

The Houston Parks Board

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2017 and 2016

The Houston Parks Board

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Independent Auditors' Report

To the Board of Directors of
The Houston Parks Board:

We have audited the accompanying financial statements of The Houston Parks Board and Houston Parks Board Foundation, which comprise the consolidated statements of financial position as of June 30, 2017 and 2016, the related consolidated statement of activities, of functional expenses, and of cash flows for the year ended June 30, 2017, the related statement of activities, of functional expenses, and of cash flows of The Houston Parks Board for the year ended June 30, 2016, and the related notes to the financial statements.

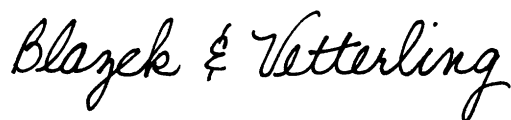
Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility – Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion – In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Houston Parks Board and Houston Parks Board Foundation as of June 30, 2017 and 2016 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.



September 20, 2017

The Houston Parks Board

Consolidated Statements of Financial Position as of June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash (Note 3)	\$ 708,280	\$ 90,489
Prepaid expenses and other assets	594,406	413,832
Cash held for Bayou Greenways capital reserve (Notes 3 and 8)	5,831,617	4,282,278
Cash held for City-supported programs, park improvements projects, and maintenance (Note 3)	4,172,599	5,022,456
Cash and cash equivalents held for Bayou Greenways Project (Note 3)	17,862,973	14,229,200
Pledges receivable, net (Note 5)	15,319,239	20,958,800
Investments (Note 6)	18,579,957	18,028,891
Property, net (Note 7)	<u>11,797,690</u>	<u>11,887,630</u>
TOTAL ASSETS	<u>\$ 74,866,761</u>	<u>\$ 74,913,576</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 693,507	\$ 764,715
Construction projects payable	401,923	312,913
Payable to Houston Parks Board LGC, Inc. (Note 4)	215,764	606
Funds held for others	<u>96,357</u>	<u>102,166</u>
Total liabilities	<u>1,407,551</u>	<u>1,180,400</u>
Commitments (Note 9)		
Net assets:		
Unrestricted (Note 10)	13,557,978	13,088,734
Temporarily restricted (Notes 11 and 13)	54,640,763	55,307,229
Permanently restricted (Notes 12 and 13)	<u>5,260,469</u>	<u>5,337,213</u>
Total net assets	<u>73,459,210</u>	<u>73,733,176</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 74,866,761</u>	<u>\$ 74,913,576</u>

See accompanying notes to consolidated financial statements.

The Houston Parks Board

Consolidated Statement of Activities for the year ended June 30, 2017

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
OPERATING REVENUE:				
Contributions	\$ 344,075	\$ 10,929,586		\$ 11,273,661
Special event – annual luncheon	575,240			575,240
Direct donor benefit costs – annual luncheon	(74,266)			(74,266)
City concession and event fees	6,006			6,006
Operating investment return (Note 6)	623,277	(25,903)		597,374
Bayou Greenways maintenance (Note 8)	4,574,462	3,807,538		8,382,000
Parks improvement project fees – Houston Parks Board LGC, Inc. (Note 4)	<u>521,272</u>			<u>521,272</u>
Total operating revenue	6,570,066	14,711,221		21,281,287
Net assets released from restrictions:				
Bayou Greenways	13,153,799	(13,153,799)		
Other park projects	<u>2,840,680</u>	<u>(2,840,680)</u>		
Total	<u>22,564,545</u>	<u>(1,283,258)</u>		<u>21,281,287</u>
OPERATING EXPENSES:				
Program services:				
Bayou Greenways 2020 Projects (Note 4)	11,273,199			11,273,199
Bayou Greenways maintenance (Note 8)	6,672,794			6,672,794
City park improvements and additions	2,582,524			2,582,524
City-supported programs	<u>523,039</u>			<u>523,039</u>
Total program services	21,051,556			21,051,556
Management and general	644,313			644,313
Fundraising	<u>388,310</u>			<u>388,310</u>
Total operating expenses	<u>22,084,179</u>			<u>22,084,179</u>
CHANGES IN NET ASSETS FROM OPERATIONS	480,366	(1,283,258)		(802,892)
OTHER CHANGES IN NET ASSETS:				
Conveyance of land to City of Houston	(21,696)		\$ (76,744)	(98,440)
Conveyance of land to Harris County Flood Control District	(13,903)			(13,903)
Investment return (Note 6)		641,269		641,269
Net assets released from restrictions:				
Investment management fees (Note 6)	<u>24,477</u>	<u>(24,477)</u>		
CHANGES IN NET ASSETS	469,244	(666,466)	(76,744)	(273,966)
Net assets, beginning of year	<u>13,088,734</u>	<u>55,307,229</u>	<u>5,337,213</u>	<u>73,733,176</u>
Net assets, end of year	<u>\$ 13,557,978</u>	<u>\$ 54,640,763</u>	<u>\$ 5,260,469</u>	<u>\$ 73,459,210</u>

See accompanying notes to consolidated financial statements.

