

BUFFINGTON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
12012 WICKCHESTER LANE, SUITE 430
HOUSTON, TEXAS 77079
(281) 920-5455 FAX (281) 920-5456

INDEPENDENT AUDITOR'S REPORT

Board of Trustees and President
Galveston Bay Foundation, Inc.
Webster, Texas

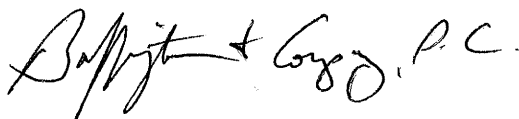
We have audited the accompanying statement of financial position of Galveston Bay Foundation, Inc. (a nonprofit organization) as of December 31, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Galveston Bay Foundation, Inc. as of December 31, 2010, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2011, on our consideration of ABC Organization's 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



September 30, 2011

GALVESTON BAY FOUNDATION, INC
STATEMENT OF FINANCIAL POSITION
For the Year Ended December 31, 2010

ASSETS

Current assets		
Cash (Note 2)	\$	514,758
Receivables		343,278
Inventories (Note 1)		1,712
Other current assets		<u>5,871</u>
Total current assets		865,620
Fixed assets, at cost, net of accumulated depreciation (Note 3)		606,330
Other assets		<u>1,200</u>
Total assets	\$	<u><u>1,473,149</u></u>

LIABILITIES

Current liabilities		
Accounts payable	\$	2,351
Accrued liabilities		56,243
Note payable (Note 4)		<u>25,000</u>
Total current liabilities		<u>83,594</u>
Total liabilities		<u>83,594</u>

NET ASSETS:

Unrestricted		330,009
Designated (Note 8)		92,692
Fixed assets		<u>501,123</u>
Total Unrestricted net assets		923,825
Temporarily restricted (Note 9)		360,503
Fixed assets		<u>39,128</u>
Total Temporarily restricted net assets		399,631
Permanently restricted (Note 10)		<u>66,100</u>
Total net assets		<u>1,389,555</u>
Total liabilities and net assets	\$	<u><u>1,473,149</u></u>

The accompanying notes are an integral part of the financial statements.

GALVESTON BAY FOUNDATION, INC
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	TOTALS
CHANGES IN NET ASSETS:				
Support and Revenue:				
Grants and contributions	\$ 273,603	\$ 1,097,800	\$ -	\$ 1,371,403
Contract revenue	760,847			760,847
Special events revenues	127,153			127,153
Less: Costs of direct benefits provided to donors	(22,256)			(22,256)
Sales of merchandise, net of costs	585			585
Investment and other income	3,743	16		3,759
<i>Total support and revenue</i>	1,143,675	1,097,816	-	2,241,491
Net assets released from restrictions	1,212,426	(1,212,426)		-
<i>Total support, revenue and reclassifications</i>	2,356,102	(114,611)	-	2,241,491
Expenses:				
Program expenses (Note 5)				
Education	438,947			438,947
Conservation	1,040,073			1,040,073
Research	25,510			25,510
Advocacy	245,400			245,400
<i>Total program services</i>	1,749,930			1,749,930
Supporting services				
Management and general	212,980			212,980
Fund raising expenses	110,490			110,490
<i>Total supporting services</i>	323,469			323,469
<i>Total expenses</i>	2,073,400	-	-	2,073,400
Increase (decrease) in net assets	282,702	(114,611)	-	168,091
Net Assets - Beginning of period	147,596	533,469	455,056	1,136,121
Prior Period Adjustment (Note 12)	493,527	(19,228)	(388,956)	85,343
Net Assets - End of period	\$ 923,825	\$ 399,631	\$ 66,100	\$ 1,389,555

The accompanying notes are an integral part of the financial statements.

