

**GALVESTON BAY FOUNDATION, INC.**

**AUDITED FINANCIAL STATEMENTS**

**DECEMBER 31, 2009**

GALVESTON BAY FOUNDATION, INC.  
FINANCIAL STATEMENTS  
DECEMBER 31, 2009

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Independent Auditor's Report

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

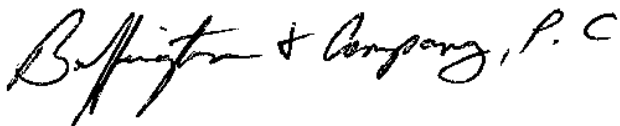
We have audited the accompanying statement of financial position of Galveston Bay Foundation, Inc. (a non-profit organization) as of December 31, 2009, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Galveston Bay Foundation'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 *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform our 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 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, 2009, 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 9, 2010, on our consideration of Galveston Bay Foundation, Inc.'s internal control and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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 the 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 read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



September 9, 2010

GALVESTON BAY FOUNDATION, INC.  
STATEMENT OF FINANCIAL POSITION  
December 31, 2009

|   |                            |
|---|----------------------------|
| ASSETS:   |                            |
| Current assets  |                            |
| Cash (Note 2)   | \$ 540,982                 |
| Certificate of deposit (Note 2)                                 | 97,284                     |
| Receivables   | 130,173                    |
| Inventories   | 19,890                     |
| Other current assets  | <u>2,438</u>               |
| Total current assets  | 790,767                    |
| Fixed assets, at cost, net of accumulated depreciation (Note 3) | 483,129                    |
| Other assets  | <u>3,598</u>               |
| Total assets  | <u><u>\$ 1,277,494</u></u> |
| LIABILITIES:  |                            |
| Current liabilities   |                            |
| Accounts payable  | \$ 53,251                  |
| Accrued liabilities   | 38,122                     |
| Note payable (Note 4)   | <u>50,000</u>              |
| Total current liabilities                                       | <u>141,373</u>             |
| Total liabilities   | <u>141,373</u>             |
| NET ASSETS:   |                            |
| Unrestricted  | 147,596                    |
| Temporarily restricted (Note 8)                                 | 533,469                    |
| Permanently restricted (Note 9)                                 | <u>455,056</u>             |
| Total net assets  | <u>1,136,121</u>           |
| Total liabilities and net assets                                | <u><u>\$ 1,277,494</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, 2009

|   | Unrestricted | Temporarily<br>Restricted | Permanently<br>Restricted | TOTALS       |
|---|--------------|---------------------------|---------------------------|--------------|
| <b>CHANGES IN UNRESTRICTED NET ASSETS:</b>          |              |                           |                           |              |
| <b>Support and Revenue:</b>                         |              |                           |                           |              |
| Grants and contributions                            | \$ 409,438   | \$ 853,047                | \$ -                      | \$ 1,262,485 |
| Contract revenue                                    | 832,073      |                           |                           | 832,073      |
| Special events revenues                             | 66,460       |                           |                           | 66,460       |
| Less: Costs of direct benefits provided to donors   | (8,130)      |                           |                           | (8,130)      |
| Sales of merchandise, net of costs                  | 132          |                           |                           | 132          |
| Investment and other income                         | 3,961        |                           |                           | 3,961        |
| <i>Total support and revenue</i>                    | 1,303,934    | 853,047                   | -                         | 2,156,981    |
| Net assets released from restrictions               | 772,601      | (772,601)                 |                           | -            |
| <i>Total support, revenue and reclassifications</i> | 2,076,535    | 80,446                    | -                         | 2,156,981    |
| <b>Expenses:</b>                                    |              |                           |                           |              |
| Program expenses (Note 5)-                          |              |                           |                           |              |
| Education   | 407,858      |                           |                           | 407,858      |
| Conservation  | 1,302,540    |                           |                           | 1,302,540    |
| Research  | 154          |                           |                           | 154          |
| Advocacy  | 150,359      |                           |                           | 150,359      |
| Total program services                              | 1,860,911    |                           |                           | 1,860,911    |
| Supporting services-                                |              |                           |                           |              |
| Management and general                              | 193,411      |                           |                           | 193,411      |
| Fund raising expenses                               | 73,344       |                           |                           | 73,344       |
| Total supporting services                           | 266,755      |                           |                           | 266,755      |
| <i>Total expenses</i>                               | 2,127,666    | -                         | -                         | 2,127,666    |
| <b>Increase (decrease) in net assets</b>            | (51,131)     | 80,446                    | -                         | 29,315       |
| Net Assets - Beginning of period                    | 198,727      | 453,023                   | 455,056                   | 1,106,806    |
| Net Assets - End of period                          | \$ 147,596   | \$ 533,469                | \$ 455,056                | \$ 1,136,121 |