The Houston Parks Board

Statement of Activities for the year ended June 30, 2016

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
OPERATING REVENUE:				
Contributions	\$ 649,123	\$ 28,618,208	\$ 19,508	\$ 29,286,839
Special event – annual luncheon	635,500			635,500
Direct donor benefit costs – annual luncheon	(53,823)			(53,823)
City concession and event fees	11,488			11,488
Investment return (Note 6)	384,139	3,130		387,269
Bayou Greenways maintenance (Note 8)	4,338,058	2,595,542		6,933,600
Parks improvement project fees – Houston Parks Board LGC, Inc. (Note 4)	<u>207,551</u>			<u>207,551</u>
Total operating revenue	6,172,036	31,216,880	19,508	37,408,424
Net assets released from restrictions:				
Bayou Greenways	8,239,545	(8,239,545)		
Other park projects	<u>3,044,159</u>	<u>(3,044,159)</u>		
Total	<u>17,455,740</u>	<u>19,933,176</u>	<u>19,508</u>	<u>37,408,424</u>
OPERATING EXPENSES:				
Program services:				
Bayou Greenways 2020 Projects (Note 4)	7,948,331			7,948,331
Bayou Greenways maintenance (Note 8)	4,574,798			4,574,798
City park improvements and additions	2,252,610			2,252,610
City-supported programs	<u>664,675</u>			<u>664,675</u>
Total program services	15,440,414			15,440,414
Management and general	621,710			621,710
Fundraising	<u>433,087</u>			<u>433,087</u>
Total operating expenses	<u>16,495,211</u>			<u>16,495,211</u>
CHANGES IN NET ASSETS FROM OPERATIONS				
	960,529	19,933,176	19,508	20,913,213
OTHER CHANGES IN NET ASSETS:				
Change in beneficial interest in funds held by Houston Parks Board Foundation	<u>121,854</u>	<u>(602,590)</u>		<u>(480,736)</u>
CHANGES IN NET ASSETS				
	1,082,383	19,330,586	19,508	20,432,477
Net assets, beginning of year	<u>12,006,351</u>	<u>35,976,643</u>	<u>5,317,705</u>	<u>53,300,699</u>
Net assets, end of year	<u>\$ 13,088,734</u>	<u>\$ 55,307,229</u>	<u>\$ 5,337,213</u>	<u>\$ 73,733,176</u>

See accompanying notes to consolidated financial statements.

The Houston Parks Board

Consolidated Statement of Functional Expenses for the year ended June 30, 2017

<u>EXPENSES</u>	<u>BAYOU GREENWAYS 2020</u>	<u>BAYOU GREENWAYS MAINTENANCE</u>	<u>CITY PARK IMPROVEMENTS AND ADDITIONS</u>	<u>CITY-SUPPORTED PROGRAMS</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Funding to Houston Parks Board							
LGC, Inc. for land purchases	\$ 5,450,077						\$ 5,450,077
Construction and design	3,349,371*	\$ 1,957,353	\$ 1,640,058	\$ 34,200			6,980,982
Professional fees and contract services	276,326	3,882,768	487,407	192,558	\$ 237,191	\$ 141,206	5,217,456
Salaries and related costs	1,364,013	683,335	282,404		369,470	210,594	2,909,816
Funding to City of Houston for land purchases	553,483						553,483
Supplies and equipment rental	124,852	11,587	23,791	229,534	20,207	1,899	411,870
Grants and scholarships	625	500	92,738	34,592			128,455
Graphics and printing	28,060	17,899	17,455		7,411	29,465	100,290
Insurance	51,997	31,842	7,847		1,304	695	93,685
Occupancy and maintenance	24,759	24,187	24,024		5,116	2,916	81,002
Depreciation	8,265	35,376					43,641
Travel	7,142	16,134	1,657	17,463	618	352	43,366
Meetings, conferences and events	13,574	8,021	1,933	14,588	2,334	893	41,343
Postage and shipping	2,242	508	320	104	298	170	3,642
Other	18,413	3,284	2,890		364	120	25,071
Total operating expenses	<u>\$11,273,199</u>	<u>\$ 6,672,794</u>	<u>\$ 2,582,524</u>	<u>\$ 523,039</u>	<u>\$ 644,313</u>	<u>\$ 388,310</u>	22,084,179
Conveyance of land to City of Houston							98,440
Conveyance of land to Harris County Flood Control District							<u>13,903</u>
Total expenses							<u>\$22,196,522</u>

*Includes both amounts funded and conveyed to the LGC.

