	$ 36,000	$ 266,562
Symposium	29,155		29,155
Special events	103,799		103,799
Direct donor benefit costs	(26,078)		(26,078)
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.

Bayou Preservation Association, Inc.

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

	PRESERVATION OF BAYOUS PROGRAMS	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Payroll and related expenses	$ 73,238	$ 50,804	$ 15,560	$ 139,602
Professional and contract fees	53,265	28,177	41,143	122,585
Occupancy	24,541	13,178	3,706	41,425
Office supplies and expenses	6,478	3,406	2,515	12,399
Depreciation	5,114	4,814		9,928
Printing and postage	54	334	7,975	8,363
Communications	4,309	2,329	1,717	8,355
Insurance	3,366	1,480		4,846
Travel	3,578	625	7	4,210
Dues and subscriptions	199	472	2,026	2,697
Other	17	4,781		4,798
Total expenses	$ 174,159	$ 110,400	$ 74,649	359,208
Direct donor benefit costs				51,601
Total				$ 410,809

See accompanying notes to financial statements.

Bayou Preservation Association, Inc.

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

	PRESERVATION OF BAYOUS PROGRAMS	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Payroll and related expenses	$ 21,422	$ 70,856	$ 5,803	$ 98,081
Professional and contract fees	60,691	29,091	38,655	128,437
Occupancy	12,957	25,553	2,129	40,639
Office supplies and expenses	9,085	2,829	2,535	14,449
Depreciation	5,114	5,012		10,126
Printing and postage	236	934	6,301	7,471
Communications	5,769	1,762	1,018	8,549
Insurance	4,046	279		4,325
Travel	10,272	441		10,713
Dues and subscriptions	1,000	450	1,575	3,025
Other	2,132	7,738		9,870
Total expenses	$ 132,724	$ 144,945	$ 58,016	335,685
Direct donor benefit costs				26,078
Total				$ 361,763

See accompanying notes to financial statements.

Bayou Preservation Association, Inc.

Statements of Cash Flows for the years ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 108,526	$ 28,735
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	9,928	10,126
Net realized and unrealized (gain) loss on investments	(18,367)	20,554
Changes in operating assets and liabilities:		
Contributions receivable		10,000
Prepaid and other assets	(5,972)	(2,376)
Accounts payable and accrued expenses	2,553	(4,898)
Net cash provided by operating activities	96,668	62,141
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in cash and money market mutual funds	(11,173)	(11,527)
Purchases of property		(1,600)
Net cash used by investing activities	(11,173)	(13,127)
NET CHANGE IN CASH	85,495	49,014
Cash, beginning of year	281,184	232,170
Cash, end of year	$ 366,679	$ 281,184

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 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.

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 $5,000 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 are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as with donor restrictions. Conditional contributions are subject to one or more barriers that must be overcome before the Association is entitled to receive or retain funding. Conditional contributions are recognized as revenue at fair value when the conditions have been met. Funding received before conditions are met is reported as refundable advances.

Special events include elements of both contributions and exchange transactions and are recognized when an event occurs. Cost of direct donor benefits provided represents the costs of goods and services provided in exchange for the amount paid by event attendees.

Contract fees are derived from providing services to independent organizations. Performance obligations are satisfied over time as those services are provided. Contract fees are recognized at the amount of consideration the Association expects to be entitled to in exchange for those services. Payment is due upon request for the services provided. The nature of these services does not give rise to any variable considerations, warranties or other related obligations. There were no contract receivables and liabilities related to contract fees as of December 31, 2019, 2018, or 2017.

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 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.

Reclassifications – Program fees related to the Symposium of $29,155 in the year ended December 31, 2018 have been reclassified to contributions to conform with the current presentation.

Recent financial accounting pronouncement – The Association is required to adopt Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842),* for fiscal year ending December 31, 2022. Under this ASU, the Association will 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. Qualitative and quantitative disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARDS UPDATES

Effective January 1, 2019, the Association adopted ASU 2014-19, *Revenue from Contracts with Customers (Topic 606).* 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 using a 5-step process to determine when performance obligations are satisfied, and revenue is recognized. Simultaneously, the Association adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* This guidance clarifies the distinction between contributions and exchange transactions and between conditional and unconditional contributions. These ASU's have been applied on a retrospective basis to the financial statements for the year ended December 31, 2018. Because the timing and amount of revenue recognized previously is not different from revenue recognized under new guidance, adoption of these standards had no impact on 2018 net assets.