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, 2009

|                                     | Program Services  |                     |               |                   | Total<br>Program<br>Services | Management<br>and<br>General | Committees  | Fund-<br>raising | Total<br>Functional<br>Expenses |
|-------------------------------------|-------------------|---------------------|---------------|-------------------|------------------------------|------------------------------|-------------|------------------|---------------------------------|
|                                     | Education         | Conservation        | Research      | Advocacy          |                              |                              |             |                  |                                 |
| Salaries                            | \$ 115,299        | \$ 125,718          | \$ 122        | \$ 63,699         | \$ 304,838                   | \$ 44,551                    | \$ 10,883   | \$ 29,862        | \$ 390,134                      |
| Benefits                            | 9,244             | 11,778              | 7             | 7,751             | 28,780                       | 73,961                       | 613         | 1,682            | 105,036                         |
| Payroll Taxes                       | 8,901             | 9,403               | 9             | 4,880             | 23,193                       | 9,523                        | 835         | 2,306            | 35,857                          |
| Legal and accounting                | -                 | -                   | -             | 46,719            | 46,719                       | 16,072                       | -           | -                | 62,791                          |
| Professional and Technical Services | 21,708            | 100,928             | -             | 878               | 123,514                      | 2,592                        | -           | 10,906           | 137,012                         |
| Supplies and materials              | 34,155            | 979,786             | -             | 3,433             | 1,017,374                    | 2,745                        | -           | 143              | 1,020,262                       |
| Communications/ Telephone           | 1,000             | 2,216               | -             | 968               | 4,184                        | 871                          | 53          | 244              | 5,352                           |
| Postage & Shipping                  | 1,003             | 488                 | -             | 39                | 1,530                        | 253                          | -           | 2,600            | 4,383                           |
| Occupancy                           | 2,525             | 34,400              | -             | 1,564             | 38,489                       | 6,124                        | -           | 620              | 45,233                          |
| Equipment rental and maintenance    | 3,385             | 2,907               | -             | 215               | 6,507                        | 1,336                        | -           | -                | 7,843                           |
| Printing and publications           | 54,293            | 5,200               | -             | 103               | 59,596                       | 163                          | -           | 15,894           | 75,653                          |
| Travel, meals and entertainment     | 32,017            | 5,996               | 8             | 7,847             | 45,868                       | 1,176                        | 334         | 1,131            | 48,509                          |
| Conferences, workshops              | 400               | 645                 | -             | -                 | 1,045                        | 50                           | -           | -                | 1,095                           |
| Depreciation                        | 2,702             | 2,946               | 3             | 1,493             | 7,144                        | 1,043                        | 255         | 700              | 9,142                           |
| Dues and fees                       | 544               | 395                 | -             | -                 | 939                          | 10,187                       | -           | 559              | 11,685                          |
| Insurance                           | -                 | -                   | -             | -                 | -                            | 13,325                       | -           | -                | 13,325                          |
| Event costs                         | 38,408            | 7,324               | -             | 5,910             | 51,642                       | 2,845                        | 2,071       | 3,882            | 60,440                          |
| Membership dues and subscriptions   | 140               | 4,500               | -             | -                 | 4,640                        | 705                          | -           | 593              | 5,938                           |
| Advertising and Development         | 63,818            | 1,000               | -             | 2,000             | 66,818                       | 416                          | -           | 869              | 68,103                          |
| Property Taxes                      | -                 | 28                  | -             | -                 | 28                           | 3,631                        | -           | -                | 3,659                           |
| Licenses and permits                | 12,760            | -                   | -             | -                 | 12,760                       | 25                           | -           | -                | 12,785                          |
| Other costs                         | 952               | 1,862               | -             | 316               | 3,130                        | 38                           | 100         | 161              | 3,429                           |
| Committee expenses- Allocated       | 4,604             | 5,020               | 5             | 2,544             | 12,173                       | 1,779                        | (15,144)    | 1,192            | -                               |
| <i>Total Functional Expenses</i>    | <u>\$ 407,858</u> | <u>\$ 1,302,540</u> | <u>\$ 154</u> | <u>\$ 150,359</u> | <u>\$ 1,860,911</u>          | <u>\$ 193,411</u>            | <u>\$ -</u> | <u>\$ 73,344</u> | <u>\$ 2,127,666</u>             |