See accompanying notes to consolidated financial statements.

The Houston Parks Board

Statement of Functional Expenses for the year ended June 30, 2016

<u>EXPENSES</u>	<u>BAYOU GREENWAYS 2020</u>	<u>BAYOU GREENWAYS MAINTENANCE</u>	<u>CITY PARK IMPROVEMENTS AND ADDITIONS</u>	<u>CITY-SUPPORTED PROGRAMS</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Funding to Houston Parks Board							
LGC, Inc. for land purchases	\$ 1,809,158						\$ 1,809,158
Construction and design	4,046,347*		\$ 1,479,886				5,526,233
Professional fees and contract services	484,656	\$ 4,006,251	369,826	\$ 94,600	\$ 204,484	\$ 141,710	5,301,527
Salaries and related costs	923,917	448,804	250,269		373,635	214,232	2,210,857
Supplies and equipment rental	108,497	28,121	33,472	533,156	9,481	19,104	731,831
Funding to City of Houston for land purchases	417,000						417,000
Grants and scholarships			17,500	29,297			46,797
Graphics and printing	25,132	6,761	9,009		7,978	51,086	99,966
Insurance	67,616	33,558	6,969		2,036	1,167	111,346
Occupancy and maintenance	26,030	15,056	35,404		6,581	3,773	86,844
Depreciation	8,262	20,995					29,257
Travel	7,983	9,486	5,535	224	1,182	677	25,087
Meetings, conferences and events	6,916	4,558	5,287	7,330	1,497	858	26,446
Postage and shipping	2,268	271	355	68	188	108	3,258
Other	14,549	937	39,098		14,648	372	69,604
Total operating expenses	<u>\$ 7,948,331</u>	<u>\$ 4,574,798</u>	<u>\$ 2,252,610</u>	<u>\$ 664,675</u>	<u>\$ 621,710</u>	<u>\$ 433,087</u>	<u>\$16,495,211</u>

*Includes both amounts funded and conveyed to the LGC.

See accompanying notes to consolidated financial statements.

The Houston Parks Board

Consolidated Statements of Cash Flows for the years ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (273,966)	\$ 20,432,477
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	43,641	29,257
Conveyance of land to City of Houston	98,440	
Conveyance of land to Harris County Flood Control District	13,903	
Change in beneficial interest in Houston Parks Board Foundation		5,197,502
Net non-cash assets and liabilities acquired at fair value		(5,218,083)
Net realized and unrealized (gain) loss on investments	(547,326)	82,137
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(180,574)	300,643
Pledges receivable	5,639,561	(9,105,889)
Accounts payable and accrued expenses	(71,208)	(434,297)
Construction projects payable	89,010	3,980
Payable to Houston Parks Board LGC, Inc.	215,158	(595,368)
Funds held for others	<u>(5,809)</u>	<u>(23,627)</u>
Net cash provided by operating activities	<u>5,020,830</u>	<u>10,668,732</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales and maturities of investments	3,232,235	3,975,028
Purchases of investments	(4,007,549)	(3,235,370)
Net change in money market mutual funds held as investments	771,574	(760,086)
Purchase of property	<u>(66,044)</u>	<u>(36,910)</u>
Net cash used by investing activities	<u>(69,784)</u>	<u>(57,338)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,951,046	10,611,394
Cash and cash equivalents, beginning of year	<u>23,624,423</u>	<u>13,013,029</u>
Cash and cash equivalents, end of year	<u>\$ 28,575,469</u>	<u>\$ 23,624,423</u>
<i>Supplemental disclosure of cash flow information:</i>		
Contribution of marketable securities	\$7,625,231	\$778,205

See accompanying notes to consolidated financial statements.

The Houston Parks Board

Notes to Consolidated Financial Statements for the years ended June 30, 2017 and 2016

NOTE 1 – ORGANIZATION

Organization – The Houston Parks Board (HPB) was created in 1976 to improve parks by utilizing public-private partnerships and its extensive philanthropic, governmental and community relationships. Since its inception, HPB has raised and leveraged millions of dollars and touched at least 75% of the City of Houston’s (the City) parkland through acquisitions and capital improvements. HPB works with the City’s Parks and Recreation Department, Harris County Precincts, Harris County Flood Control District, other nonprofit organizations, and numerous community groups in fulfilling its mission. It seeks donations of land and other assets, manages capital projects, undertakes studies for the benefit of the park system, and raises awareness of the need for adequate parks and open spaces for Houston and surrounding communities.

