

**Buffalo Bayou Partnership and Affiliates**

Consolidated Financial Statements  
and Independent Auditors' Report  
for the years ended December 31, 2022 and 2021

# Buffalo Bayou Partnership and Affiliates

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## Independent Auditors' Report

To the Board of Directors of  
Buffalo Bayou Partnership:

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the consolidated financial statements of Buffalo Bayou Partnership and Affiliates, which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of Buffalo Bayou Partnership and Affiliates as of December 31, 2022 and 2021, and the changes in their net assets and their 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 Buffalo Bayou Partnership and Affiliates 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 Buffalo Bayou Partnership and Affiliates' 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 and *Government 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.

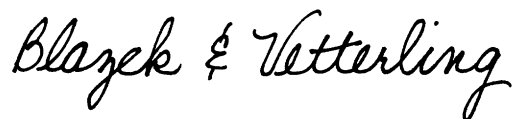
In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- 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 Buffalo Bayou Partnership and Affiliates' 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 Buffalo Bayou Partnership and Affiliates' 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.

#### **Report Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2023 on our consideration of Buffalo Bayou Partnership and Affiliates' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Buffalo Bayou Partnership and Affiliates' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Buffalo Bayou Partnership and Affiliates' internal control over financial reporting and compliance.



September 26, 2023

## Buffalo Bayou Partnership and Affiliates

Consolidated Statements of Financial Position as of December 31, 2022 and 2021

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	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents <i>(Note 3)</i>	\$ 22,852,584	\$ 21,125,823
Prepaid expenses and other receivables	336,599	294,612
Contributions receivable <i>(Note 5)</i>	5,693,712	1,019,500
Endowment investments	11,011,638	
Property, net <i>(Note 6)</i>	33,146,421	23,155,008
Note receivable <i>(Note 9)</i>	<u>2,250,000</u>	
TOTAL ASSETS	<u>\$ 75,290,954</u>	<u>\$ 45,594,943</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 818,535	\$ 1,991,014
Deferred revenue	337,650	295,107
Advanced contributions	61,460	255,000
Deferred land lease <i>(Note 9)</i>	1,476,923	
Note payable <i>(Note 7)</i>	<u>2,402,476</u>	<u>2,444,151</u>
Total liabilities	<u>5,097,044</u>	<u>4,985,272</u>
Commitments <i>(Notes 4 and 9)</i>		
Net assets:		
Without donor restrictions <i>(Note 10)</i>	36,138,863	23,612,118
With donor restrictions <i>(Notes 11 and 13)</i>	<u>34,055,047</u>	<u>16,997,553</u>
Total net assets	<u>70,193,910</u>	<u>40,609,671</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 75,290,954</u>	<u>\$ 45,594,943</u>

*See accompanying notes to consolidated financial statements.*

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## Buffalo Bayou Partnership and Affiliates

Consolidated Statement of Activities for the year ended December 31, 2022

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	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Fees and program revenues:			
Contract service fees <i>(Note 4)</i>	\$ 3,614,652		\$ 3,614,652
Park rentals and fees	1,022,033		1,022,033
Contributions:			
Nonfinancial assets <i>(Note 8)</i>	10,167	\$ 4,525,611	4,535,778
Government grants <i>(Note 14)</i>		2,198,540	2,198,540
Other	968,199	27,478,688	28,446,887
Special events	585,966		585,966
Cost of direct donor benefits	(211,857)		(211,857)
Investment income	118,403	11,638	130,041
Other income	231,270		231,270
Total revenue	6,338,833	34,214,477	40,553,310
Net assets released from donor restrictions <i>(Note 12)</i>	17,156,983	(17,156,983)	
Total	23,495,816	17,057,494	40,553,310
EXPENSES:			
Buffalo Bayou development, maintenance and park programming	9,848,335		9,848,335
Management and general	697,450		697,450
Fundraising	423,286		423,286
Total expenses	10,969,071		10,969,071
CHANGES IN NET ASSETS	12,526,745	17,057,494	29,584,239
Net assets, beginning of year	23,612,118	16,997,553	40,609,671
Net assets, end of year	\$ 36,138,863	\$ 34,055,047	\$ 70,193,910

