

The Buffalo Bayou Partnership

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2016 and 2015

Independent Auditors' Report

To the Board of Directors of
The Buffalo Bayou Partnership:

We have audited the accompanying financial statements of The Buffalo Bayou Partnership, which comprise the statements of financial position as of December 31, 2016 and 2015 and the related statements of activities and of cash flows for the years then ended, and the related notes to the financial statements.

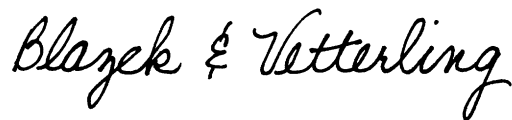
Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance 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 The Buffalo Bayou Partnership as of December 31, 2016 and 2015 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.



June 9, 2017

The Buffalo Bayou Partnership

Statements of Financial Position as of December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents (<i>Note 3</i>)	\$ 1,644,044	\$ 4,864,805
Operating pledges receivable (<i>Note 4</i>)	28,712	391,576
Prepaid expenses and other assets	261,997	110,635
Certificates of deposit	2,600,000	
Cash held for park maintenance and capital improvements (<i>Note 3</i>)	660,518	416,848
Cash and cash equivalents restricted for projects (<i>Note 3</i>)	1,136,916	1,251,554
Pledges receivable restricted for projects (<i>Note 4</i>)	1,514,831	1,683,317
Property, net (<i>Note 5</i>)	<u>16,561,737</u>	<u>15,841,017</u>
TOTAL ASSETS	<u>\$ 24,408,755</u>	<u>\$ 24,559,752</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 124,321	\$ 156,313
Payable to the City	370,000	
Construction payables	485,055	2,023,382
Advance on property sale (<i>Note 5</i>)	2,712,528	2,485,797
Advanced contributions (<i>Note 4</i>)	265,000	536,521
Notes payable (<i>Note 6</i>)	<u>1,911,570</u>	<u>2,262,481</u>
Total liabilities	<u>5,868,474</u>	<u>7,464,494</u>
Commitments (<i>Note 5</i>)		
Net assets:		
Unrestricted (<i>Note 7</i>)	13,444,074	12,338,468
Temporarily restricted (<i>Note 8</i>)	<u>5,096,207</u>	<u>4,756,790</u>
Total net assets	<u>18,540,281</u>	<u>17,095,258</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 24,408,755</u>	<u>\$ 24,559,752</u>

See accompanying notes to financial statements.

The Buffalo Bayou Partnership

Statement of Activities for the year ended December 31, 2016

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions (<i>Note 9</i>)	\$ 387,593	\$ 2,444,028	\$ 2,831,621
Fees for services (<i>Note 2</i>)	3,086,513		3,086,513
Special events	775,930		775,930
Cost of direct donor benefits	(194,140)		(194,140)
Program fees and other income	<u>546,553</u>	<u> </u>	<u>546,553</u>
Total revenue	4,602,449	2,444,028	7,046,477
Net assets released from restrictions (<i>Note 10</i>)	<u>2,104,611</u>	<u>(2,104,611)</u>	<u> </u>
Total	<u>6,707,060</u>	<u>339,417</u>	<u>7,046,477</u>
EXPENSES:			
Buffalo Bayou improvements, maintenance, and park amenities	4,815,729		4,815,729
Management and general	275,976		275,976
Fundraising	247,191		247,191
Donation of park improvements to the City of Houston (<i>Note 2</i>)	<u>262,558</u>	<u> </u>	<u>262,558</u>
Total expenses	<u>5,601,454</u>	<u> </u>	<u>5,601,454</u>
CHANGES IN NET ASSETS	1,105,606	339,417	1,445,023
Net assets, beginning of year	<u>12,338,468</u>	<u>4,756,790</u>	<u>17,095,258</u>
Net assets, end of year	<u>\$ 13,444,074</u>	<u>\$ 5,096,207</u>	<u>\$ 18,540,281</u>

See accompanying notes to financial statements.

