

**The Buffalo Bayou Partnership**

Financial Statements  
and Independent Auditors' Report  
for the years ended December 31, 2017 and 2016

## 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, 2017 and 2016 and the related statements of activities and of cash flows for the years then ended, and the related notes to the financial statements.

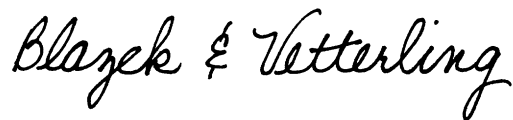
**Management's Responsibility for the Financial Statements** – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance 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, 2017 and 2016 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 11, 2018

## The Buffalo Bayou Partnership

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

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	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 1,672,587	\$ 1,644,044
Operating pledges receivable (Note 3)	21,748	28,712
Prepaid expenses and other receivables	355,918	261,997
Certificates of deposit	2,877,764	2,600,000
Cash held for park maintenance and capital improvements	1,068,554	660,518
Cash restricted for projects	2,722,923	1,136,916
Pledges receivable restricted for projects (Note 3)	2,322,928	1,514,831
Property, net (Note 4)	<u>16,376,761</u>	<u>16,561,737</u>
TOTAL ASSETS	<u>\$ 27,419,183</u>	<u>\$ 24,408,755</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 317,634	\$ 124,321
Payable to the City of Houston		370,000
Hurricane repairs and construction payables	417,295	485,055
Deferred revenue	230,636	
Advance on property sale (Note 4)	2,712,528	2,712,528
Advanced contributions (Note 3)	250,000	265,000
Notes payable (Note 5)	<u>603,239</u>	<u>1,911,570</u>
Total liabilities	<u>4,531,332</u>	<u>5,868,474</u>
Commitments (Note 11)		
Net assets:		
Unrestricted (Note 6)	18,314,360	13,444,074
Temporarily restricted (Note 7)	<u>4,573,491</u>	<u>5,096,207</u>
Total net assets	<u>22,887,851</u>	<u>18,540,281</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 27,419,183</u>	<u>\$ 24,408,755</u>

*See accompanying notes to financial statements.*

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## The Buffalo Bayou Partnership

Statement of Activities for the year ended December 31, 2017

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	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions (Note 8)	\$ 460,494	\$ 6,104,302	\$ 6,564,796
Fees for services (Note 2)	3,063,921		3,063,921
Special events	715,716		715,716
Cost of direct donor benefits	(164,800)		(164,800)
Program fees and other income	<u>794,989</u>		<u>794,989</u>
Total revenue	4,870,320	6,104,302	10,974,622
Net assets released from restrictions (Note 9)	<u>6,627,018</u>	<u>(6,627,018)</u>	
Total	<u>11,497,338</u>	<u>(522,716)</u>	<u>10,974,622</u>
EXPENSES:			
Buffalo Bayou improvements, maintenance, and park amenities	4,316,949		4,316,949
Management and general	240,111		240,111
Fundraising	262,020		262,020
Donation of land and park improvements to the City of Houston (Note 2)	<u>645,456</u>		<u>645,456</u>
Total expenses	<u>5,464,536</u>		<u>5,464,536</u>
Changes in net assets before involuntary conversion	6,032,802	(522,716)	5,510,086
Net results of involuntary conversion (Note 10)	<u>(1,162,516)</u>		<u>(1,162,516)</u>
CHANGES IN NET ASSETS	4,870,286	(522,716)	4,347,570
Net assets, beginning of year	<u>13,444,074</u>	<u>5,096,207</u>	<u>18,540,281</u>
Net assets, end of year	<u>\$ 18,314,360</u>	<u>\$ 4,573,491</u>	<u>\$ 22,887,851</u>

*See accompanying notes to financial statements.*

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## The Buffalo Bayou Partnership

Statement of Activities for the year ended December 31, 2016

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	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions ( <i>Note 8</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>546,553</u>
Total revenue	4,602,449	2,444,028	7,046,477
Net assets released from restrictions ( <i>Note 9</i> )	<u>2,104,611</u>	<u>(2,104,611)</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 land and park improvements to the City of Houston ( <i>Note 2</i> )	<u>262,558</u>		<u>262,558</u>
Total expenses	<u>5,601,454</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.*

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## The Buffalo Bayou Partnership