*See accompanying notes to consolidated financial statements.*

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## Buffalo Bayou Partnership and Affiliates

Consolidated Statement of Activities for the year ended December 31, 2021

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	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Fees and program revenues:			
Contract service fees <i>(Note 4)</i>	\$ 3,464,490		\$ 3,464,490
Park rentals and fees	712,838		712,838
Contributions:			
Nonfinancial assets <i>(Note 8)</i>		\$ 2,000,000	2,000,000
Government grants <i>(Note 14)</i>		396,100	396,100
Other	437,556	3,690,290	4,127,846
Special events	667,395		667,395
Cost of direct donor benefits	(136,458)		(136,458)
Other income	<u>165,404</u>		<u>165,404</u>
Total revenue	5,311,225	6,086,390	11,397,615
Net assets released from donor restrictions <i>(Note 12)</i>	<u>7,283,898</u>	<u>(7,283,898)</u>	
Total	<u>12,595,123</u>	<u>(1,197,508)</u>	<u>11,397,615</u>
EXPENSES:			
Buffalo Bayou development, maintenance and park programming	10,163,776		10,163,776
Management and general	680,418		680,418
Fundraising	<u>405,105</u>		<u>405,105</u>
Total expenses	<u>11,249,299</u>		<u>11,249,299</u>
CHANGES IN NET ASSETS	1,345,824	(1,197,508)	148,316
Net assets, beginning of year	<u>22,266,294</u>	<u>18,195,061</u>	<u>40,461,355</u>
Net assets, end of year	<u>\$ 23,612,118</u>	<u>\$ 16,997,553</u>	<u>\$ 40,609,671</u>

*See accompanying notes to consolidated financial statements.*

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## Buffalo Bayou Partnership and Affiliates

Consolidated Statement of Functional Expenses for the year ended December 31, 2022

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	BUFFALO BAYOU DEVELOPMENT, MAINTENANCE AND PARK PROGRAMMING	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related costs	\$ 2,603,952	\$ 405,658	\$ 275,441	\$ 3,285,051
Professional fees and contract services	5,064,078	83,449	9,443	5,156,970
Park maintenance	949,182			949,182
Depreciation	277,377	55,983	55,983	389,343
Equipment and supplies	270,138	30,027	8,170	308,335
Insurance	239,187	5,052	8,231	252,470
Utilities	131,733	6,147	6,147	144,027
Rent	96,000			96,000
Technology and communication	26,747	14,277	14,277	55,301
Credit card and other fees		51,999		51,999
Graphics and printing	25,345	18,073	8,011	51,429
Interest	24,233	12,117	12,117	48,467
Transportation	41,670	608	608	42,886
Marketing and advertising	32,371	4,477	4,389	41,237
Conferences and meetings	15,337	2,823	14,581	32,741
Other	<u>50,985</u>	<u>6,760</u>	<u>5,888</u>	<u>63,633</u>
Total expenses	<u>\$ 9,848,335</u>	<u>\$ 697,450</u>	<u>\$ 423,286</u>	10,969,071
Cost of direct donor benefits				<u>211,857</u>
Total				<u>\$ 11,180,928</u>

*See accompanying notes to consolidated financial statements.*

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## Buffalo Bayou Partnership and Affiliates