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

GALVESTON BAY FOUNDATION, INC.  
STATEMENT OF CASH FLOWS  
For the Year Ended December 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:

|   |    |          |
|---|----|----------|
| Increase in net assets  | \$ | 29,315   |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |    |          |
| Depreciation  |    | 9,142    |
| Forgiven debt   |    | (25,000) |
| Change in assets and liabilities-   |    |          |
| Increase in certificate of deposit  |    | (284)    |
| Decrease in receivables   |    | 76,189   |
| Decrease in inventories   |    | 12,108   |
| Increase in other assets  |    | (463)    |
| Increase in accounts payable  |    | 45,642   |
| Increase in accrued liabilities   |    | 12,770   |
| <i>Net cash provided by operating activities</i>  |    | 159,419  |

CASH FLOWS FROM INVESTING ACTIVITIES:

|  |  |          |
|--|--|----------|
| Investment in certificate of deposit         |  | (97,000) |
| Purchases of fixed assets                    |  | (1,631)  |
| <i>Net cash used by investing activities</i> |  | (98,631) |

CASH FLOWS FROM FINANCING ACTIVITIES:

|  |  |   |
|--|--|---|
| <i>Net cash provided by financing activities</i> |  | - |
|--|--|---|

|                         |    |         |
|-------------------------|----|---------|
| Net increase in cash    |    | 60,788  |
| Cash, beginning of year |    | 480,194 |
| Cash, end of year       | \$ | 540,982 |

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  
December 31, 2009

1. *NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES*

A. Organization - The Galveston Bay Foundation, Inc. (Foundation) is a Texas non-profit corporation formed to preserve and enhance Galveston Bay for its multiple uses through education, conservation, research and advocacy. The Foundation is supported primarily through contributions and grants made to fund programs and contracts with governmental agencies to provide services that meet the Foundation's mission.

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 gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activity as net assets released from restrictions.

The Foundation reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. 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. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

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, 2009, 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, 2009.

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, 2009.

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



GALVESTON BAY FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009

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

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. Funds are generally distributed from the cash account to various money market accounts in amounts of less than \$250,000, however from time to time balances may exceed federally insured amounts. The Foundation has not experienced any losses on its cash and cash equivalents.

*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, 2009, the carrying value of the games was reduced to reflect the bulk sale of games at a reduced price.

*I. Fixed Assets* - Fixed assets include land, 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, are depreciated using the straight-line method over the estimated useful lives of the assets, generally from 5 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 \$18,663 for compensated absences that have been earned but not taken at December 31, 2009.

*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.

GALVESTON BAY FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009

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

Interest received during the year totaled \$3,961. 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 taxes during the year.

*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.

2. *CASH AND CERTIFICATE OF DEPOSIT*

At December 31, 2009, the Foundation had deposits of \$638,266 in a cash management account with a securities brokerage firm. Those deposits were maintained in money market accounts and a \$97,000 certificate of deposit. Interest was being paid on deposited funds at annual rates of 0.12% for the money market accounts and 2.50% for the certificate of deposit. The certificate of deposit matured on April 1, 2010. Cash balances in excess of \$250,000 are not covered by federal deposit insurance. Interest earned during the year ended December 31, 2009, totaled \$3,961.

3. *FIXED ASSETS*

At December 31, 2009, fixed assets owned and used by the Foundation consisted of the following:

| <u>Description</u>                | <u>Totals</u>         |
|-----------------------------------|-----------------------|
| <i>Nondepreciable assets-</i>     |                       |
| Restricted land (See Note 9)      | \$ 455,034            |
| Contributed artwork               | 9,400                 |
| <i>Depreciable assets-</i>        |                       |
| Equipment for program services    | 137,316               |
| Furniture and fixtures            | 14,337                |
| Office equipment and other assets | <u>60,309</u>         |
| <br>Total Fixed Assets            | <br>676,396           |
| Less: Accumulated Depreciation    | <u>(193,267)</u>      |
| <br>Net Fixed Assets              | <br><u>\$ 483,129</u> |

GALVESTON BAY FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009

3. *FIXED ASSETS (Continued)*

Assets with a cost of \$1,631 were acquired with operating funds during the year ended December 31, 2009.