Houston Parks Board Foundation (the Foundation) was created in 2011 as a nonprofit corporation for the benefit of HPB. Effective June 30, 2016, the Foundation amended its bylaws to require that 51% of the Foundation’s Board of Directors be appointed by HPB to allow the Foundation to represent itself to the Internal Revenue Service as a Type I supporting organization controlled by HPB. As a result of this change in governance control, the Foundation was consolidated with HPB at June 30, 2016.

Affiliated organization

Houston Parks Board LGC, Inc.

HPB entered into a management agreement with Houston Parks Board LGC, Inc. (the LGC), a local government corporation created by the City. Under this agreement, HPB will acquire, manage, develop, and improve park properties on behalf of the LGC and contract for the design, development, improvement, construction, and installation of parks and open spaces. The LGC was created by the City to provide support for the City’s park system by acquiring land for new public parks and to develop and improve new and existing public parks. The Board of Directors of the LGC are appointed by the City.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation – The accompanying consolidated financial statements include the assets, liabilities, net assets and activities of HPB and the Foundation (collectively the Organizations), after elimination of intercompany transactions.

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

Operating measure – The Organizations report land conveyances and endowment funds’ investment return and investment fees as non-operating activities. All other activities are reflected as operating revenue and expenses.

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

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

Investments in marketable securities are reported at fair value. Purchases and sales of investments are reported on a trade-date basis. Interest and dividends are recognized as earned. Investment return is reported in the statement of activities as an increase in unrestricted net assets unless the use of the investment return is limited by donor-imposed restrictions. Investment return whose use is restricted by the donor is reported as an increase in temporarily restricted net assets.

Property is reported at cost if purchased or at fair value at the date of gift if donated. Property purchases over \$5,000 are capitalized. Depreciation is calculated using the straight-line method over estimated useful lives of 5 to 10 years. When HPB conveys land to the City or to the LGC for park development, the conveyance is recognized as a reduction of net assets at the land's book value.

Funds held for others – HPB hold funds for a community group and acts as an agent in collecting, holding and disbursing these funds.

Net asset classification – Contributions, investment return, and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions and investment return restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.
- *Permanently restricted net assets* are non-expendable endowment funds, donor-restricted contributions for investment in permanent parkland, and land that has been restricted by the donor to investment in perpetuity. The investment return may be used to support the activities of HPB.

Contributions are recognized as revenue when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are recognized in the same manner when the conditions are substantially met. Conditional contributions received before the conditions are substantially met are recorded as refundable advances.

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

Fees for services are recognized as the services are provided.

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.

Reclassifications – The prior year statement of activities and functional expenses have been restated to include approximately \$2,200,000 in funding to the LGC and the City for land purchases as program services expenses rather than Other Changes in Net Assets in order to conform to the current year presentation.

Recent financial accounting pronouncement – In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are the first phase of changes aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments will be grouped with *net assets with donor restrictions*. New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Management is currently evaluating the impact of the ASU on the presentation and disclosures of the financial statements.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2017</u>	<u>2016</u>
Bank deposits	\$ 7,748,099	\$ 10,022,720
Money market mutual funds	<u>20,827,370</u>	<u>13,601,703</u>
Total cash and cash equivalents	<u>\$ 28,575,469</u>	<u>\$ 23,624,423</u>

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

NOTE 4 – TRANSACTIONS WITH THE LGC AND THE CITY

On November 6, 2012, Houston voters approved a \$166 million parks bond proposition of which \$100 million was designated to support the Bayou Greenways 2020 Project (Bayou Greenways) for interconnected parks, trails, and green spaces within City limits. The estimated cost to complete Bayou Greenways is approximately \$220 million over 7 years. The LGC and HPB, acting as management for the LGC, entered into an interlocal agreement with the City in which HPB agrees to fund a matching commitment of \$120 million in private and other sources including federal, state and other government funding to complete Bayou Greenways. HPB has raised, in private and other sources of government funding, approximately \$106 million (including conditional pledges of approximately \$14 million) with approximately \$14 million remaining in the commitment of funding. Cumulatively, as of June 30, 2017, HPB has funded and conveyed approximately \$24,300,000 in land, design, construction management and

due diligence costs that are included in Bayou Greenways' related expenses and these amounts are reported by the LGC as construction in progress. In 2017, HPB conveyed approximately \$1,140,000 in capital assets and provided approximately \$7,500,000 in private funding to the LGC for Bayou Greenways. In 2016, HPB conveyed approximately \$59,000 in capital assets and provided approximately \$4,500,000 in private funding to the LGC for Bayou Greenways. At June 30, 2017, approximately \$200,000 is due to the LGC under the terms of this agreement.

