

Bayou Preservation Association, Inc.

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2023 and 2022

Bayou Preservation Association, Inc.

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Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bayou Preservation Association, Inc., which comprise the statements of financial position as of December 31, 2023 and 2022, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Bayou Preservation Association, Inc. as of December 31, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Bayou Preservation Association, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Bayou Preservation Association, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and

therefore, is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Bayou Preservation Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Bayou Preservation Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Blazek & Vetterling

September 17, 2024

Bayou Preservation Association, Inc.

Statements of Financial Position as of December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash	\$ 244,837	\$ 408,012
Accounts receivable and other assets	21,387	23,634
Contributions receivable <i>(Note 1)</i>	25,419	
Operating investments <i>(Notes 3 and 4)</i>	287,059	276,521
Endowment investments <i>(Notes 3 and 4)</i>	<u>298,863</u>	<u>275,981</u>
 TOTAL ASSETS	 <u>\$ 877,565</u>	 <u>\$ 984,148</u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ <u>10,814</u>	\$ <u>22,744</u>
Net assets:		
Without donor restrictions	520,367	635,911
With donor restrictions <i>(Notes 5 and 6)</i>	<u>346,384</u>	<u>325,493</u>
Total net assets	<u>866,751</u>	<u>961,404</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 877,565</u>	 <u>\$ 984,148</u>

See accompanying notes to financial statements.

Bayou Preservation Association, Inc.

Statement of Activities for the year ended December 31, 2023

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Non-government	\$ 167,609	\$ 27,250	\$ 194,859
Government grant		22,919	22,919
Symposium	16,795		16,795
Nonfinancial assets (<i>Note 7</i>)	12,500		12,500
Special events	64,255		64,255
Direct donor benefit costs	(40,933)		(40,933)
Contract fees	45,025		45,025
Net investment return	<u>11,902</u>	<u>22,882</u>	<u>34,784</u>
Total revenue	277,153	73,051	350,204
Net assets released from restrictions:			
Expenditure for program purposes	<u>52,160</u>	<u>(52,160)</u>	<u> </u>
Total	<u>329,313</u>	<u>20,891</u>	<u>350,204</u>
EXPENSES:			
Preservation of bayous programs	174,057		174,057
Management and general	210,703		210,703
Fundraising	<u>60,097</u>		<u>60,097</u>
Total expenses	<u>444,857</u>		<u>444,857</u>
CHANGES IN NET ASSETS	(115,544)	20,891	(94,653)
Net assets, beginning of year	<u>635,911</u>	<u>325,493</u>	<u>961,404</u>
Net assets, end of year	<u>\$ 520,367</u>	<u>\$ 346,384</u>	<u>\$ 866,751</u>

See accompanying notes to financial statements.

Bayou Preservation Association, Inc.

Statement of Activities for the year ended December 31, 2022

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions:			
Non-government	\$ 502,103	\$ 39,213	\$ 541,316
Government grant		10,087	10,087
Symposium	17,485		17,485
Special events	106,936		106,936
Direct donor benefit costs	(39,042)		(39,042)
Contract fees	46,889		46,889
Net investment return	<u>20,581</u>	<u>(30,749)</u>	<u>(10,168)</u>
Total revenue	654,952	18,551	673,503
Net assets released from restrictions:			
Expenditure for program purposes	<u>123,666</u>	<u>(123,666)</u>	<u> </u>
Total	<u>778,618</u>	<u>(105,115)</u>	<u>673,503</u>
EXPENSES:			
Preservation of bayous programs	190,835		190,835
Management and general	189,388		189,388
Fundraising	<u>81,362</u>		<u>81,362</u>
Total expenses	<u>461,585</u>		<u>461,585</u>
CHANGES IN NET ASSETS	317,033	(105,115)	211,918
Net assets, beginning of year	<u>318,878</u>	<u>430,608</u>	<u>749,486</u>
Net assets, end of year	<u>\$ 635,911</u>	<u>\$ 325,493</u>	<u>\$ 961,404</u>

See accompanying notes to financial statements.

Bayou Preservation Association, Inc.

Statements of Functional Expenses for the years ended December 31, 2023 and 2022

	PRESERVATION OF BAYOUS PROGRAMS	MANAGEMENT AND GENERAL	FUNDRAISING	2023 TOTAL
Payroll and related expenses	\$ 130,888	\$ 153,194	\$ 31,822	\$ 315,904
Professional and contract fees	16,620	35,730	9,733	62,083
Occupancy	10,548	12,726	3,997	27,271
Office supplies and expenses	5,445	2,513	10,026	17,984
Insurance	4,310	2,567		6,877
Dues and subscriptions	231	523	3,899	4,653
Communications	1,833	1,124	229	3,186
Other	<u>4,182</u>	<u>2,326</u>	<u>391</u>	<u>6,899</u>
Total expenses	<u>\$ 174,057</u>	<u>\$ 210,703</u>	<u>\$ 60,097</u>	444,857
Direct donor benefit costs				<u>40,933</u>
Total				<u>\$ 485,790</u>

	PRESERVATION OF BAYOUS PROGRAMS	MANAGEMENT AND GENERAL	FUNDRAISING	2022 TOTAL
Payroll and related expenses	\$ 88,917	\$ 123,163	\$ 20,189	\$ 232,269
Professional and contract fees	68,514	30,658	43,000	142,172
Occupancy	15,811	21,738	3,691	41,240
Office supplies and expenses	7,464	1,649	9,175	18,288
Insurance	4,579	2,444		7,023
Dues and subscriptions	137	674	4,793	5,604
Communications	1,315	3,496	312	5,123
Depreciation	320	2,642		2,962
Other	<u>3,778</u>	<u>2,924</u>	<u>202</u>	<u>6,904</u>
Total expenses	<u>\$ 190,835</u>	<u>\$ 189,388</u>	<u>\$ 81,362</u>	461,585
Direct donor benefit costs				<u>39,042</u>
Total				<u>\$ 500,627</u>

See accompanying notes to financial statements.