Depreciation expense for the year ended December 31, 2009, totaled \$9,142.

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, 2011.

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, 2009. 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.

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 \$33,969 for the year ended December 31, 2009.

GALVESTON BAY FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009

7. *CONTRIBUTED GOODS AND SERVICES*

A substantial number of unpaid volunteers, including professional service providers, provide significant services to the Foundation. The value of the contributed time is not susceptible to objective measurement and it has not been reflected in the financial statements. 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, 2009, were as follows:

|   |                  |
|---|------------------|
| Legal fees donated to evaluate the severity of the San Jacinto Waste Pit Superfund site and consider and advise the Foundation. After the Environmental Protection Agency stepped in the firm continues to monitor the site and removal and remedial plans. | \$ 46,719        |
| Donation of plants for marsh conservation   | 28,000           |
| Donations provided for educational projects-  |                  |
| Printing  | 15,658           |
| Advertising   | <u>6,000</u>     |
| Total donated goods and services  | <u>\$ 96,377</u> |

8. *TEMPORARILY RESTRICTED NET ASSETS*

Temporarily restricted net assets at December 31, 2009, are available for the following specific program services and supporting services for subsequent periods:

|  |                   |
|--|-------------------|
| Education  | \$ 42,456         |
| Conservation   | 353,820           |
| Research   | ---               |
| Advocacy   | 37,193            |
| Multiple services  | <u>100,000</u>    |
| Total temporarily restricted net assets at December 31, 2009 | <u>\$ 533,469</u> |

Net assets were released from temporary restrictions by the following:

|   |                   |
|---|-------------------|
| Incurring expenses satisfying the purpose specified by the donors | <u>\$ 772,601</u> |
| Total net assets released from restrictions                       | <u>\$ 772,601</u> |

It is anticipated that all temporarily restricted net asset funds at December 31, 2009, will be utilized during 2010.

GALVESTON BAY FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2009

9. *PERMANENTLY RESTRICTED NET ASSETS*

Permanently restricted assets of the Foundation are currently comprised of five contributed tracts of land with fair values of \$455,034 at the dates of their contribution that are restricted for preservation in perpetuity. Any costs associated with maintaining the properties have been provided by unrestricted or temporarily restricted funds and the costs have been classified as conservation expenses in the period expended.

10. *CONSERVATION EASEMENTS*

**Land Trust Activities-**

The Galveston Bay Foundation works to conserve land and valuable aquatic habitats such as wetlands and marshes through ownership of approximately 3,000 acres of land, and through its continually growing conservation easement program. By holding either the title or a conservation easement on a parcel of land containing wetlands or other valuable habitats, the Foundation endeavors to maintain the mosaic of natural system functions and values of the Galveston Bay system that are important to maintaining quality of life, economic vitality, and a unique population of resident and migratory wildlife.

The Foundation accepts donations of land and conservation easements on a case-by-case basis. Conservation easements are also a tool for landowners who wish to conserve habitat on their land in perpetuity, but who also wish to retain ownership of the land to enjoy or for their family. Donors of land or easements can often take federal tax benefits for the value of their donation. When the Foundation accepts a title to a property or a conservation easement on that property, the Foundation accepts the responsibility to maintain the property and/or easement forever. For that reason, the Foundation evaluates each tract carefully to determine that the tract supports its conservation goals and strategic plan. Also, the Foundation maintains a Stewardship Fund, which is designed to provide the financial resources necessary to maintain its land holdings and conservation easement in perpetuity.

The Galveston Bay Foundation is a member of the National Land Trust Alliance (LTA) and has adopted and supports the Standards and Practices of LTA. The Foundation is also a participating member of the Texas Land Trust Council (TLTC).