In fiscal year 2014, the LGC and HPB, acting as management for the LGC, entered into an interlocal agreement with the City in which HPB agrees to raise private funds for the design costs, acquire the necessary right-of-way and real property and cover cost overruns for the Transportation Enhancement (TE) project, currently estimated at \$6.5 million. During fiscal years 2017 and 2016, HPB has expended approximately \$129,000 and \$828,000, respectively, of design costs for the TE project under this agreement.

In fiscal year 2015, the LGC and HPB, acting as management for the LGC, entered into an interlocal agreement with the City for the design and construction of hike and bike trails along Centerpoint transmission corridors. The City is funding \$1,500,000 to the LGC for this project.

In fiscal year 2015, the LGC and HPB, acting as management for the LGC, entered into an interlocal agreement with the City in which HPB agrees to raise private funds for the design costs, acquire the necessary right-of-way and real property and cover cost overruns for the Congestion Mitigation and Air Quality Improvement (CMAQ) project, currently estimated with a budget of \$2 million. During fiscal years 2017 and 2016, HPB has expended approximately \$102,000 and \$211,000, respectively, of design costs and funded approximately \$40,000 and \$448,000, respectively, of land purchases for the CMAQ project under this agreement.

HPB and the City entered into an agreement in which HPB intends to provide up to \$4.2 million to the City as their match for a TIGER grant awarded to the City on June 22, 2012 for trail construction along White Oak and Brays Bayous within the scope of Bayou Greenways. HPB will provide construction management. Cumulatively, HPB has paid the City \$3,067,267 for project construction as of June 30, 2017.

In fiscal year 2017, HPB conveyed approximately \$1,600,000 in capital assets to the LGC under the terms of the Bayou Greenways maintenance agreement (see Note 8).

NOTE 5 – PLEDGES RECEIVABLE

Pledges receivable consist of the following:

	<u>2017</u>	<u>2016</u>
Pledges receivable:		
Bayou Greenways	\$ 15,330,292	\$ 20,514,792
Other	21,000	505,000
Discount to net present value at 0.5% to 1.55%	<u>(32,053)</u>	<u>(60,992)</u>
Pledges receivable, net	<u>\$ 15,319,239</u>	<u>\$ 20,958,800</u>

Pledges receivable at June 30, 2017 are expected to be collected as follows:

2018	\$ 11,010,792
2019	2,338,500
2020	2,001,500
2021	<u>500</u>
Total pledges receivable	<u>\$ 15,351,292</u>

Conditional pledge receivable – At June 30, 2017, HPB has a \$14,285,714 conditional pledge receivable. The commitment is conditioned upon donor approval of specific components and phase requirements of Bayou Greenways. This gift will be recognized as contribution revenue when the conditions the donor has established are substantially met.

Concentrations – At June 30, 2017, approximately 86% of pledges are due from two donors. At June 30, 2016, approximately 86% of pledges are due from three donors. During 2017, approximately 69% of contributions recognized are from two donors. During 2016, approximately 83% of contributions recognized are from four donors.

NOTE 6 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments are being held for following:

	<u>2017</u>	<u>2016</u>
Bayou Greenways	\$ 7,268,097	\$ 7,273,342
Houston Parks Board Foundation	5,851,232	5,218,083
Park and park improvements projects, programs and maintenance	2,807,513	2,807,513
Operating	<u>2,653,115</u>	<u>2,729,953</u>
Total investments	<u>\$ 18,579,957</u>	<u>\$ 18,028,891</u>

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at June 30, 2017 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Bond mutual funds:				
Short and intermediate term	\$ 2,630,379			\$ 2,630,379
Total return	2,095,475			2,095,475
High yield	1,323,220			1,323,220
Equity mutual funds:				
International	1,238,080			1,238,080
Small-cap	744,124			744,124
Mid-cap	651,747			651,747
Large-cap	619,295			619,295
Equity securities:				
Large-cap	2,761,532			2,761,532
Mid-cap	479,185			479,185
Exchange-traded bond funds:				
High yield	920,626			920,626
U. S. Treasury and government agency	318,544			318,544
Short and intermediate term	298,931			298,931
Investment grade corporate	268,412			268,412
Inflation-protected	161,071			161,071
Corporate bonds – investment grade		\$ 1,010,577		1,010,577
U. S. Treasury bonds and notes		914,246		914,246
Exchange-traded equity funds:				
Mid-cap	371,846			371,846
International	337,452			337,452
Large-cap	74,423			74,423
Municipal bonds and notes		737,470		737,470
Money market mutual funds	523,738			523,738
Government agency bonds		99,584		99,584
Total investments	15,818,080	2,761,877		18,579,957
Money market mutual funds held as cash equivalents for Bayou Greenways	<u>20,827,370</u>			<u>20,827,370</u>
Total assets measured at fair value	<u>\$ 36,645,450</u>	<u>\$ 2,761,877</u>	<u>\$ 0</u>	<u>\$ 39,407,327</u>