### Consolidated Statement of Functional Expenses for the year ended December 31, 2021

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	BUFFALO BAYOU DEVELOPMENT, MAINTENANCE AND PARK PROGRAMMING	MANAGEMENT AND GENERAL	FUNDRAISING	TOTAL
Salaries and related costs	\$ 2,515,763	\$ 374,601	\$ 272,302	\$ 3,162,666
Professional fees and contract services	4,741,637	77,442	6,748	4,825,827
Park maintenance	1,582,843			1,582,843
Depreciation	266,952	55,475	55,475	377,902
Equipment and supplies	323,670	18,277	8,895	350,842
Insurance	222,916	15,751	15,751	254,418
Utilities	102,544	6,667	6,667	115,878
Rent	96,000			96,000
Technology and communication	35,637	28,200	6,560	70,397
Credit card and other fees		55,610		55,610
Graphics and printing	158,988	30,999	9,834	199,821
Interest	26,537	12,342	12,342	51,221
Transportation	27,501	527	527	28,555
Marketing and advertising	8,333	1,961	3,628	13,922
Conferences and meetings	33,495	1,071	2,237	36,803
Other	<u>20,960</u>	<u>1,495</u>	<u>4,139</u>	<u>26,594</u>
Total expenses	<u>\$ 10,163,776</u>	<u>\$ 680,418</u>	<u>\$ 405,105</u>	11,249,299
Cost of direct donor benefits				<u>136,458</u>
Total				<u>\$ 11,385,757</u>

*See accompanying notes to consolidated financial statements.*

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## Buffalo Bayou Partnership and Affiliates

Consolidated Statements of Cash Flows for the years ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 29,584,239	\$ 148,316
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	389,343	377,902
Loss on disposal of property	79,634	
Contributions of land	(4,277,564)	(2,000,000)
Contributions restricted for property		(503,504)
Contributions restricted for endowment	(11,000,000)	
Changes in operating assets and liabilities:		
Prepaid expenses and other receivables	(38,123)	181,089
Contributions receivable	(4,674,212)	5,552,639
Note receivable	(2,250,000)	
Accounts payable and accrued expenses	(1,176,343)	1,671,451
Deferred revenue	42,543	47,126
Deferred land lease	1,476,923	
Paycheck Protection Program refundable advance		(396,100)
Advanced contributions	<u>(193,540)</u>	<u>(500,000)</u>
Net cash provided by operating activities	<u>7,962,900</u>	<u>4,578,919</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Expenditures for purchases of property	(6,182,826)	(1,280,297)
Net change in time deposits held as investments and money market mutual funds	<u>(11,011,638)</u>	<u>15,597,331</u>
Net cash provided (used) by investing activities	<u>(17,194,464)</u>	<u>14,317,034</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of note payable	(41,675)	(249,795)
Proceeds from contributions restricted for property		503,504
Proceeds from contributions restricted for endowment	<u>11,000,000</u>	<u></u>
Net cash provided by financing activities	<u>10,958,325</u>	<u>253,709</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	1,726,761	19,149,662
Cash and cash equivalents, beginning of year	<u>21,125,823</u>	<u>1,976,161</u>
Cash and cash equivalents, end of year	<u>\$ 22,852,584</u>	<u>\$ 21,125,823</u>
<i>Supplemental disclosure of cash flow information:</i>		
Interest paid	\$44,463	\$56,602

*See accompanying notes to consolidated financial statements.*

## Buffalo Bayou Partnership and Affiliates

Notes to Consolidated Financial Statements for the years ended December 31, 2022 and 2021

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### NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – 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 is to be administered to benefit the City of Houston (the City) and Harris County, Texas (the County). The Partnership manages and maintains Buffalo Bayou Park (the Park) and also coordinates integration of major amenities into the Bayou Greenbelt and seeks ways to increase community development in Bayou-related activities. Significant Partnership programs and projects include: land acquisition, east sector initiatives, hike and bike trail design and construction, redevelopment of major waterfront destinations, special event coordination, and operation of a specially designed watercraft to remove bayou debris.

Affiliated organizations – The Partnership is the sole member of BBP Holdco, LLC (Holdco), which was created to facilitate real estate holdings. Holdco is the sole member of BBP Lockwood Foley GL Family, LLC (BBP Lockwood Foley).