GALVESTON BAY FOUNDATION, INC.  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended December 31, 2009

| <u>Grantor/Program Title</u>  | <u>Federal<br/>CFDA<br/>Number</u> | <u>Total<br/>Award</u> | <u>Fiscal<br/>Year<br/>Expenditures</u> |
|---|------------------------------------|------------------------|---|
| <b><u>Federal Awards:</u></b>   |                                    |                        |   |
| National Oceanic and Atmospheric Administration, Department of Commerce |                                    |                        |   |
| Coastal Zone Management   | 11.419                             | \$ 579,586             | \$ 460,407                              |
| Habitat Conservation  | 11.463                             | 491,493                | 113,249                                 |
| Coastal Services Center   | 11.473                             | 20,000                 | 14,372                                  |
|   |                                    |                        |   |
| United States Fish and Wildlife Service, Department of the Interior     |                                    |                        |   |
| Coastal Program   | 15.630                             | 233,000                | 75,017                                  |
| Partners for Fish and Wildlife  | 15.631                             | 25,000                 | 12,241                                  |
|   |                                    |                        |   |
| Gulf of Mexico Program Office, Environmental Protection Agency          |                                    |                        |   |
| National Estuary Program  | 66.456                             | 137,754                | 32,400                                  |
| Environmental Education Grants  | 66.951                             | 20,000                 | 13,046                                  |
|   |                                    | \$ 1,506,833           | \$ 720,732                              |

See accountant's report and notes to financial statements.

**BUFFINGTON & COMPANY, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS  
12012 WICKCHESTER LANE, SUITE 430  
HOUSTON, TEXAS 77079  
(281) 920-5455 FAX (281) 920-5456

REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
Galveston Bay Foundation, Inc.

We have audited the financial statements of Galveston Bay Foundation, Inc. (a nonprofit organization) as of and for the year ended December 31, 2009, and have issued our report thereon dated September 9, 2010. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Galveston Bay Foundation, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Galveston Bay Foundation, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

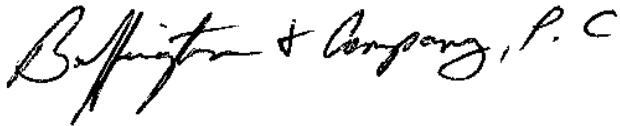
To the Board of Directors  
Galveston Bay Foundation, Inc.  
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Galveston Bay Foundation, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Galveston Bay Foundation, Inc. in a separate letter dated September 9, 2010.

This report is intended solely for the information and use of management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Buffington & Company, P.C." in a cursive script.

BUFFINGTON & COMPANY, P.C.  
September 9, 2010



**BUFFINGTON & COMPANY, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS  
12012 WICKCHESTER LANE, SUITE 430  
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REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors  
Galveston Bay Foundation, Inc.

Compliance

We have audited the compliance of Galveston Bay Foundation, Inc. (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. Galveston Bay Foundation, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Galveston Bay Foundation's management. Our responsibility is to express an opinion on Galveston Bay Foundation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Galveston Bay Foundation, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Galveston Bay Foundation's compliance with those requirements.

In our opinion, Galveston Bay Foundation, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2009.

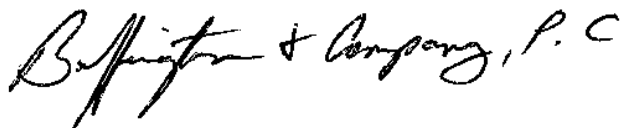
Internal Control Over Compliance

The management of Galveston Bay Foundation, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Galveston Bay Foundation, Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to

determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Buffington & Company, P.C." in a cursive script.

BUFFINGTON & COMPANY, P.C.  
September 9, 2010

GALVESTON BAY FOUNDATION, INC.  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended December 31, 2009

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Galveston Bay Foundation, Inc.
2. No significant deficiencies were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Galveston Bay Foundation, Inc. were disclosed during the audit.
4. No instances of significant deficiencies in internal control over major federal award programs were disclosed during the audit.
5. The auditor's report on compliance for the major federal award programs for Galveston Bay Foundation, Inc. expresses an unqualified opinion on all major federal programs.
6. There were no audit findings that are required to be reported in accordance with OMB Circular A-133.
7. The programs tested as major were:
  - National Oceanic and Atmospheric Administration, Department of Commerce-  
Coastal Zone Management, CFDA 11.419
  - Habitat Conservation, CFDA 11.463
  - Coastal Services Center, CFDA 11.473
8. The threshold for distinguishing Type A and Type B programs was \$300,000.
9. Galveston Bay Foundation, Inc. was not determined to be a low risk auditee.