

The Houston Parks Board

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2018 and 2017

The Houston Parks Board

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Consolidated Statements of Financial Position as of June 30, 2018 and 2017	2
Consolidated Statement of Activities for the year ended June 30, 2018	3
Consolidated Statement of Activities for the year ended June 30, 2017	4
Consolidated Statement of Functional Expenses for the year ended June 30, 2018	5
Consolidated Statement of Functional Expenses for the year ended June 30, 2017	6
Consolidated Statements of Cash Flows for the years ended June 30, 2018 and 2017	7
Notes to Consolidated Financial Statements for the years ended June 30, 2018 and 2017	8

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, 2018 and 2017 and the related consolidated statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the 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, 2018 and 2017 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.

Blazek & Vetterling

September 19, 2018

The Houston Parks Board

Consolidated Statements of Financial Position as of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Cash and cash equivalents (<i>Note 3</i>)	\$ 932,452	\$ 708,280
Prepaid expenses and other assets	808,792	594,406
Cash contractually restricted under Bayou Greenways maintenance agreement (<i>Notes 3 and 8</i>)	8,688,332	5,831,617
Cash and cash equivalents held for City-supported programs, park improvement projects, and maintenance (<i>Note 3</i>)	4,376,878	4,172,599
Cash and cash equivalents held for Bayou Greenways Project (<i>Note 3</i>)	22,947,786	17,862,973
Pledges receivable, net (<i>Note 5</i>)	13,851,855	15,319,239
Investments (<i>Note 6</i>)	19,119,625	18,579,957
Property, net (<i>Note 7</i>)	<u>8,707,772</u>	<u>11,797,690</u>
TOTAL ASSETS	<u>\$ 79,433,492</u>	<u>\$ 74,866,761</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 713,047	\$ 693,507
Construction projects payable	939,367	401,923
Payable to Houston Parks Board LGC, Inc. (<i>Note 4</i>)	23,833	215,764
Deferred revenue (<i>Note 8</i>)	1,799,950	
Funds held for others	<u>96,357</u>	<u>96,357</u>
Total liabilities	<u>3,572,554</u>	<u>1,407,551</u>
Commitments (<i>Note 9</i>)		
Net assets:		
Unrestricted (<i>Note 10</i>)	10,764,152	13,557,978
Temporarily restricted (<i>Notes 11 and 13</i>)	59,836,317	54,640,763
Permanently restricted (<i>Notes 12 and 13</i>)	<u>5,260,469</u>	<u>5,260,469</u>
Total net assets	<u>75,860,938</u>	<u>73,459,210</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 79,433,492</u>	<u>\$ 74,866,761</u>

See accompanying notes to consolidated financial statements.

The Houston Parks Board

Consolidated Statement of Activities for the year ended June 30, 2018

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
OPERATING REVENUE:				
Contributions	\$ 273,617	\$ 13,955,645		\$ 14,229,262
Special event – annual luncheon	625,575			625,575
Direct donor benefit costs – annual luncheon	(73,252)			(73,252)
Government grant – Texas Commission on Environmental Quality	148,032			148,032
Operating investment return <i>(Note 6)</i>	513,379	10,018		523,397
Bayou Greenways maintenance <i>(Note 8)</i>	6,383,990	1,357,260		7,741,250
Parks improvement project fees – Houston Parks Board LGC, Inc. <i>(Note 4)</i>	<u>449,438</u>			<u>449,438</u>
Total operating revenue	8,320,779	15,322,923		23,643,702
Net assets released from restrictions:				
Bayou Greenways	8,720,205	(8,720,205)		
Other park projects	<u>1,813,659</u>	<u>(1,813,659)</u>		
Total	<u>18,854,643</u>	<u>4,789,059</u>		<u>23,643,702</u>
OPERATING EXPENSES:				
Program services:				
Bayou Greenways 2020 Projects <i>(Note 4)</i>	8,677,326			8,677,326
Bayou Greenways maintenance <i>(Note 8)</i>	6,663,762			6,663,762
City park improvements and additions	1,864,357			1,864,357
City-supported programs	<u>352,956</u>			<u>352,956</u>
Total program services	17,558,401			17,558,401
Management and general	693,577			693,577
Fundraising	<u>365,013</u>			<u>365,013</u>
Total operating expenses	<u>18,616,991</u>			<u>18,616,991</u>
CHANGES IN NET ASSETS FROM OPERATIONS	237,652	4,789,059		5,026,711
OTHER CHANGES IN NET ASSETS:				
Conveyance of land to City of Houston	(3,071,491)			(3,071,491)
Investment return <i>(Notes 6 and 13)</i>		446,508		446,508
Net assets released from restrictions:				
Investment management fees <i>(Notes 6 and 13)</i>	<u>33,563</u>	<u>(33,563)</u>		
CHANGES IN NET ASSETS	(2,793,826)	5,195,554		2,401,728
Net assets, beginning of year	<u>13,557,978</u>	<u>54,640,763</u>	<u>\$ 5,260,469</u>	<u>73,459,210</u>
Net assets, end of year	<u>\$ 10,764,152</u>	<u>\$ 59,836,317</u>	<u>\$ 5,260,469</u>	<u>\$ 75,860,938</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)
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>527,278</u>			<u>527,278</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 (Notes 6 and 13)		641,269		641,269
Net assets released from restrictions:				
Investment management fees (Notes 6 and 13)	<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