Additionally, the Partnership is the sole member of BBP Lockwood Foley Family MP, LLC (BBP Lockwood Foley MP), which holds a non-controlling 51% interest in Lockwood South GP, LLC (GP), the general partner of Lockwood South Apts, LP (Lockwood South LP). Lockwood South LP is developing an 80-unit affordable housing complex near Buffalo Bayou, east of downtown Houston for low to moderate income at-risk families. BBP Lockwood Foley owns and is leasing the real property on which the apartment complex will be located to Lockwood South LP.

Basis of consolidation – Holdco and BBP Lockwood Foley are included in these financial statements as wholly-controlled affiliates of the Partnership. All intercompany transactions between these organizations have been eliminated in the consolidation.

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). Holdco, BBP Lockwood Foley, and BBP Lockwood Foley MP are Texas Limited Liability corporations, which are pass-through entities and are not subject to income tax.

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

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Contributions receivable that are expected to be collected in future years are discounted to estimate the present value of future cash flows. Discounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue. An allowance for uncollectible receivables is provided when it is believed balances may not be collected in full. The adequacy of the allowance at the end of each period is determined using a combination of historical loss experience and donor-by-donor analysis of balances. No allowance is deemed necessary by management at December 31, 2022 and 2021.

Investments include 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 5.

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 used 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. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service unless the donor also has placed a time restriction on the use of the long-lived asset, in which case the release occurs over the term of the time restriction. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

Contract service fees – Revenue from contracts is derived from contract fees with government organizations for the maintenance and operations of certain parkland and navigable waters of the Bayou. Revenue is recognized over time on a monthly basis as the services are provided routinely. The amount recognized reflects the consideration the Partnership expects to be entitled to in exchange for those services. Payments are due during the contract year and are reported as deferred revenue until the revenue is recognized. Deferred revenue under these agreements total approximately \$325,000, \$250,000 and \$230,000 at December 31, 2022, 2021 and 2020, respectively.

Park rentals and fees – The Park accommodates visitors by offering rentable outdoor and indoor space for private events and other outdoor activities. Additionally, the Park and the Bayou are utilized for special city-wide events. Fees for rentals, permits, and events are based on the specific requirements of the event vendor or visitor. Fees, net of any discounts, are recognized at the point in time the event or activity occurs. Deferred revenue related to park rentals and fees paid in advance total approximately \$13,000, \$45,000 and \$18,000 at December 31, 2022, 2021 and 2020, respectively, and were reported as deferred revenue.

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 subject to one or more barriers that must be overcome before the Partnership is entitled to receive or retain the funds. Conditional contributions are recognized in the same manner when the conditions are met. Funding received before the conditions are met is reported as advanced contributions.

Contributed nonfinancial assets 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.

Special events revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special events revenue is recognized when the events occur. Amounts received for future events represent conditional contributions and are reported in the statement of financial position as deferred revenue until earned. Cost of direct donor benefits represent the cost of goods and services provided to attendees of special events.

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. Depreciation, interest expense, and occupancy costs are allocated based on square footage. Information technology costs are allocated based on estimates of time and costs of specific technology utilized.

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.

## 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>2022</u>	<u>2021</u>
Financial assets:		
Cash and cash equivalents	\$ 22,852,584	\$ 21,125,823
Receivables	107,674	26,167
Contributions receivable	5,693,712	1,019,500
Endowment investments	11,011,638	
Note receivable	<u>2,250,000</u>	
Total financial assets	41,915,608	22,171,490
Less financial assets not available for general expenditure:		
Endowment investments ( <i>Note 12</i> )	(11,011,638)	
Donor-restricted assets subject to satisfaction of restriction and the passage of time	(23,043,409)	(12,454,574)
Contractually-restricted assets for park maintenance and capital improvements ( <i>Note 4</i> )	(1,967,097)	(1,900,672)
Note receivable	<u>(2,250,000)</u>	
Total financial assets available for general expenditure	<u>\$ 3,643,464</u>	<u>\$ 7,816,244</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Partnership considers all expenditures related to its ongoing activities for maintenance and stewardship of the Bayou, as well as the conduct of services undertaken to support those activities, to be general expenditures. The Partnership has entered into maintenance contracts with local governmental entities that require amounts paid in excess of amounts used in each given year to be accumulated for future maintenance and capital improvements (see Note 4).