The Buffalo Bayou Partnership

Statement of Activities for the year ended December 31, 2015

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions <i>(Note 9)</i>	\$ 798,173	\$ 3,463,640	\$ 4,261,813
Fees for services <i>(Note 2)</i>	2,562,647		2,562,647
Special events	1,011,987		1,011,987
Cost of direct donor benefits	(262,042)		(262,042)
Program fees and other income	160,731		160,731
Gain on sale of land	921,320		921,320
Total revenue	5,192,816	3,463,640	8,656,456
Net assets released from restrictions <i>(Note 10)</i>	54,152,985	(54,152,985)	
Total	59,345,801	(50,689,345)	8,656,456
EXPENSES:			
Buffalo Bayou improvements, maintenance, and park amenities	3,655,427		3,655,427
Management and general	202,614		202,614
Fundraising	248,705		248,705
Donation of park improvements to the City of Houston <i>(Note 2)</i>	53,393,996		53,393,996
Total expenses	57,500,742		57,500,742
CHANGES IN NET ASSETS	1,845,059	(50,689,345)	(48,844,286)
Net assets, beginning of year	10,493,409	55,446,135	65,939,544
Net assets, end of year	\$ 12,338,468	\$ 4,756,790	\$ 17,095,258

See accompanying notes to financial statements.

The Buffalo Bayou Partnership

Statements of Cash Flows for the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 1,445,023	\$ (48,844,286)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	141,502	127,752
Contributions restricted for projects	(1,752,334)	(2,156,448)
Gain on sale of land		(921,320)
Donation of park improvements to the City of Houston	262,558	53,393,996
Changes in operating assets and liabilities:		
Pledges receivable (excluding projects)	362,864	(347,676)
Prepaid expenses and other assets	(151,362)	3,364
Accounts payable and accrued expenses	(31,992)	74,066
Grant payable	370,000	
Advanced contributions	<u>(271,521)</u>	<u>(945,373)</u>
Net cash provided by operating activities	<u>374,738</u>	<u>384,075</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for purchases of property	(2,511,432)	(18,691,445)
Proceeds from sale of land		1,046,611
Advance on property sale	226,731	2,485,797
Purchases of certificates of deposit	(2,600,000)	
Net change in cash held for park maintenance and capital improvements	(243,670)	(416,848)
Net change in cash and cash equivalents restricted for projects	<u>114,638</u>	<u>12,246,036</u>
Net cash used by investing activities	<u>(5,013,733)</u>	<u>(3,329,849)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for projects	1,769,145	3,358,773
Proceeds from line of credit		1,021,000
Repayment of notes payable and line of credit	<u>(350,911)</u>	<u>(1,028,555)</u>
Net cash provided by financing activities	<u>1,418,234</u>	<u>3,351,218</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,220,761)	405,444
Cash and cash equivalents, beginning of year	<u>4,864,805</u>	<u>4,459,361</u>
Cash and cash equivalents, end of year	<u>\$ 1,644,044</u>	<u>\$ 4,864,805</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$71,974	\$69,861

See accompanying notes to financial statements.

The Buffalo Bayou Partnership

Notes to Financial Statements for the years ended December 31, 2016 and 2015

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – The Buffalo Bayou Partnership (the Partnership) was established in 1986 for the purpose of serving as an advisory resource and liaison among the groups that are pursuing development of Buffalo Bayou (the Bayou) amenities and the many private and public sector entities with interest in or jurisdiction over various Bayou functions. The Partnership also coordinates integration of major amenities into the Bayou Greenbelt and seeks ways to increase community development in Bayou-related activities. The Partnership is to be administered to benefit the City of Houston (the City) and Harris County, Texas (the County). Significant Partnership programs and projects include: land acquisition, hike and bike trail design and construction, redevelopment of major waterfront destinations, special event coordination, and operation of a specially designed water craft to remove bayou debris.

Federal income tax status – The Partnership is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi).

Cash equivalents include highly liquid investments with original maturities of three months or less.

Certificates of deposit are bank time deposits that are reported at face value.

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

Property is reported at cost if purchased and at fair value at the date of gift if donated. Depreciation is recognized on a straight-line basis over estimated useful lives of 3 to 20 years. Bayou improvements for collaborative projects with the City or County are the property of the City or County and are expensed as incurred, except as disclosed in Note 2.

Net asset classification – Contributions 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 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 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 support. Conditional contributions are recognized in the same manner when the conditions are substantially met. Conditional contributions received in advance are recognized as deferred revenue.

In-kind contributions – Donated materials and services are recognized at fair value as contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Fees for services are recognized as the services are provided. Amounts received in advance are reported as deferred revenue.