Bayou Preservation Association, Inc.

Statements of Cash Flows for the years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (94,653)	\$ 211,918
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation		2,962
Net realized and unrealized (gain) loss on investments	(9,621)	22,003
Changes in operating assets and liabilities:		
Accounts receivable and other assets	2,247	29,724
Contributions receivable	(25,419)	
Accounts payable and accrued expenses	<u>(11,930)</u>	<u>8,755</u>
Net cash provided (used) by operating activities	<u>(139,376)</u>	<u>275,362</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments		(256,338)
Proceeds from sale of investments		273,695
Net change in cash and money market mutual funds	<u>(23,799)</u>	<u>(285,132)</u>
Net cash used by investing activities	<u>(23,799)</u>	<u>(267,775)</u>
NET CHANGE IN CASH	(163,175)	7,587
Cash, beginning of year	<u>408,012</u>	<u>400,425</u>
Cash, end of year	<u>\$ 244,837</u>	<u>\$ 408,012</u>
 <i>Supplemental disclosure of cash flow information:</i>		
Donated stock proceeds included in operating activities		\$256,338

See accompanying notes to financial statements.

Bayou Preservation Association, Inc.

Notes to Financial Statements for the years ended December 31, 2023 and 2022

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).

Accounts receivable reflects the consideration the Association expects to be entitled to in exchange for sources provided taking into consideration historical collection trends and consideration of current and future economic trends. An allowance for uncollectible accounts receivable is provided when there has been an adverse change in the organization's ability to pay. Management believes that all outstanding amounts will be collected. It is the Association's policy to charge off uncollectible accounts receivable after collection efforts have been exhausted and an account is deemed uncollectible.

Contributions receivable 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 the present value of their estimated future cash flows. Amortization of discount is recognized as contribution revenue. An allowance for contributions receivable is provided when it is believed balances may not be collected in full based on historical experience and analysis of individual balances. At December 31, 2023, contributions receivable of \$19,689 and \$5,730 are expected to be collected in 2024 and 2025, respectively.

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 returns 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. Cash held for long-term purposes is reported with investments and excluded for purposes of cash flows.

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 those 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.

Contributed nonfinancial assets – Donated materials and use of facilities are recognized at fair value as unrestricted 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 includes elements of both contributions and exchange transactions and are recognized when an event occurs. Direct donor benefit costs represent the costs of goods and services provided to attendees of the special events.

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. Accounts receivable from contract fees were \$17,142, \$10,321, and \$34,306 at December 31, 2023, 2022, and 2021, respectively. There were no liabilities related to contract fees as of December 31, 2023, 2022, or 2021.

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 based on 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.

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:

	<u>2023</u>	<u>2022</u>
Financial assets:		
Cash	\$ 244,837	\$ 408,012
Receivables	42,561	10,321
Investments	<u>585,922</u>	<u>552,502</u>
Total financial assets	873,320	970,835
Less financial assets not available for general expenditure:		
Endowment investments	(298,863)	(275,981)
Board-designated reserve fund	(75,000)	(75,000)
Purpose and time restricted net assets not expected to be satisfied in the coming year	<u>(8,783)</u>	<u> </u>
Total financial assets available for general expenditure	<u>\$ 490,674</u>	<u>\$ 619,854</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 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 has established a liquidity reserve fund and although the Association does not intend to spend from the liquidity reserve fund, amounts could be made available, if necessary.

NOTE 3 – INVESTMENTS

Investments consist of the following:

	<u>2023</u>	<u>2022</u>
Money market mutual funds	\$ 366,569	\$ 342,889
Multi-asset mutual funds	218,227	208,606
Cash	<u>1,126</u>	<u>1,007</u>
Total investments	<u>\$ 585,922</u>	<u>\$ 552,502</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 4 – 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, 2023 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Money market mutual funds	\$ 366,569			\$ 366,569
Multi-asset mutual funds	<u>218,227</u>			<u>218,227</u>
Total assets measured at fair value	<u>\$ 584,796</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 584,796</u>

Assets measured at fair value at December 31, 2022 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Money market mutual funds	\$ 342,889			\$ 342,889
Multi-asset mutual funds	<u>208,606</u>			<u>208,606</u>
Total assets measured at fair value	<u>\$ 551,495</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 551,495</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 5 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Various programs	\$ 24,602	\$ 49,512
Subject to passage for time	22,919	
Subject to spending policy and appropriation:		
Endowment and accumulated earnings	<u>298,863</u>	<u>275,981</u>
Total net assets with donor restrictions	<u>\$ 346,384</u>	<u>\$ 325,493</u>

NOTE 6 – 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:

	<u>WITH DONOR RESTRICTIONS</u>
Endowment net assets, December 31, 2021	\$ 306,730
Net investment return	<u>(30,749)</u>
Endowment net assets, December 31, 2022	275,981
Net investment return	<u>22,882</u>
Endowment net assets, December 31, 2023	<u>\$ 298,863</u>

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 and net investment return are reported as *net assets with donor restrictions* 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 7 – CONTRIBUTED NONFINANCIAL ASSETS

The Association recognized contributed nonfinancial assets of \$12,500 for the use of event facility space during the year ended December 31, 2023. The fair value of the donated space was estimated on the basis of the rental rate per square foot of similar space.

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 17, 2024, 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.