As part of the Partnership’s liquidity management, it structures its financial assets to be available as its general expenditures and liabilities become due or as additional funding opportunities are presented by maintaining a significant portion of its assets in cash. Short-term funds are invested in liquid certificates of deposit and money market mutual funds with staggered maturities based upon expected needs.

**NOTE 3 – CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following:

	<u>2022</u>	<u>2021</u>
Bank deposits	\$ 8,096,369	\$ 4,190,956
Money market mutual funds	9,033,944	
Certificates of deposit (short-term)	<u>5,722,271</u>	<u>16,934,867</u>
Total cash and cash equivalents	<u>\$ 22,852,584</u>	<u>\$ 21,125,823</u>

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

**NOTE 4 – GOVERNMENT AND OTHER CONTRACT SERVICES**

In 2022, the Partnership entered into a 30-year Development, Construction, Operations, Maintenance and Concession Agreement (the Agreement) with the City and the County that delegates responsibilities of the redevelopment of Buffalo Bayou from the Union Pacific railroad bridge immediately east of U.S. 59/I-69 to Mack Street (the Buffalo Bayou East project). The Agreement identified park and other projects to be completed within ten years (Ten-Year Plan Projects) and reflects \$100 million in support from a foundation, \$84 million from the City, \$19 million in other government sources and \$24 million from the County. Additionally, the Partnership has committed to raising \$83 million in contributions. The Partnership has raised cash or commitments totaling approximately \$37 million at December 31, 2022. Additionally, the Agreement includes future maintenance and operational responsibility by the Partnership for completed park projects to be funded by BBP (50%), the City (25%) and the County (25%).

In 2012, the Partnership entered into an operating agreement with the City, Reinvestment Zone Number Three, Downtown Redevelopment Authority (the Authority), and Harris County Flood Control District (the District) to provide maintenance of the Park. Under this agreement, the Authority agrees to pay the Partnership on behalf of the City an annual maintenance fee of approximately \$2,000,000 adjusted annually for inflation for an initial term of 30 years. During 2022 and 2021, the Partnership earned \$2,521,546 and \$2,491,167, respectively, in annual fees 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 Park. 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, 2022 and 2021, \$1,854,965 and \$1,676,286 of cash and cash equivalents were being held as maintenance and capital reserve for the Park, 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 2023. The District will pay \$377,400 annually under this agreement, which is included in contract service fees.

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 \$555,000 in contract service fees in 2022 and 2021, respectively, under this agreement. A portion of the fee is to be used for capital projects, improvements and repairs other than routine maintenance and upkeep. At December 31, 2022 and 2021, \$112,132 and \$224,386, respectively, was being held in cash and cash equivalents as capital reserve for the project.

In 2019, the Partnership received a commitment of \$2,000,000 from the City’s Authority and Reinvestment Zone Number Three to construct two segments of trails along the south side of the Bayou. In 2022 and 2021, \$948,719 and \$500,000, respectively, was recognized as contribution revenue under the terms of this agreement.

**NOTE 5 – CONTRIBUTIONS RECEIVABLE**

Contributions receivable at December 31, 2022 are as follows:

Due to be collected in 2023	\$ 3,813,546
Due to be collected in 2024	1,000,000
Due to be collected in 2025	<u>1,000,000</u>
Total contributions receivable	5,813,546
Discount to net present value at 4.2%	<u>(119,834)</u>
Contributions receivable, net	<u>\$ 5,693,712</u>

*Concentration*

The Partnership has raised significant funds for land and building improvements, and funding is often concentrated in a small number of donors. In 2022, approximately \$21,700,000 or 63% of contributions were from two donors. In 2021, approximately \$3,500,000 or 55% of contributions were from two donors.