Presentation and disclosure pertaining to the year ended December 31, 2018 have been updated as appropriate to conform to the new standards.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

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

	2019	2018
Financial assets:		
Cash	$ 366,679	$ 281,184
Accounts receivable	5,935	
Endowment investments	276,198	246,658
Total financial assets	648,812	527,842
Less financial assets not available for general expenditure:		
Endowment investments net of 2020 and 2019 appropriations	(265,198)	(230,358)
Board-designated reserve fund	(75,000)	
Total financial assets available for general expenditure	$ 308,614	$ 297,484

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 relies primarily on contributions and special events revenue to provide resources for general expenditures. The Association expects to fund general expenditures in excess of financial assets available to meet cash needs with future contributions and reserve funds as necessary. The Association also has established a liquidity reserve fund of $75,000, which represents a minimum of three months of average operating expenses. Although the Association does not intend to spend from the liquidity reserve fund, amounts could be made available, if necessary.

NOTE 4 – ENDOWMENT INVESTMENTS

Endowment investments consist of the following:

	2019	2018
Multi-asset mutual funds	$ 239,875	$ 221,508
Money market mutual funds	35,446	24,154
Cash	877	996
Total endowment investments	$ 276,198	$ 246,658

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, 2019 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Endowment investments:				
Multi-asset mutual funds	$ 239,875			$ 239,875
Money market mutual funds	35,446			35,446
Total assets measured at fair value	$ 275,321	$ 0	$ 0	$ 275,321

Assets measured at fair value at December 31, 2018 are as follows:

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

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:

	2019	2018
Furniture and equipment, at cost	$ 53,209	$ 53,209
Accumulated depreciation	(52,248)	(42,320)
Property, net	$ 961	$ 10,889

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	2019	2018
Subject to expenditure for specified purpose:		
Various programs	$ 94,752	$ 52,221
Subject to spending policy and appropriation:		
Endowment and accumulated earnings	276,198	246,658
Total net assets with donor restrictions	$ 370,950	$ 298,879

NOTE 8 – ENDOWMENT FUND

The Association has an endowment fund (the Endowment Fund), which is maintained in accordance with explicit donor stipulations. The Endowment Fund is restricted for projects of the Association for the purposes of education, public relations, website, marketing, and the Symposium.

Changes in endowment net assets are as follows:

	WITH DONOR RESTRICTIONS
Endowment net assets, December 31, 2017	$ 255,685
Net investment return	(9,027)
Endowment net assets, December 31, 2018	246,658
Net investment return	29,540
Endowment net assets, December 31, 2019	$ 276,198

Endowment Spending Policy

The Association's endowment spending policy allows investment return and an amount equal to the greater of 10% of the original gift or $40,000 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.

Return Objectives and Risk Parameters

The Association has adopted investment guidelines for endowment assets that have the primary objective of maximizing the investment return while minimizing risk and expenses through prudent investing and planning, as well as the maintenance of a diversified portfolio. Under these guidelines, the endowment assets are invested in a manner that the portfolio should be readily marketable, with no fixed income security having a credit quality below investment grade, as defined in the investment policy. Investment performance shall be measured at least quarterly against inflation objectives for the Association and against index objectives for individual portfolio components.

NOTE 9 – LEASE COMMITMENTS

The Association leases office space under a noncancellable operating lease. Future minimum lease payments are due as follows:

2020	$ 41,015
2021	41,015
2022	41,015
2023	20,508
Total	$ 143,553

Lease expense was approximately $41,000 and $35,500 in 2019 and 2018, respectively.

NOTE 10 – SUBSEQUENT EVENTS

On March 11, 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. Financial markets have been severely impacted by fears that the COVID-19 pandemic will push the global economy into recession. The U. S. stock market experienced a significant decline and remains volatile resulting in a substantial decline in the fair value of the Association's investments subsequent to December 31, 2019. The Association cancelled its annual luncheon and is awaiting government guidelines before deciding to cancel its upcoming gala event. There is expected to be a decrease in contributions without a corresponding decrease in costs as the Association continues to pay its workforce. The extent of the impact of COVID-19 on the Association'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. Therefore, while the Association expects this matter will negatively impact its operating results and financial position, the financial impact cannot be reasonably estimated at this time.

In April 2020, the Association received an unsecured bank loan of $23,865 funded through the Paycheck Protection Program (PPP). The loan bears interest at 1.0% and may be repaid over 2 years. PPP loan principal and interest may be forgiven, in whole or in part, if funds are used for the intended purposes within 8 weeks of funding. The Association intends to apply for forgiveness and will recognize any forgiveness granted upon approval by the lender.

Management has evaluated subsequent events through July 7, 2020, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.