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

	<u>2017</u>	<u>2016</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 4,347,570	\$ 1,445,023
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	108,964	141,502
Contributions restricted for projects	(4,278,767)	(1,752,334)
Loss on impairment of park equipment	264,469	
Donation of land and park improvements to the City of Houston	645,456	262,558
Changes in operating assets and liabilities:		
Pledges receivable (excluding projects)	6,964	362,864
Prepaid expenses and other receivables	(93,921)	(151,362)
Accounts payable and accrued expenses	496,549	(31,992)
Deferred revenue	230,636	
Payable to the City of Houston	(370,000)	370,000
Advanced contributions	<u>(15,000)</u>	<u>(271,521)</u>
Net cash provided by operating activities	<u>1,342,920</u>	<u>374,738</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from insurance settlements	340,925	
Expenditures for purchases of property	(1,487,234)	(2,511,432)
Advance on property sale		226,731
Net change in certificates of deposit	<u>(277,764)</u>	<u>(2,600,000)</u>
Net cash used by investing activities	<u>(1,424,073)</u>	<u>(4,884,701)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from contributions restricted for projects	3,412,070	1,769,145
Repayment of notes payable and line of credit	<u>(1,308,331)</u>	<u>(350,911)</u>
Net cash provided by financing activities	<u>2,103,739</u>	<u>1,418,234</u>
<b>NET CHANGE IN CASH</b>	<b>2,022,586</b>	<b>(3,091,729)</b>
Cash, beginning of year	<u>3,441,478</u>	<u>6,533,207</u>
Cash, end of year	<u>\$ 5,464,064</u>	<u>\$ 3,441,478</u>
<i>Summary of cash balances:</i>		
Cash	\$ 1,672,587	\$ 1,644,044
Cash held for park maintenance and capital improvements	1,068,554	660,518
Cash restricted for projects	<u>2,722,923</u>	<u>1,136,916</u>
Total cash	<u>\$ 5,464,064</u>	<u>\$ 3,441,478</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$47,916	\$71,974

*See accompanying notes to financial statements.*

## The Buffalo Bayou Partnership

Notes to Financial Statements for the years ended December 31, 2017 and 2016

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### 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).

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.

Certificates of deposit are timed bank deposits that are reported at face value plus accrued interest.

Property is reported at cost if purchased and at fair value at the date of gift if donated. Depreciation is calculated 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 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 Partnership is required to adopt this ASU for fiscal year 2018. 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 at that time. An additional \$165,000 and \$263,000 in park improvements were transferred to the City in 2017 and 2016, respectively. 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 2017 and 2016, the Partnership earned \$2,288,477 and \$2,256,805, 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, 2017 and 2016, \$968,554 and \$660,518 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. The agreement was renewed for an additional term through July 2019. The District will pay \$343,091 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 \$550,000 and \$425,000 in 2017 and 2016, respectively, under this agreement, which is included in fees for services. A portion of the fee is to be used for capital projects, improvements and repairs other than routine maintenance and upkeep. At December 31, 2017, \$100,000 was being held as capital reserve for the project.

In September 2017, the Partnership contributed .54 acres of land along Japhet Creek purchased in May 2017 for \$351,100 to the City to enhance the ecological, conservation and recreational values of Japhet Creek.

In October 2017, the Partnership contributed 1.73 acres of land recorded at \$129,850 to the City to be used for construction of trails for public access along the Bayou’s east sector.

**NOTE 3 – PLEDGES RECEIVABLE**

Pledges receivable are as follows:

	<u>2017</u>	<u>2016</u>
Total pledges receivable	\$ 2,344,676	\$ 1,543,543
Pledges receivable restricted for projects	<u>(2,322,928)</u>	<u>(1,514,831)</u>
Operating pledges receivable	<u>\$ 21,748</u>	<u>\$ 28,712</u>

Pledges receivable at December 31, 2017 are expected to be collected within one year.

*Concentration*

At December 31, 2017, approximately 83% of pledges were due from four donors. At December 31, 2016, approximately 58% of pledges were due from one donor.

*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. The Partnership has 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, 2017. At December 31, 2017 and 2016, \$250,000 and \$265,000, respectively, is included in advanced contributions.

#### NOTE 4 – PROPERTY

Property consists of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 8,468,833	\$ 8,597,311
Buildings and improvements	7,517,748	331,391
Park equipment	319,197	551,299
Boats	278,043	358,464
Vehicles	97,357	119,055
Office equipment and furniture	66,878	91,574
Construction in progress:		
Sunset Coffee Building restoration project	<u>                    </u>	<u>7,078,012</u>
Total property, at cost	16,748,056	17,127,106
Accumulated depreciation	<u>(371,295)</u>	<u>(565,369)</u>
Property, net	<u>\$ 16,376,761</u>	<u>\$ 16,561,737</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.