At December 31, 2022, approximately 99% of contributions receivable were due from two donors. At December 31, 2021, approximately 92% of contributions receivable were due from one donor.

*Conditional contributions*

In 2022, the Partnership received a conditional contribution of \$100 million from a foundation for the Buffalo Bayou East project campaign. The foundation will make payments over 6 years provided that annual scheduled certifications are met. The Partnership recognized \$16.7 million of contributions related to this commitment in fiscal year 2022. The remaining \$83.3 million will be recognized as contribution revenue when the conditions are met.

The Partnership received a conditional \$9,950,000 federal government grant in 2022 for construction of Lockwood South affordable housing development. As of December 31, 2022, \$2,198,540 of this conditional grant has been recognized as revenue.

## NOTE 6 – PROPERTY

Property consists of the following:

	<u>2022</u>	<u>2021</u>
Land	\$ 24,650,160	\$ 14,725,058
Buildings and improvements	7,599,095	7,599,095
Park equipment	1,074,839	1,037,346
Boats and vehicles	706,215	447,004
Office equipment and furniture	169,478	163,776
Construction in progress	<u>930,078</u>	<u>778,621</u>
Total property, at cost	35,129,865	24,750,900
Accumulated depreciation	<u>(1,983,444)</u>	<u>(1,595,892)</u>
Property, net	<u>\$ 33,146,421</u>	<u>\$ 23,155,008</u>

The Partnership has eight right-of-way easements totaling 3.83 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 and provide access to the Partnership property from the City's public right-of-way. 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.

In 2022, the Partnership paid \$4.5 million to a board member to purchase property. The fair value of the land was approximately \$7 million.

## NOTE 7 – NOTE PAYABLE

Note payable consists of the following:

	<u>2022</u>	<u>2021</u>
Note payable to a local governmental corporation of the City with payments due monthly starting in 2020, maturing on September 17, 2058, secured by deed of trust on property at 1019 Commerce Street; interest rate of 2%.	<u>\$ 2,402,476</u>	<u>\$ 2,444,151</u>
Total note payable	<u>\$ 2,402,476</u>	<u>\$ 2,444,151</u>

Principal payments at December 31, 2022 are due as follows:

2023	\$ 50,247
2024	47,357
2025	48,313
2026	49,288
2027	50,283
Thereafter	<u>2,156,988</u>
Total	<u>\$ 2,402,476</u>

The Partnership recognized interest expense of approximately \$48,000 in 2022 and \$51,000 in 2021.



## NOTE 8 – NONFINANCIAL CONTRIBUTIONS

The Partnership recognized the following nonfinancial contributions:

CONTRIBUTED NONFINANCIAL ASSETS	MONETIZED OR UTILIZED IN PROGRAMS/ACTIVITIES	DONOR RESTRICTIONS	VALUATION TECHNIQUES AND INPUTS	2022	2021
Land	Program	Buffalo Bayou East	Fair value based on independent appraisals.	\$4,277,564	\$2,000,000
Project management and consulting fees	Program	Buffalo Bayou East	Fair value based on current rates for similar services.	\$152,047	
Facility rent from the City	Program	Clean and Green	Fair value based on lease payments of similar properties.	\$96,000	\$96,000
Other goods and services	Program	None	Fair value estimated based on current rates for similar products and services.	\$10,167	\$64,639
Total contributed nonfinancial assets				<u>\$4,535,778</u>	<u>\$2,160,639</u>

## NOTE 9 – LOCKWOOD SOUTH AFFORDABLE HOUSING TRANSACTIONS

### *Land Lease*

BBP Lockwood Foley entered into a 65-year land lease agreement with Lockwood South LP effective December 21, 2022. Lease payments of \$1,500,000 were paid in December 2022 for the entirety of the 65-year lease and have been recorded as prepaid lease income at December 31, 2022. Future lease payments may be made based upon the net cash flows as defined by the partnership agreement of Lockwood South LP.