Consolidated Statement of Functional Expenses for the year ended June 30, 2018

<u>EXPENSES</u>	<u>BAYOU GREENWAYS 2020 PROJECTS</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	\$ 2,388,624						\$ 2,388,624
Professional fees and contract services	236,897	\$ 5,328,434	\$ 505,162	\$ 57,787	\$ 256,848	\$ 140,315	6,525,443
Construction and design	4,210,492*	423,137	771,986				5,405,615
Salaries and related costs	1,564,766	746,745	444,716		400,212	161,982	3,318,421
Supplies and equipment rental	89,095	15,686	81,196	149,127	6,991	22,116	364,211
Occupancy and maintenance	35,391	42,856	28,678	17,673	5,039	2,040	131,677
Grants and scholarships	125	50	1,325	116,275			117,775
Insurance	43,820	41,370	6,783		6,104	2,471	100,548
Graphics and printing	15,775	5,649	15,920		14,389	30,472	82,205
Depreciation	8,264	45,295					53,559
Funding to City of Houston for land purchases	43,655						43,655
Meetings, conferences and events	21,380	4,179	3,646	3,548	1,238	501	34,492
Travel	11,364	8,323	2,897	8,480	1,687	683	33,434
Postage and shipping	2,930	558	1,223	66	329	133	5,239
Other	4,748	1,480	825		740	4,300	12,093
Total operating expenses	<u>\$ 8,677,326</u>	<u>\$ 6,663,762</u>	<u>\$ 1,864,357</u>	<u>\$ 352,956</u>	<u>\$ 693,577</u>	<u>\$ 365,013</u>	18,616,991
Conveyance of land to City of Houston							<u>3,071,491</u>
Total expenses							<u>\$21,688,482</u>

*Includes both amounts funded and conveyed to the LGC.

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 PROJECTS</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
Professional fees and contract services	276,326	\$ 3,882,768	\$ 487,407	\$ 192,558	\$ 237,191	\$ 141,206	5,217,456
Construction and design	3,349,371*	1,957,353	1,640,058	34,200			6,980,982
Salaries and related costs	1,364,013	683,335	282,404		369,470	210,594	2,909,816
Supplies and equipment rental	124,852	11,587	23,791	229,534	20,207	1,899	411,870
Occupancy and maintenance	24,759	24,187	24,024		5,116	2,916	81,002
Grants and scholarships	625	500	92,738	34,592			128,455
Insurance	51,997	31,842	7,847		1,304	695	93,685
Graphics and printing	28,060	17,899	17,455		7,411	29,465	100,290
Depreciation	8,265	35,376					43,641
Funding to City of Houston for land purchases	553,483						553,483
Meetings, conferences and events	13,574	8,021	1,933	14,588	2,334	893	41,343
Travel	7,142	16,134	1,657	17,463	618	352	43,366
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