GALVESTON BAY FOUNDATION, INC
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2010

	Program Services						Total Functional Expenses		
	Education	Conservation	Research	Advocacy	Total Program Services	Management and General		Committees	Fundraising
Salaries	\$ 116,489	\$ 159,464	\$ 13,689	\$ 118,122	\$ 407,764	\$ 77,494	\$ 10,756	\$ 34,021	\$ 530,034
Benefits	16,928	20,933	1,930	16,645	56,436	9,126	1,422	4,356	71,340
Payroll Taxes	9,448	13,144	1,082	9,445	33,120	7,774	781	2,717	44,392
Legal and accounting	-	-	-	46,676	46,676	19,191	-	-	65,866
Professional and Technical Services	9,587	9,517	3,407	7,283	29,794	25,197	-	19,369	74,359
Supplies and materials	17,392	44,360	168	2,034	63,954	5,839	-	21,531	91,324
Communications / Telephone	770	1,009	176	780	2,735	1,825	3	108	4,671
Postage & Shipping	1,253	655	5	61	1,973	840	-	835	3,648
Occupancy	2,532	33,928	-	4,884	41,344	7,108	-	450	48,902
Equipment rental and maintenance	190	1,158	-	-	1,348	1,575	-	249	3,172
Printing and publications	28,068	8,131	10	440	36,648	1,506	-	16,530	54,685
Travel, meals and entertainment	30,015	15,177	1,290	7,171	53,653	153	85	1,099	54,991
Conferences, workshops	255	1,115	(4,575)	480	(2,725)	2,454	-	10	(261)
Depreciation	1,458	537	-	-	1,995	5,977	-	-	7,971
Contracted materials & services	23,563	690,085	80	19,200	732,927	3,317	-	420	736,664
Insurance	10,493	13,360	1,334	9,537	34,724	23,162	483	1,814	60,182
Event costs	83,994	11,324	6,718	709	102,744	3,657	-	1,199	107,600
Membership dues & subscriptions	1,120	6,225	-	48	7,393	3,263	-	1,378	12,034
Advertising and Development	58,721	1,628	75	406	60,831	6,532	-	2,227	69,589
Property Taxes	-	3,028	-	-	3,028	274	-	-	3,302
Licenses and permits	20,650	-	-	-	20,650	100	-	-	20,750
Other Costs	3,510	167	-	(84)	3,593	3,751	48	791	8,184
Committee expenses - Allocated	2,512	5,129	121	1,564	9,327	2,864	(13,578)	1,387	-
<i>Total Functional Expenses</i>	<u>\$ 438,947</u>	<u>\$ 1,040,073</u>	<u>\$ 25,510</u>	<u>\$ 245,400</u>	<u>\$ 1,749,930</u>	<u>\$ 212,980</u>	<u>\$ -</u>	<u>\$ 110,490</u>	<u>\$ 2,073,400</u>

GALVESTON BAY FOUNDATION, INC
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:	
Increase in net assets	\$ 168,091
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	7,971
Forgiven debt	(25,000)
Change in assets and liabilities-	
Decrease in certificate of deposit	97,284
Increase in receivables	(213,105)
Increase in other assets	(3,433)
Decrease in inventories	18,178
Decrease in accounts payable	(51,143)
Increase in accrued liabilities	18,363
<i>Net cash provided by operating activities</i>	<u>17,207</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Increase in fixed assets	(43,431)
<i>Net cash provided by investing activities</i>	<u>(43,431)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:	
<i>Net cash provided by financing activities</i>	<u>-</u>
Net decrease in cash	(26,224)
Cash, beginning of year	<u>540,982</u>
Cash, end of year	<u>\$ 514,758</u>
 Supplemental information -	
Interest paid	\$ -
Income taxes paid	-

The accompanying notes are an integral part of the financial statements.

GALVESTON BAY FOUNDATION, INC
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2010

1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

- A. Organization - The Galveston Bay Foundation, Inc. (Foundation) is a 501(c)(3) non-profit organization established in 1987 under the laws of the State of Texas. It is managed by a Board of Trustees whose members represent sport and commercial fishing groups, government agencies, recreational users, environmental groups, shipping, development, and business interests. The mission of the Foundation is to preserve, protect, and enhance the natural resources of the Galveston Bay estuarine system and its tributaries for present users and for posterity. Its programs in education, conservation, research, and advocacy strive to ensure that Galveston Bay remains a beautiful and productive place for generations to come.