### *Note Receivable*

On December 21, 2022, the Partnership and Lockwood South LP entered into a long-term promissory note agreement to provide \$9,950,000 to develop multi-family affordable housing. At December 31, 2022, \$2,250,000 has been provided to Lockwood South LP in connection with the project from funds provided by the City under a federally-funded, deferred loan agreement described below. The promissory note is being used as collateral for the deferred loan agreement and bears interest at the lesser of 1% or 50% of the net cash flow of Lockwood South LP. The note receivable will mature 40 years after the completion of the affordable housing project.

### *City Deferred Loan Agreement*

On July 29, 2022, the Partnership entered into a \$9,950,000 federally-funded deferred payment loan agreement with the City to provide funding to Lockwood South LP to finance development of multi-family affordable housing. Under the terms of the agreement, the loan and accrued interest will be forgiven 40 years after completion of the facility, provided the Partnership complies with the provisions of the agreement. The agreement bears interest at 1% or 50% of the net cash flow of Lockwood South LP. The deferred payment loan from the City is secured by the collateral loan (note receivable) with Lockwood South LP.

### *Partnership as Guarantor*

As outlined in the Lockwood South LP partnership agreement, the Partnership is a guarantor for the full, timely and unconditional payment and performance of certain obligations of the general partner of Lockwood South LP. These obligations include guaranteeing to the limited partners (investors) performance and compliance with federal low-income housing tax credits as outlined in Section 42 of the Internal Revenue Code. In order to qualify for these credits, Lockwood South LP must comply with various federal and state requirements. These requirements include, but are not limited to, renting to low-income tenants at rental rates that do not exceed specified percentages of area median gross income for the first 20 years of operation. Lockwood South LP has agreed to maintain the affordability of the designated units in the project for an additional 20 years beyond the initial compliance period.

For a 3-year period commencing on the last day of the Tax Credit Compliance period (15 years), Lockwood South LP will provide the Partnership with a window of first right of refusal on the purchase of the apartment complex equal to the greater of \$100 or the sum of the principal amount of the note receivable and all other outstanding indebtedness to the Partnership.

The Partnership and Brinshore Development, LLC, an unrelated entity, are jointly and severally guarantors of the construction loan for the Lockwood South LP multi-family housing development. The total amount available under the construction loan totals \$13,174,500 and approximately \$285,000 has been drawn on this loan at December 31, 2022.

The Partnership and Brinshore Development, LLC have entered into a guaranty reimbursement agreement to indemnify the Partnership and its affiliates in the event that the Partnership as guarantor is required to make payments under certain agreements related to the development of the Lockwood South LP multi-family housing development.

### *Construction Commitment*

In 2022, the Partnership entered into a contract with a subcontractor for the multi-family affordable housing development. At December 31, 2022, outstanding commitments under this contract totaled approximately \$20.6 million.

## **NOTE 10 – NET ASSETS WITHOUT DONOR RESTRICTIONS**

Net assets without donor restrictions are comprised of the following:

	<u>2022</u>	<u>2021</u>
Property, net of note payable	\$ 30,743,945	\$ 19,408,649
Park maintenance and capital improvements under operating agreements	1,967,097	1,900,672
Undesignated	<u>3,427,821</u>	<u>2,302,797</u>
Total net assets without donor restrictions	<u>\$ 36,138,863</u>	<u>\$ 23,612,118</u>

## NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Buffalo Bayou East	\$ 22,333,374	\$ 16,426,654
Hike and bike trail projects	622,882	158,754
North Canal project	28,527	55,520
Bio-Vac	<u>21,189</u>	<u>280,000</u>
Total subject to expenditure for specified purpose	<u>23,005,972</u>	<u>16,920,928</u>
Subject to passage of time:		
Contributions receivable that are not restricted by donors, but which are unavailable for expenditures until due	37,437	76,625
Endowment subject to spending policies and appropriations	<u>11,011,638</u>	<u>                    </u>
Total net assets with donor restrictions	<u>\$ 34,055,047</u>	<u>\$ 16,997,553</u>