Consolidated Statements of Cash Flows for the years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 2,401,728	\$ (273,966)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	53,559	43,641
Conveyance of land to City of Houston	3,071,491	98,440
Conveyance of land to Harris County Flood Control District		13,903
Net realized and unrealized (gain) loss on investments	18,142	(547,326)
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(214,386)	(180,574)
Pledges receivable	1,467,384	5,639,561
Accounts payable and accrued expenses	19,540	(71,208)
Construction projects payable	537,444	89,010
Payable to Houston Parks Board LGC, Inc.	(191,931)	215,158
Deferred revenue	1,799,950	
Funds held for others		<u>(5,809)</u>
Net cash provided by operating activities	<u>8,962,921</u>	<u>5,020,830</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales and maturities of investments	14,896,218	3,232,235
Purchases of investments	(14,103,707)	(4,007,549)
Net change in money market mutual funds held as investments	(1,350,321)	771,574
Purchase of property	<u>(35,132)</u>	<u>(66,044)</u>
Net cash used by investing activities	<u>(592,942)</u>	<u>(69,784)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	8,369,979	4,951,046
Cash and cash equivalents, beginning of year	<u>28,575,469</u>	<u>23,624,423</u>
Cash and cash equivalents, end of year	<u>\$ 36,945,448</u>	<u>\$ 28,575,469</u>
<i>Summary of cash and cash equivalents:</i>		
Cash and cash equivalents held for Bayou Greenways Project	\$ 22,947,786	\$ 17,862,973
Cash contractually restricted under Bayou Greenways maintenance agreement	8,688,332	5,831,617
Cash and cash equivalents held for City-supported programs, park improvement projects, and maintenance	4,376,878	4,172,599
Cash and cash equivalents	<u>932,452</u>	<u>708,280</u>
Total cash and cash equivalents	<u>\$ 36,945,448</u>	<u>\$ 28,575,469</u>
<i>Supplemental disclosure of cash flow information:</i>		
Contribution of marketable securities	\$8,545,886	\$7,625,231

See accompanying notes to consolidated financial statements.

The Houston Parks Board

Notes to Consolidated Financial Statements for the years ended June 30, 2018 and 2017

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 for the purpose of providing financial assistance and benefit to HPB. 51% of the Foundation’s Board of Directors are appointed by HPB.

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 and cash equivalents include demand deposits and highly liquid financial instruments with original maturities of three months or less. Cash and cash equivalents which are held for long-term investment purposes are grouped with investments in the statement of financial position and are not included in beginning and ending cash and cash equivalents in the statement of cash flows.

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 holds 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.

Recent financial accounting pronouncements – In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which replaces most existing revenue recognition guidance for exchange transactions not specifically covered by other guidance. This ASU does not apply to non-exchange transactions such as contributions. The core principle of the new guidance is that an entity should recognize revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for transferred goods or services and establishes a 5-step process to determine when performance obligations are satisfied and revenue is recognized. The Organizations are required to adopt this ASU for fiscal year 2020 using an appropriate retrospective method. Management believes the adoption of this ASU will not have a material impact on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The amendments in this ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* 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 Organizations are required to adopt this ASU for fiscal year 2019. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2018</u>	<u>2017</u>
Bank deposits	\$ 12,987,554	\$ 7,748,099
Money market mutual funds	<u>23,957,894</u>	<u>20,827,370</u>
Total cash and cash equivalents	<u>\$ 36,945,448</u>	<u>\$ 28,575,469</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 \$105 million in private and other sources including federal, state and other government funding to complete Bayou Greenways. HPB has met the matching obligation to the City by raising, in private and other sources of government funding, approximately \$108.6 million (including conditional pledges of approximately \$7 million) and is within approximately \$11.4 million of reaching its \$120 million Bayou Greenways Capital Campaign goal. Cumulatively, as of June 30, 2018, HPB has funded and conveyed approximately \$30.7 million in land, design, construction management and due diligence costs that are included in Bayou Greenways' related expenses and reported by the LGC as construction in progress. In 2018, HPB conveyed approximately \$3,500,000 in capital assets and provided approximately \$3,200,000 in private funding to the LGC for Bayou Greenways. 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 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 2018 and 2017, HPB has expended approximately \$126,000 and \$129,000, respectively, of design costs for the TE project under this agreement. At June 30, 2018, approximately \$580,000 in estimated construction costs remain 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 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. At June 30, 2018, approximately \$174,000 has been funded by the City 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 agreed to raise certain 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 2018 and 2017, HPB has expended approximately \$69,000 and \$102,000, respectively, of design costs and funded approximately \$123,000 and \$40,000, respectively, of land purchases for the CMAQ project under this agreement. This project was completed in 2018.

In fiscal year 2018, the LGC and HPB, acting as management for the LGC, entered into an infrastructure management agreement with the Gulfgate Redevelopment Authority and Tax Increment Reinvestment Zone Eight (TIRZ8) to complete improvement projects along the Sims Bayou. The Gulfgate Redevelopment Authority is funding \$3,528,000 to the LGC for this project. At June 30, 2018, approximately \$209,000 has been funded by the Gulfgate Redevelopment Authority for this project to the LGC.