Education programs provide science-based environmental education focused on Galveston Bay. The goal of the programs are to develop a knowledgeable constituency, ranging from school children to public officials, which recognizes the positive quality-of-life benefits that a healthy Galveston Bay system provides for the entire Houston/Galveston region. Youth focused programs include the curriculum based “Bay Ambassadors” program, annual Children’s Art Calendar, and school based marsh grass nursery program, “Get Hip to Habitat.” The Foundation’s annual “Bike Around the Bay” event showcases the natural beauty of Galveston Bay while aiming to raise awareness and encourage area citizens to appreciate and visit the Bay.

Conservation programs focus on wetlands preservation and restoration. The Galveston Bay system has lost over 35,000 acres of wetlands during the last fifty years. Galveston Bay Foundation, Inc. works closely with numerous partners to restore those lost wetlands across the Bay. Wetlands provide habitat for finfish and shellfish as well as rookery and foraging areas for birds. They also stabilize shorelines and provide flood control, benefits that may be even more important in the current “big storm” era. Wetlands also naturally improve water quality by filtering water. The Foundation’s nationally recognized, community-based habitat restoration program, called “Marsh Mania,” has involved thousands of citizen volunteers and restored hundreds of acres of wetlands over the past thirteen years.

Research programs focus on the monitoring of created wetlands and restored habitat across Galveston Bay. The Foundation also advocates for the allocation of research dollars to the region to ensure the health of Galveston Bay and its users.

Advocacy programs allow the Foundation to serve as the watchdog for Galveston Bay. The Foundation reviews numerous projects and actively participates in the public review of those projects by attending public meetings and submitting written public comments. The overarching goal of the advocacy programs is to encourage and actively seek solutions to conflicts among the diverse users of the Bay and balance the multiple uses of Galveston Bay so that the long-term interests of the Bay itself are not compromised. With its partners, the Foundation has successfully supported passage of state and federal legislation on behalf of the Bay: the Texas Oil Spill Prevention and Response Act, the Texas Estuaries Act, the Texas Coastal Management Program, and the Federal Clean Waters and Estuary Restoration Act of 2000.

GALVESTON BAY FOUNDATION, INC
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2010

NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The Foundation is supported primarily by federal, state, and local grants in support of its advocacy, conservation, and education work. As most grant funding comes from federal sources, the vast majority requires non-federal, voluntary matching funds at a ratio of at least 1:1. The Foundation matches federal grant funding with state, local, and private funds, in-kind donations, and volunteer participation, often at a much higher ratio than required.

The financial statements of the Foundation have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below.

- B. Support and Expenses – Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets are generally not subject to donor-imposed stipulations. The Foundation reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Revenues are reported as increases in unrestricted net assets. Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions on net assets, which occur when the donor-imposed restrictions have been accomplished or stipulated time periods have elapsed, are reclassified to unrestricted net assets and reported in Statement of Activities and the Statement of Financial Position released from restrictions.

Temporarily restricted net assets include gifts, unconditional promises to give, and contract revenues which can be expended but for which restrictions have not yet been met. Such restrictions include those where donors have specified the purpose for which the net assets are to be spent, time limitations imposed by donors, or restrictions implied by the nature of the gift. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Permanently restricted net assets are those contributed with donor stipulations that they be held in perpetuity.

Contributors making unrestricted contributions of \$25 or greater are considered to be members of the organization.

Expenses are recorded when incurred in accordance with the accrual basis of accounting.

- C. Conditional Promises to Give – During the year ended December 31, 2010, the Foundation received conditional promises to give that were contingent upon the Foundation's raising matching gifts. All matching requirements have been met at December 31, 2010.