#### NOTE 5 – NOTES PAYABLE

Notes payable consist of the following:

	<u>2017</u>	<u>2016</u>
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, 2017.	\$ 603,239	\$ 636,570
\$2,000,000 revolving line of credit with a bank which matured 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).	<u>                    </u>	<u>1,275,000</u>
Total notes payable	<u>\$ 603,239</u>	<u>\$ 1,911,570</u>

Principal payments at December 31, 2017 are due as follows:

2018	\$ 31,938
2019	35,985
2020	37,389
2021	<u>497,927</u>
Total	<u>\$ 603,239</u>

The Partnership recognized interest expense of approximately \$22,150 in 2017 and \$27,500 in 2016. Interest capitalized was approximately \$22,000 in 2017 and \$43,000 in 2016.

## NOTE 6 – UNRESTRICTED NET ASSETS

Unrestricted net assets, including those designated by board or contract, consist of the following:

	<u>2017</u>	<u>2016</u>
Undesignated	\$ 1,472,284	\$ 1,019,250
Park maintenance and capital improvements under operating agreements	1,068,554	660,518
Property, net of debt	<u>15,773,522</u>	<u>11,764,306</u>
Total unrestricted net assets	<u>\$ 18,314,360</u>	<u>\$ 13,444,074</u>

## NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Land acquisition	\$ 2,900,304	\$ 444,984
Hike and bike trail projects	895,326	913,512
East End master plan project	592,418	413,770
Sediment removal	134,119	
Sunset Coffee Building restoration project		2,885,861
Cistern operations and programming		288,926
Other	<u>51,324</u>	<u>149,154</u>
Total temporarily restricted net assets	<u>\$ 4,573,491</u>	<u>\$ 5,096,207</u>

## NOTE 8 – 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 2017, approximately \$4,458,000 or 68% of contributions were from four donors. In 2016, approximately \$950,000 or 34% of contributions were from two donors.

### *In-kind contributions*

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

	<u>2017</u>	<u>2016</u>
Facility rent from the City	\$ 96,000	\$ 96,000
Land acquisition	58,600	
Sunset Coffee Building lighting and waterline services		109,124
Advertising		78,388
Other goods and services	<u>1,825</u>	<u>44,651</u>
Total in-kind contributions	<u>\$ 156,425</u>	<u>\$ 328,163</u>

## NOTE 9 – NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Donor restrictions on contributions were satisfied for the following purposes:

	<u>2017</u>	<u>2016</u>
Sunset Coffee Building	\$ 3,867,444	
Disaster relief and clean-up	1,364,104	
East End master plan project	343,160	\$ 275,930
Cistern operations and programming	311,125	193,410
Land acquisition	302,175	64,546
Clean and Green program	155,037	138,600
Shepherd to Sabine project	94,124	650,860
Buffalo Bayou Park book project	81,470	51,748
Hike and bike trail projects	36,066	499,948
Expiration of time restrictions	27,462	141,577
Other	<u>44,851</u>	<u>87,992</u>
Total net assets released from restrictions	<u>\$ 6,627,018</u>	<u>\$ 2,104,611</u>

## NOTE 10 – INVOLUNTARY CONVERSION

The Partnership incurred damage to Buffalo Bayou Park grounds and equipment and Sunset Coffee Building in August 2017 due to Hurricane Harvey requiring significant clean-up and repairs. A summary of insurance proceeds recognized and expenses incurred through December 31, 2017 related to the damage is as follows:

Insurance proceeds	\$ 340,925
Loss on impaired equipment	(264,469)
Clean-up and repair expenses incurred	<u>(1,238,972)</u>
Net results of involuntary conversion	<u>\$ (1,162,516)</u>

## NOTE 11 – 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 required the Partnership to complete restoration and rehabilitation improvements of the building in accordance with plans approved by the purchaser prior to closing. The restoration has been completed; however, the purchaser is terminating the earnest money contract. The Partnership and purchaser are in negotiations for earnest money repayment.

## NOTE 12 – SUBSEQUENT EVENTS

In March 2018, the Partnership purchased approximately 5.3 acres of land along the Bayou's east sector for \$2,300,000.

Management has evaluated subsequent events through June 11, 2018, 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.