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, 2018.

During fiscal years 2018 and 2017, HPB conveyed approximately \$169,000 and \$1,600,000, respectively, 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>2018</u>	<u>2017</u>
Pledges receivable:		
Bayou Greenways	\$ 13,267,227	\$ 15,330,292
Other	665,000	21,000
Discount to net present value at 0.5% to 2.63%	<u>(80,372)</u>	<u>(32,053)</u>
Pledges receivable, net	<u>\$ 13,851,855</u>	<u>\$ 15,319,239</u>

Pledges receivable at June 30, 2018 are expected to be collected as follows:

2019	\$ 10,519,186
2020	2,602,500
2021	392,500
2022	257,000
2023	<u>161,041</u>
Total pledges receivable	<u>\$ 13,932,227</u>

Conditional pledge receivable – At June 30, 2018, HPB has a \$7,142,857 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, 2018, approximately 77% of pledges are due from two donors. At June 30, 2017, approximately 86% of pledges are due from two donors. During 2018, approximately 65% of contributions recognized are from three donors. During 2017, approximately 69% of contributions recognized are from two donors.

NOTE 6 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments are being held for following:

	<u>2018</u>	<u>2017</u>
Bayou Greenways	\$ 7,268,097	\$ 7,268,097
Houston Parks Board Foundation	6,237,922	5,851,232
Park and park improvement project, programs and maintenance	2,892,197	2,807,513
Operating	<u>2,721,409</u>	<u>2,653,115</u>
Total investments	<u>\$ 19,119,625</u>	<u>\$ 18,579,957</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, 2018 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	\$ 2,670,729			\$ 2,670,729
Total return	2,226,208			2,226,208
High yield	1,440,287			1,440,287
Emerging markets debt	75,921			75,921
Equity mutual funds:				
Large-cap	681,009			681,009
Emerging markets	523,359			523,359
Foreign large blend	517,010			517,010
Mid-cap	320,776			320,776
Multi-alternative	278,705			278,705
Small-cap	239,938			239,938
Real estate	233,726			233,726
Energy limited partnership	202,834			202,834
Foreign small/mid growth	161,706			161,706
Tactical allocation	144,169			144,169
Commodities broad basket	127,825			127,825
Managed futures	107,929			107,929
Long-short equity	67,076			67,076
Preferred stock	60,273			60,273
Equity securities:				
Large-cap	2,516,117			2,516,117
Small-cap	400,037			400,037
Money market mutual funds	1,874,059			1,874,059
Exchange-traded bond funds:				
High yield	777,473			777,473
Investment grade corporate	576,459			576,459
Short and intermediate term	214,999			214,999
Exchange-traded funds:				
Large-cap	484,764			484,764
International	334,783			334,783
Preferred stock	71,649			71,649
Corporate bonds – investment grade		\$ 686,843		686,843
U. S. Treasury bonds and notes		654,512		654,512
Municipal bonds and notes		351,687		351,687
Government agency bonds		96,763		96,763
Total investments	17,329,820	1,789,805		19,119,625
Money market mutual funds held as cash equivalents	<u>23,957,894</u>			<u>23,957,894</u>
Total assets measured at fair value	<u>\$ 41,287,714</u>	<u>\$ 1,789,805</u>	<u>\$ 0</u>	<u>\$ 43,077,519</u>

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:				
Large-cap	300,089			300,089
Emerging markets	509,227			509,227
Foreign large blend	526,088			526,088
Multi-alternative	261,464			261,464
Small-cap	633,756			633,756
Real estate	153,801			153,801
Energy limited partnership	252,246			252,246
Foreign small/mid growth	202,766			202,766
Tactical allocation	180,468			180,468
Commodities broad basket	42,646			42,646
Managed futures	110,367			110,367
Preferred stock	80,328			80,328
Equity securities:				
Large-cap	2,761,532			2,761,532
Mid-cap	479,185			479,185
Money market mutual funds	523,738			523,738
Exchange-traded bond funds:				
High yield	920,626			920,626
Investment grade corporate	268,412			268,412
Short and intermediate term	298,931			298,931
U. S. Treasury and government agency	318,544			318,544
Inflation-protected	161,071			161,071
Exchange-traded funds:				
Large-cap	74,423			74,423
International	337,452			337,452
Mid-cap	371,846			371,846
Corporate bonds – investment grade		\$ 1,010,577		1,010,577
U. S. Treasury bonds and notes		914,246		914,246
Municipal bonds and notes		737,470		737,470
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	<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>

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>2018</u>	<u>2017</u>
Interest and dividends	\$ 988,046	\$ 691,317
Net realized and unrealized gain (loss) on investments	<u>(18,142)</u>	<u>547,326</u>
Total investment return	<u>\$ 969,904</u>	<u>\$ 1,238,643</u>

Investment management fees of approximately \$84,000 in 2018 and \$73,000 in 2017 are included in management and general expenses in the statement of activities.