Assets measured at fair value at June 30, 2016 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Bond mutual funds:				
Short and intermediate term	\$ 1,356,278			\$ 1,356,278
Total return	1,913,425			1,913,425
High yield	1,463,557			1,463,557
Equity mutual funds:				
International	1,191,576			1,191,576
Small-cap	686,518			686,518
Mid-cap	608,071			608,071
Large-cap	477,939			477,939
Equity securities:				
Large-cap	2,545,323			2,545,323
Mid-cap	437,171			437,171
Exchange-traded bond funds:				
High yield	1,074,626			1,074,626
U. S. Treasury and government agency	323,177			323,177
Investment grade corporate	272,031			272,031
Inflation-protected	165,671			165,671
Corporate bonds – investment grade		\$ 1,567,601		1,567,601
U. S. Treasury bonds and notes		1,087,819		1,087,819
Exchange-traded equity funds:				
Mid-cap	328,510			328,510
International	194,806			194,806
Large-cap	75,791			75,791
Municipal bonds and notes		758,212		758,212
Money market mutual funds	1,295,312			1,295,312
Government agency bonds		205,477		205,477
Total investments	14,409,782	3,619,109		18,028,891
Money market mutual funds held as cash equivalents for Bayou Greenways	<u>13,601,703</u>			<u>13,601,703</u>
Total assets measured at fair value	<u>\$ 28,011,485</u>	<u>\$ 3,619,109</u>	<u>\$ 0</u>	<u>\$ 31,630,594</u>

Valuation methods used for assets measured at fair value are as follows:

- *Mutual funds* are valued at the published net asset value of shares held.
- *Equity securities* and *exchange-traded funds* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Corporate bonds, U. S. Treasury bonds and notes, municipal bonds and notes* and *government agency bonds* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas which may include market-corroborated inputs for credit risk factors, interest rate and yield curves and broker quotes, to calculate fair values.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while HPB believes its valuation methods are appropriate,

the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market, and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Investment return consists of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 691,317	\$ 469,406
Net realized and unrealized gain (loss) on investments	<u>547,326</u>	<u>(82,137)</u>
Total investment return	<u>\$ 1,238,643</u>	<u>\$ 387,269</u>

Investment management fees of approximately \$73,000 in 2017 and \$44,000 in 2016 are included in management and general expenses in the statement of activities.

NOTE 7 – PROPERTY

Property consists of the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 11,597,758	\$ 11,710,101
Vehicles	176,008	109,964
Building and improvements	91,817	91,817
Furniture and equipment	<u>33,405</u>	<u>33,405</u>
Total property, at cost	11,898,988	11,945,287
Accumulated depreciation	<u>(101,298)</u>	<u>(57,657)</u>
Property, net	<u>\$ 11,797,690</u>	<u>\$ 11,887,630</u>

Land owned by HPB as of June 30, 2017 consists of the following tracts:

Unrestricted (available for use or sale to support HPB's mission):

- 1050 Southlane – 0.17 acres
- 7900 Dewitt – 0.66 acres
- Brays Bayou Greenway-Clark – 0.86 acres
- Brays Bayou Greenway-Flores – 0.63 acres
- Brays Bayou Greenway-Forest Park Cemetery easement – 3.9 acres
- Brays Bayou Greenway-HT&R – 0.34 acres
- Brays Bayou Greenway-Lavinghousez – 0.67 acres
- Brays Bayou Greenway-Lindsey – 0.77 acres
- Brays Bayou Greenway-Odie Turner – 0.65 acres
- Brays Bayou Greenway-Pederson – 3.33 acres
- Brays Bayou Greenway-Santana – 0.28 acres
- Brays Bayou Greenway-Valdez – 0.27 acres
- Farnsworth Expansion – 0.29 acres
- Halls Bayou-Curry – 0.54 acres
- Halls Bayou-Garver Properties – 16 acres
- Harris County-Belleau Woods, section 2, block 18, lots 8 and 9; block 21, lot 20 – 0.66 acres
- Sims Bayou-Alexander – 3.93 acres
- Sims Bayou-Chevis – 0.32 acres
- Sims Bayou-F. Hart – 0.22 acres
- Sims Bayou-Harmouche – 0.05 acres
- Sims Bayou-J. Hart – 0.31 acres
- Sims Bayou-Jimerson – 0.33 acres
- Sims Bayou-Smith – 1.31 acres
- South Main Estates Property – 26.64 acres
- Taylor/Valley Oaks Property – 0.07 acres
- White Oak-Castrow – 0.27 acres
- White Oak-Galdenski/Studewood Property – 1.47 acres
- White Oak-Resurrection Property – 1.31 acres
- White Oak-Stonewood Property – 1.86 acres
- White Oak-Union Pacific – 2.14 acres
- Wortham Property-Hershey – 4% undivided interest in 256 acres
- Walden Woods Property – 0.29 acres