GALVESTON BAY FOUNDATION, INC
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2010

NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

- D. Contract Revenue and Receivables – Receivables consist of amounts due, both billed and unbilled, under reimbursable contracts with government agencies. Contract revenue is recognized as the Foundation incurs allowable costs under the contracts on a matching basis. The Foundation provides an allowance for estimated uncollectible receivables. No provision was considered necessary at December 31, 2010.
- E. Special Events – The Foundation holds various fund raising events during the year in which the donors receive direct benefits for their donations. The costs of the direct benefits have been subtracted from the contributions received from the donors in determining total support and revenue for the Foundation.
- F. Conservation Easements – The Foundation assigns no value to conservation easements for which it has no ownership rights other than monitoring and enforcing the easement to protect and conserve the property. The costs associated with the Foundation’s monitoring and enforcement activities are recorded as expenses when they are incurred.
- G. Concentrations of Credit and Market Risk – Financial instruments that potentially expose the Foundation to concentrations of credit and market risk consist primarily of cash and cash equivalents. Cash and cash equivalents are primarily maintained with a major brokerage house in money market funds that are federally insured for \$250,000 and insured by the brokerage firm to \$10,000,000. At December 31, 2010 balances exceeded federally insured amounts. The Foundation has not experienced any losses on its cash and cash equivalents. Management does not anticipate any loss as a result of this credit risk.
- H. Inventories – Inventories consist of games (“Galveston on Board”) purchased for educational and fundraising purposes. The games are valued at the lower of specific cost or market. At December 31, 2010, the carrying value of the games was reduced to their estimated net realizable value less selling costs to reflect the decision of management to discontinue sales during 2011.
- I. Fixed Assets – Fixed assets include land, works of art, furniture and fixtures, office equipment and equipment for program services, which are either currently used or planned to be used for the program services of the Foundation. Fixed assets are recorded at cost or, in the case of donated property, at estimated fair market value at the time of the donation. Fixed assets, excluding land and works of art, are depreciated using the straight-line method over the estimated useful lives of the assets, generally from 3 to 20 years.
- J. Compensated Absences – Under the Foundation’s policy for compensated absences generally, employees are entitled to one to four weeks of vacation each year. However, any earned vacation not taken within six months of the employee’s anniversary date of the year it is available is treated as expired and may not be carried over from year to year. Additionally, up to ten days of sick leave may be carried over from year to year. The Foundation has accrued \$24,559 for compensated absences that have been earned but not taken at December 31, 2010.

GALVESTON BAY FOUNDATION, INC
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2010

NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

- K. Income Taxes – The Foundation is exempt from Federal and state income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code.
- L. Advertising Costs – Advertising costs are expensed as incurred.
- M. Cash Flows – Cash and cash equivalents consist of cash held in checking and money market accounts and certificates of deposit with maturities less than 90 days at inception. Interest received during the year totaled \$3,059. Noncash investing and financing activities during the year consisted of \$25,000 of forgiven debt recorded as contributions. There were no payments of interest or income taxes during the year. Sales taxes collected and accrued on sales of inventory and fundraising items sold during the year is \$973 at December 31, 2010.
- N. Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.
- O. Basis of Presentation – The accompanying Schedule of Expenditures of Federal and State Awards includes the federal grant activity of the Foundation and is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. CASH

At December 31, 2010, the Foundation had deposits of \$686,069 in a cash management account with a securities brokerage firm. Those deposits were maintained in money market accounts. Interest was being paid on deposited funds at annual rates of 0.12% for the money market accounts. Cash balances in excess of \$250,000 are not covered by federal deposit insurance. Interest earned during the year ended December 31, 2010, totaled \$3,043. The Foundation also had deposits of \$58,082 in a money market account with a nationally chartered bank. These funds were maintained as required by an agreement with the Texas Commission on Environmental Quality (Commission). Per the agreement, the Foundation is required to maintain funds which are contributed by respondents in enforcement actions brought by the Commission in a separate interest-bearing account used exclusively for such funds. Interest was being paid on these deposited funds at annual rates of 0.0275%. Cash balances were not in excess of federal deposit insurance limits. Interest earned during the year ended December 31, 2010, totaled \$16.