Advertising costs are expensed as incurred.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncement – In August 2016, the Financial Accounting Standards Board 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 the first phase of changes 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*. 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 ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

NOTE 2 – GOVERNMENT AND OTHER RELATED CONTRACTS

In February 2011, the Partnership entered into a tri-party agreement with the Harris County Flood Control District (the District) and the City to delegate responsibilities of the redevelopment of the Bayou from Shepherd to Sabine Buffalo Bayou Park. The agreement gave the Partnership rights to manage development, construction, maintenance, and operations of the parkland in the project area. The park improvements were completed for the Bayou from Shepherd to Sabine project in December 2015, and under this agreement the Partnership transferred ownership to the City. The total amount transferred in 2015 was approximately \$53,400,000. An additional \$263,000 in park improvements were transferred to the City in 2016. Under this agreement, the City pays the Partnership an annual city maintenance fee of approximately \$2,000,000 adjusted annually for inflation for an initial term of 30 years for ongoing maintenance of Buffalo Bayou Park. During 2016 and 2015, the Partnership earned \$2,256,805 and \$2,200,747, respectively, in fees for services under this maintenance agreement. Additionally, in any year during the operating phase when the city maintenance fee paid for the year exceeds the actual cost of maintenance and operations of the project, the Partnership is required to hold any such excess in a maintenance reserve to be used to cover certain future costs related to the operations of the project. Concession revenue paid to the Partnership under its agreements with licensees and vendors is required to be held by the Partnership in a capital reserve until used for capital improvements. At December 31, 2016 and 2015, \$660,518 and \$416,848 was being held as maintenance and capital reserve for the project, respectively.

In July 2011, the Partnership entered into an agreement with the District whereby the Partnership would provide a program for management and removal of floatables, litter and other pollutants from the Bayou and its tributaries through June 2013. The agreement was renewed for an additional term through June 2017. The District will pay \$312,000 annually under this agreement, which is included in fees for services.

In March 2016, the Partnership entered into an agreement with a local government corporation, a component unit of the City, whereby the Partnership will manage, operate and maintain the green spaces adjacent to the Bayou in downtown Houston known as Sabine Promenade and Sesquicentennial Park through March 31, 2027. The Partnership recognized \$425,000 in 2016 under this agreement, which is included in fees for services.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2016</u>	<u>2015</u>
Domestic bank deposits	\$ 3,441,478	\$ 4,911,410
Certificates of deposit (short-term)		<u>1,621,797</u>
Total	3,441,478	6,533,207
Less: Cash held for park maintenance and capital improvements	660,518	416,848
Less: Cash and cash equivalents restricted for projects	<u>1,136,916</u>	<u>1,251,554</u>
Total cash and cash equivalents	<u>\$ 1,644,044</u>	<u>\$ 4,864,805</u>

Bank deposits exceed the federally insured limit per depositor per institution.

NOTE 4 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	<u>2016</u>	<u>2015</u>
Total pledges receivable	\$ 1,543,543	\$ 2,074,893
Pledges receivable restricted for projects	<u>(1,514,831)</u>	<u>(1,683,317)</u>
Operating pledges receivable	<u>\$ 28,712</u>	<u>\$ 391,576</u>

Pledges receivable at December 31, 2016 are expected to be collected as follows:

2017	\$ 1,435,578
2018	<u>107,965</u>
Total pledges receivable	<u>\$ 1,543,543</u>

Concentration

At December 31, 2016, approximately 58% of pledges were due from one individual. At December 31, 2015, approximately 55% of pledges were due from one foundation and one individual.

Conditional pledges

In January 2011, the Partnership received a \$1,000,000 pledge to fund the construction of trails for public access for two segments along the south side of the Bayou. The pledge is conditioned upon a completed design and award of a contract to begin construction on each trail. The pledge will be recognized as contribution revenue when the conditions are substantially met. The Partnership has received payments of \$765,000 on this conditional pledge on both trail segments. During 2014 and 2016, the Partnership met conditions for a portion of the pledge to be recognized. The conditions for recognition had not been met on the remaining portion of these trail segments at December 31, 2016. At December 31, 2016 and 2015, \$265,000 and \$536,521, respectively, is included in advanced contributions.

The Partnership received approximately \$960,000 in pledges from Reinvestment Zone Number Three, City of Houston to fund a portion of the Sunset Coffee Building restoration project. The commitment is conditioned upon approval of specific components of the project and completion of construction of those components. The pledge will be recognized as contribution revenue when the conditions are substantially met.

NOTE 5 – PROPERTY

Property consists of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 8,597,311	\$ 8,597,311
Park equipment	551,299	445,726
Boats	358,464	412,200
Building	331,391	331,391
Vehicles	119,055	102,077
Office equipment and furniture	91,574	76,041
Construction in progress:		
Sunset Coffee Building restoration project	<u>7,078,012</u>	<u>6,403,099</u>
Total property, at cost	17,127,106	16,367,845
Accumulated depreciation	<u>(565,369)</u>	<u>(526,828)</u>
Property, net	<u>\$ 16,561,737</u>	<u>\$ 15,841,017</u>

The Partnership has eight right-of-way easements totaling 8.4 acres along the Bayou’s east sector. These easements were granted to the Partnership to allow completion of hike and bike trails for public use. The Partnership does not have ownership of the land and improvements related to these easements; therefore, no amounts have been recorded as assets in these financial statements.