## NOTE 12 – NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Donor restrictions on contributions were satisfied for the following purposes:

	<u>2022</u>	<u>2021</u>
Buffalo Bayou East	\$ 13,489,466	\$ 3,857,985
Lockwood South affordable housing	2,198,540	
Hike and bike trail projects	740,252	2,361,741
Bio-Vac	259,211	
Clean and Green program	207,593	119,500
Buffalo Bayou Park operations	96,406	293,951
Cistern operations and programming	38,820	145,200
North Canal project	26,993	65,375
Amortization of land lease	23,077	
Paycheck Protection Program		396,100
Other	<u>76,625</u>	<u>44,046</u>
Total net assets released from donor restrictions	<u>\$ 17,156,983</u>	<u>\$ 7,283,898</u>

## NOTE 13 – ENDOWMENT FUNDS

An endowment has been established to provide long-term support to the operations and maintenance of the Buffalo Bayou East park projects. Endowment net assets include a donor-restricted fund. Donor-restricted endowment funds are maintained in accordance with explicit donor stipulations and are subject to the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA). TUPMIFA provides guidelines about what constitutes prudent spending and explicitly requires consideration of preservation of the fund. The Board of Directors has interpreted TUPMIFA as requiring a focus on the entirety of donor-restricted endowment funds, including original gift amounts and net appreciation, allowing the Partnership to appropriate for expenditure or accumulate as much of an endowment fund as considered prudent for the uses, benefits, purposes, and duration for which the fund was established, subject to explicit donor stipulations.

As a result of this interpretation, the Partnership classifies contributions to an endowment plus any donor-stipulated accumulations as *net assets with donor restrictions* required to be maintained in perpetuity. This amount is not reduced by investment losses or by appropriation and spending. The portion of the endowment not required to be maintained in perpetuity is also classified as *net assets with donor restrictions* until appropriated in accordance with spending policies and used for the stipulated purpose, if any.

An endowment fund is *underwater* if the fair value of the fund’s investments falls below the amount required to be maintained in perpetuity because of declines in the fair value of investments and/or continued appropriation and spending in accordance with prudent spending. There were no such deficiencies at December 31, 2022.

### Investment and Spending Policy

The investment and spending policy for the new endowment for operations and maintenance is currently being developed. The funds are currently invested in bank time deposits.

Changes in net assets of the endowment funds are as follows:

	<u>WITH DONOR RESTRICTIONS</u>		<u>TOTAL</u>
	<u>ACCUMULATED NET INVESTMENT RETURN</u>	<u>REQUIRED TO BE MAINTAINED IN PERPETUITY</u>	
Endowment net assets, December 31, 2021	\$ 0	\$ 0	\$ 0
Contributions		11,000,000	11,000,000
Net investment return	<u>11,638</u>		<u>11,638</u>
Endowment net assets, December 31, 2022	<u>\$ 11,638</u>	<u>\$ 11,000,000</u>	<u>\$ 11,011,638</u>

### **NOTE 14 – GOVERNMENT GRANTS**

Government grants recognized are as follows:

	<u>2022</u>	<u>2021</u>
U. S. Department of Housing and Urban Development passed through City of Houston	\$ 2,198,540	
U. S. Small Business Administration (Paycheck Protection Program)		<u>\$ 396,100</u>
Total government grants	<u>\$ 2,198,540</u>	<u>\$ 396,100</u>

The Partnership’s government grants require fulfillment of certain conditions as set forth in the grant contracts and are subject to review and audit by the awarding agencies. Such reviews and audits could result in the discovery of unallowable activities and unallowable costs. Consequently, any of the funding sources may, at their discretion, request reimbursement for expenses or return of funds as a result of non-compliance by the Partnership with the terms of the contracts. Management believes such disallowances, if any, would not be material to the Partnership’s financial position or changes in net assets.

### **NOTE 15 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through September 26, 2023, 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.