GALVESTON BAY FOUNDATION, INC
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2010

3. FIXED ASSETS

At December 31, 2010, fixed assets owned and used by the Foundation consisted of the following:

<u>Description</u>	<u>Totals</u>
<i>Nondepreciable assets -</i>	
Unrestricted land	\$ 437,546
Temporarily Restricted land (Note 9)	39,128
Permanently Restricted land (Note 10)	66,100
Contributed artwork	9,400
<i>Depreciable assets -</i>	
Equipment for program services	152,373
Furniture and fixtures	3,664
Office equipment and other assets	<u>37,747</u>
 Total Fixed Assets	 745,958
Less: Accumulated Depreciation	(139,629)
 Net Fixed Assets	 <u><u>\$ 606,329</u></u>

Assets with a cost of \$43,431 were acquired with operating funds during the year ended December 31, 2010. Assets with a fair market value of \$87,740 were donated in previous periods and recognized in the year ended December 31, 2010.

Depreciation expense for the year ended December 31, 2010, totaled \$7,971.

4. NOTE PAYABLE

During 2004, the Foundation obtained a loan of \$250,000 from a corporate member. The terms of the loan called for the Foundation to make repayment on June 28, 2005, with no interest accruing on the loan. The loan was extended at its maturity. Under the terms of the loan \$25,000 of the principal balance is forgiven each year when the Foundation raises \$25,000 in matching funds, which has been achieved in each period. There is no interest paid or accruing on the loan balance. Payment on the loan balance has been extended each year. Currently it is extended until July 1, 2012.

5. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and activities of the Foundation as well as fund raising costs and management and general costs have been summarized on a functional basis in the Statement of Activities and reported in detail in the Statement of Functional Expenses for the year ended December 31, 2010. Costs that have been directly identified are reported in the appropriate program expense or supporting service category. Certain shared costs have been allocated among the program categories and supporting services. Allocations are made based on direct salary costs that are charged to the categories.

GALVESTON BAY FOUNDATION, INC
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2010

6. COMMITMENTS

The Foundation executed an agreement containing a commitment to lease its office space from July 1, 2007, through July 31, 2012, and continuing month-to-month thereafter. The lease calls for monthly rent of \$2,046 in months two through twenty-four and \$2,203 in months twenty-five through sixty-one. No rent was due in the first month. Monthly estimated common area maintenance charges are \$378 and monthly estimated property taxes and insurance are \$504.

Total office rent expense incurred, including common area charges, was \$36,040 for the year ended December 31, 2010.

7. CONTRIBUTED GOODS AND SERVICES

A substantial number of unpaid volunteers provide significant services to the Foundation. The value of the contributed time is not reflected in the accompanying financial statements. During the year ended December 31, 2010, these volunteers donated approximately 6,963 hours. Supplies, project materials and other goods and professional services provided to the Foundation have been recorded as revenues and expenses or assets at their estimated fair values.

The values of donated goods and services during the year ended December 31, 2010, were as follows:

Legal fees donated to evaluate the severity of the San Jacinto Waste Pit Superfund site, consider, and then advise the Foundation. After the Environmental Protection Agency stepped in the firm continues to monitor the site and removal and remedial plans.	\$ 46,676
Donation of plants for marsh conservation	37,800
Donations provided for special events -	
Supplies	1,687
Technical Services	960
Consulting Services	5,500
Donations provided for educational projects -	
Supplies	5,250
Printing	1,300
Advertising	5,472
Total donated goods and services	\$ 104,645

8. DESIGNATED NET ASSETS

As of December 31, 2010, management has designated funds in the amount of \$92,692, to be used as match for a federally funded boater waste education grant and in supporting, monitoring, and enforcing conservation easements held by the Foundation. There are no legal restrictions on these funds, and therefore, the management of the Foundation may use these funds at its discretion.