Commitments – In May 2012, the Partnership entered into an earnest money contract to sell and convey the Sunset Coffee Building to a local governmental corporation, a component unit of the City, for approximately \$2,700,000. The agreement requires the Partnership to complete restoration and rehabilitation improvements of the building in accordance with plans approved by the purchaser prior to closing.

NOTE 6 – NOTES PAYABLE

Notes payable consist of the following:

	<u>2016</u>	<u>2015</u>
\$2,000,000 revolving line of credit with a bank maturing in December 2017, secured by all contributions, gifts, pledges and grants made that are given to the Partnership pursuant to the Sunset Coffee Building restoration project; interest rate of LIBOR plus 2.25% (3.25% at December 31, 2016).	\$ 1,275,000	\$ 1,600,000
Note payable to a bank with payments due on a quarterly basis based on a 20-year amortization, maturing April 28, 2021, secured by land; interest rate of 3.95% at December 31, 2016.	<u>636,570</u>	<u>662,481</u>
Total notes payable	<u>\$ 1,911,570</u>	<u>\$ 2,262,481</u>

Principal payments at December 31, 2016 are due as follows:

2017	\$ 1,305,690
2018	34,579
2019	35,985
2020	37,389
2021	<u>497,927</u>
Total	<u>\$ 1,911,570</u>

The Partnership recognized interest expense of \$27,565 in 2016 and \$31,509 in 2015. Interest capitalized was \$43,213 in 2016 and \$39,092 in 2015.

In December 2014, the Partnership entered into a \$2,500,000 revolving line of credit with a bank with interest at LIBOR plus 2.25%, which expires on December 15, 2017. There were no amounts outstanding on this line of credit at December 31, 2016. The loan is secured by all contributions, gifts, pledges and grants made that are given to the Partnership pursuant to the Shepherd to Sabine project.

NOTE 7 – UNRESTRICTED NET ASSETS

Unrestricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Undesignated	\$ 1,019,250	\$ 642,071
Park maintenance and capital improvements under operating agreement	660,518	416,848
Property, net of debt	<u>11,764,306</u>	<u>11,279,549</u>
Total unrestricted net assets	<u>\$ 13,444,074</u>	<u>\$ 12,338,468</u>

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Sunset Coffee Building restoration project	\$ 2,885,861	\$ 2,298,987
Hike and Bike Trail projects	913,512	1,028,449
Land acquisition	444,984	
East End master plan project	413,770	460,000
Cistern operations and programming	288,926	227,400
Buffalo Bayou Park book project	81,470	133,218
Shepherd to Sabine project		423,844
Other	<u>67,684</u>	<u>184,892</u>
Total temporarily restricted net assets	<u>\$ 5,096,207</u>	<u>\$ 4,756,790</u>

NOTE 9 – CONTRIBUTIONS

Concentration

The Partnership has raised significant funds for land and building improvements, and funding is often concentrated in a small number of donors. In 2016, approximately \$2,790,000 or 34% of contributions were from two donors. In 2015, approximately \$2,070,000 or 49% of contributions were from three donors.

In-kind contributions

The Partnership recognized the fair value of services and materials as contributed capital assets and program expenses, as follows:

	<u>2016</u>	<u>2015</u>
Sunset Coffee Building lighting and waterline services	\$ 109,124	
Facility rent from the City	96,000	\$ 96,000
Advertising	78,388	234,600
Shepherd to Sabine project management	41,219	155,502
Other goods and services	<u>3,432</u>	<u>36,279</u>
Total in-kind contributions	<u>\$ 328,163</u>	<u>\$ 522,381</u>

NOTE 10 – NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Donor restrictions on contributions were satisfied for the following purposes:

	<u>2016</u>	<u>2015</u>
Shepherd to Sabine project	\$ 650,860	\$ 53,648,419
Hike and Bike Trail projects	499,948	150,608
East End master plan project	275,930	
Cistern operations and programming	193,410	
Expiration of time restrictions	141,577	43,900
Clean and Green program	138,600	151,200
Land acquisition	64,546	6,632
Buffalo Bayou Park book project	51,748	72,782
Other	<u>87,992</u>	<u>79,444</u>
Total net assets released from restrictions	<u>\$ 2,104,611</u>	<u>\$ 54,152,985</u>

NOTE 11 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 9, 2017, 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.