Permanently restricted (land to be maintained in perpetuity for park purposes):

- Brock Park Expansion-Arete Property – 31.5 acres
- Brock Park Expansion-Waddell Property – 119.78 acres
- Cool Green Corridor – 34.11 acres
- Cool Green Park (Texaco Country Club) – 141 acres
- Covington Brays – 0.43 acres
- Golden Eagle Lodge Property – 0.13 acres
- Halls Bayou Park – 3.5 acres
- Sunflower Street-Southland Acres – 1.5 acres

Land deeds for 26.8 acres of the Cool Green Corridor contain clauses under which ownership will revert to the grantor if the property is not maintained as a nature area or parkland.

NOTE 8 – BAYOU GREENWAYS MAINTENANCE AGREEMENT

In fiscal year 2014, HPB entered into a 30-year agreement with the City to provide maintenance and capital replacement for Bayou Greenways, which constitutes an integrated system of connected linear parks with walking, running, and bicycle trails along the 9 major bayous within the City limits. Under this agreement, the City agrees to provide an annual maintenance fee to HPB with increasing escalations each year. The terms of the agreement provide that any funds remaining each year not utilized for maintenance be contributed to the Capital Replacement Reserve Fund. In fiscal years 2017 and 2016, HPB received \$8,382,000 and \$6,933,600, respectively, and expended approximately \$6,700,000 and \$4,600,000, respectively, under this agreement for maintenance with the remaining balance contributed to the Capital Replacement Reserve Fund as defined under this agreement. Capital Replacement Reserve Funds exceeding the maximum Capital Replacement Reserve Fund cap amount at such time will be refunded to the City. At June 30, 2017, HPB had not exceeded the cap amount of approximately \$6.5 million.

NOTE 9 – COMMITMENTS

Construction – HPB enters into contracts in the normal course of business for park improvements and additions. The costs related to improvements of the City’s parks and other land improvements are expensed as incurred. At June 30, 2017, HPB had outstanding commitments of approximately \$2.2 million for construction projects in progress.

Line of Credit – In August 2016, HPB increased its line of credit with a bank to \$9,000,000. The line of credit is collateralized by all contributions, gifts, pledges and grants made that are given to HPB pursuant to Bayou Greenways. The outstanding principal balance of this note bears an interest rate of LIBOR plus 2.25% and expires in August 2021. At June 30, 2017, no balance was outstanding on this line of credit.

NOTE 10 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Operating	\$ 3,325,058	\$ 2,853,098
Property, net	9,619,586	9,632,782
Board-designated for office expansion	481,000	481,000
Board-designated for Foundation	<u>132,334</u>	<u>121,854</u>
Total unrestricted net assets	<u>\$ 13,557,978</u>	<u>\$ 13,088,734</u>

NOTE 11 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2017</u>	<u>2016</u>
Bayou Greenways	\$ 40,292,041	\$ 41,663,075
Bayou Greenways Capital Replacement Reserve Fund	5,497,961	3,856,853
Park development and improvements	3,035,035	4,010,577
Accumulated earnings on permanent endowments (Foundation)	2,505,704	1,888,912
Purchases of additional parkland	1,895,642	1,895,802
Maintenance reserve funds	706,368	706,368
City-supported programs	650,984	752,473
Beyond the Bayous	52,028	523,199
Other	<u>5,000</u>	<u>9,970</u>
Total temporarily restricted net assets	<u>\$ 54,640,763</u>	<u>\$ 55,307,229</u>

NOTE 12 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets are held in perpetuity for the following purposes:

	<u>2017</u>	<u>2016</u>
Land held for parks and green space	\$ 2,178,104	\$ 2,254,848
HPB Endowment Trust Restricted Fund	2,000,000	2,000,000
Park People (PP) Endowment Foundation Restricted Fund	706,000	706,000
Development of permanent parks and green space	<u>376,365</u>	<u>376,365</u>
Total permanently restricted net assets	<u>\$ 5,260,469</u>	<u>\$ 5,337,213</u>