GALVESTON BAY FOUNDATION, INC
 NOTES TO FINANCIAL STATEMENTS
 For the Year Ended December 31, 2010

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2010, are available for the following specific program services and supporting services for subsequent periods:

Education	\$ 22,063
Conservation (includes deed restricted land)	203,615
Research	-
Advocacy	73,954
Multiple services	<u>100,000</u>
 Total temporarily restricted net assets at December 31, 2010	 <u><u>\$ 399,631</u></u>

Net assets were released from temporary restrictions by the following:

Incurring expenses or otherwise satisfying the purpose specified by the donors	<u>\$ 1,212,426</u>
 Total net assets released from restrictions	 <u><u>\$ 1,212,426</u></u>

10. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted assets of the Foundation are currently comprised of one contributed tract of land with a fair value of \$66,100 at the date of its contribution that is restricted for preservation in perpetuity. Any costs associated with maintaining the property has been provided by unrestricted or temporarily restricted funds and the costs have been classified as conservation expenses in the period expended.

11. CONSERVATION EASEMENTS

The Foundation accepts donations of land and conservation easements. When the Foundation accepts a title to a property or a conservation easement on a property, the Foundation accepts the responsibility to maintain the property and/or easement. The Foundation currently holds conservation easements on four tracts of land, which total approximately 103 acres. Additionally, the Foundation holds the title to nine tracts of land, which total approximately 3,291 acres.

GALVESTON BAY FOUNDATION, INC
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2010

12. MATERIAL CHANGES IN CLASSIFICATIONS MADE TO PREVIOUSLY ISSUED FINANCIAL STATEMENTS

Management of the Foundation has reviewed the conditions and restrictions under which the nine tracts of land and funds in support of conservation easements were acquired and determined that they were not properly classified in prior periods. Additionally, management reclassified funds held in prepaid assets. The following schedule reflects the reclassifications made during the year ended December 31, 2010:

<u>Site Name</u>	<u>Year</u>		<u>Prior Period Classification</u>	<u>Current Period Classification</u>	
	<u>Acquired</u>				
Shipe Woods	1991		Permanently Restricted	Unrestricted	\$ 42,940
Rich Sanctuary	1992		Permanently Restricted	Unrestricted	\$ 101,420
Pierce Marsh (GBF)	1997		Permanently Restricted	Unrestricted	\$ 198,446
Pierce Marsh (GBF/TNC)	1997		Permanently Restricted	Unrestricted	\$ 7,000
Sweetwater	1998		Permanently Restricted	Temporarily Restricted	\$ 978
Frost-Deen Sanctuary	1991		Permanently Restricted	Temporarily Restricted	\$ 38,150
Texas City Preserve	2005		Permanently Restricted	Permanently Restricted	\$ 66,100
Burnet Bay	2009		Not recognized	Unrestricted	\$ 87,500
Wright Preserve	2008		Not recognized	Unrestricted	\$ 240
<u>Fund Name</u>					
Land Management Conservation Easement Stewardship	2005		Temporarily Restricted	Unrestricted Designated	\$ 47,953
Conservation Easement Legal Defense	2007		Temporarily Restricted	Unrestricted Designated	\$ 7,403
	2007		Temporarily Restricted	Unrestricted Designated	\$ 3,000

13. EVALUATION OF SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through September 30, 2011, the date which financial statements were available to be issued.

GALVESTON BAY FOUNDATION, INC
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended December 31, 2010

<u>Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Award</u>	<u>Fiscal Year Expenditures</u>
<u>Federal Awards:</u>			
National Oceanic and Atmospheric Administration, Department of Commerce			
Coastal Zone Management	11.419	\$ 355,207	\$ 141,654
Habitat Conservation	11.463	391,977	186,294
Coastal Services Center	11.473	20,000	5,628
United States Fish and Wildlife Service, Department of the Interior			
Coastal Program	15.630	207,000	96,900
Partners for Fish and Wildlife	15.631	25,000	6,996
Gulf of Mexico Program office, Environmental Protection Agency			
National Estuary Program	66.456	122,000	58,497
Environmental Education Grants	66.951	20,000	6,954
		<u>\$ 1,141,184</u>	<u>\$ 502,923</u>

GALVESTON BAY FOUNDATION, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2010

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Galveston Bay Foundation, Inc. under programs of the federal government for the year ended December 31, 2010. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Galveston Bay Foundation, Inc., it is not intended to and does not present the financial position, changes in net assets, or cash flows of Galveston Bay Foundation, Inc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- (a) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.