NOTE 13 – FOUNDATION ENDOWMENT FUNDS

The Foundation holds two endowment funds that were established with donor restrictions to support the operations of HPB. The Board of Directors of the Foundation has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, the Foundation classifies the original value of gifts donated to the permanent endowment as permanently restricted net assets. The remaining portion of the donor-restricted endowment funds that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, the Foundation considers the following factors in making a determination to appropriate accumulated donor-restricted endowment funds:

- The duration and preservation of the funds
- The purposes of the Foundation and the donor-restricted endowment funds
- General economic conditions
- The possible effect of inflation and deflation

- The expected total return from income and the appreciation of investments
- Other resources of the Foundation and HPB
- The investment policies of each endowment

Endowment net asset composition as of June 30, 2017:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
HPB Endowment Trust Restricted Fund		\$ 1,956,157	\$ 2,000,000	\$ 3,956,157
PP Endowment Foundation Restricted Fund		<u>549,547</u>	<u>706,000</u>	<u>1,255,547</u>
Endowment net assets	<u>\$ 0</u>	<u>\$ 2,505,704</u>	<u>\$ 2,706,000</u>	<u>\$ 5,211,704</u>

Endowment net asset composition as of June 30, 2016:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
HPB Endowment Trust Restricted Fund		\$ 1,487,956	\$ 2,000,000	\$ 3,487,956
PP Endowment Foundation Restricted Fund		<u>400,956</u>	<u>706,000</u>	<u>1,106,956</u>
Endowment net assets	<u>\$ 0</u>	<u>\$ 1,888,912</u>	<u>\$ 2,706,000</u>	<u>\$ 4,594,912</u>

Changes in endowment net assets are as follows:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Endowment net assets, June 30, 2015	<u>\$ 0</u>	<u>\$ 2,344,577</u>	<u>\$ 2,706,000</u>	<u>\$ 5,050,577</u>
Investment return:				
Net realized and unrealized loss		(349,728)		(349,728)
Interest and dividends		<u>159,016</u>		<u>159,016</u>
Net investment return		<u>(190,712)</u>		<u>(190,712)</u>
Distributions to Houston Parks Board		(233,216)		(233,216)
Investment management fees		<u>(31,737)</u>		<u>(31,737)</u>
Endowment net assets, June 30, 2016	<u>0</u>	<u>1,888,912</u>	<u>2,706,000</u>	<u>4,594,912</u>
Investment return:				
Net realized and unrealized gain		524,503		524,503
Interest and dividends		<u>116,766</u>		<u>116,766</u>
Net investment return		<u>641,269</u>		<u>641,269</u>
Investment management fees		<u>(24,477)</u>		<u>(24,477)</u>
Endowment net assets, June 30, 2017	<u>\$ 0</u>	<u>\$ 2,505,704</u>	<u>\$ 2,706,000</u>	<u>\$ 5,211,704</u>

Investment Policies and Strategy

The Foundation's overall investment goal is long-term growth of principal to maintain the purchasing power of the current assets and all future contributions, while earning investment returns that are commensurate with the Foundation's risk tolerance and sufficient to meet its operational requirements by producing positive, real rates of return on the Foundation's assets. The desired level of real rates of return is 3% annually. A further objective will be to seek returns in each asset class, net of investment management fees, above those of the market indices attributable to each of those classes.

The Foundation's assets may experience short-term volatility due to market fluctuations. Short-term volatility, or risk, is a characteristic of investing in securities. The Foundation seeks to control risk and reduce the volatility in its portfolio through diversification and maintaining a consistent strategy during all markets as an important factor in achieving longer term objectives.

The Foundation seeks investment returns that are in excess of its spending policy and will maintain adequate liquidity to meet its distribution requirements. Since the Foundation intends to make distributions from time to time, all investments should be readily marketable, and a reserve of a least 1% of the portfolio should be maintained in cash equivalent investments.

Spending Policy

In the current spending policy, distributions to HPB from the Foundation are limited to 5% of the rolling three-year quarterly average of the total of all investments. Total grants and Foundation expenses cannot exceed 5% of the fair market value of the Foundation's net assets as determined on the first day of the fiscal year. No distributions were made in 2017. During 2016, the Board of Directors of the Foundation approved a distribution to HPB totaling \$240,000.

NOTE 14 – SUBSEQUENT EVENTS

In August 2017, HPB conveyed approximately \$3,100,000 of unrestricted land to the City as part of Bayou Greenways.

Management has evaluated subsequent events through September 30, 2017, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