NOTE 7 – PROPERTY

Property consists of the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 8,526,267	\$ 11,597,758
Vehicles	211,140	176,008
Building and improvements	91,817	91,817
Furniture and equipment	<u>33,405</u>	<u>33,405</u>
Total property, at cost	8,862,629	11,898,988
Accumulated depreciation	<u>(154,857)</u>	<u>(101,298)</u>
Property, net	<u>\$ 8,707,772</u>	<u>\$ 11,797,690</u>

Land owned by HPB as of June 30, 2018 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
- Farmsworth 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
- 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 all surplus funds remaining in the Maintenance Reserve Fund not utilized for maintenance be contributed to the Capital Replacement Reserve Fund by October 31 of each year and any balance in excess of the Capital Replacement Reserve cap be refunded to the City. In fiscal years 2018 and 2017, HPB received \$9,541,200 and \$8,382,000, respectively, and expended approximately \$6.7 million each year under this agreement for maintenance, including amounts contributed to the Capital Replacement Reserve Fund of \$1,357,260 and \$3,807,538 in 2018 and 2017, respectively, as defined under this agreement. At June 30, 2018, HPB had not exceeded the cap amount of approximately \$6.5 million. At June 30, 2018, approximately \$1,799,950 is reported as deferred revenue under this agreement to be expended for budgeted capital maintenance improvements that were delayed in the aftermath of Hurricane Harvey.

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, 2018, HPB had outstanding commitments of approximately \$300,000 for construction projects in progress. At June 30, 2018, the LGC had outstanding commitments of approximately \$18 million for construction projects in progress. HPB is acting as project management for the LGC on these construction projects.

Line of Credit – HPB has a line of credit with a bank totaling \$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, 2018, no balance was outstanding on this line of credit.

NOTE 10 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	<u>2018</u>	<u>2017</u>
Property, net	\$ 6,529,668	\$ 9,619,586
Operating	3,614,679	3,325,058
Board-designated for office expansion	481,000	481,000
Board-designated for Foundation	<u>138,805</u>	<u>132,334</u>
Total unrestricted net assets	<u>\$ 10,764,152</u>	<u>\$ 13,557,978</u>

NOTE 11 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Bayou Greenways	\$ 43,319,878	\$ 40,292,041
Bayou Greenways Capital Replacement Reserve Fund	6,513,000	5,497,961
Park development and improvements	2,980,691	3,035,035
Accumulated earnings on permanent endowments (Foundation)	2,918,649	2,505,704
Purchases of additional parkland	1,895,167	1,895,642
Beyond the Bayous	904,543	52,028
Park maintenance reserve funds	706,368	706,368
City-supported programs	593,021	650,984
Other	<u>5,000</u>	<u>5,000</u>
Total temporarily restricted net assets	<u>\$ 59,836,317</u>	<u>\$ 54,640,763</u>

NOTE 12 – PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2018</u>	<u>2017</u>
Land held for parks and green space	\$ 2,178,104	\$ 2,178,104
HPB Foundation Restricted Endowment Funds	2,706,000	2,706,000
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>\$ 5,260,469</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 duration and preservation of the funds and the purposes of the Foundation and the donor-restricted endowment funds in making a determination to appropriate accumulated donor-restricted endowment funds.

Endowment net asset composition as of June 30, 2018:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
HPB Foundation Restricted Endowment Funds	<u> </u>	<u>\$ 2,918,649</u>	<u>\$ 2,706,000</u>	<u>\$ 5,624,649</u>
Endowment net assets	<u>\$ 0</u>	<u>\$ 2,918,649</u>	<u>\$ 2,706,000</u>	<u>\$ 5,624,649</u>

Endowment net asset composition as of June 30, 2017:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
HPB Foundation Restricted Endowment Funds	<u> </u>	<u>\$ 2,505,704</u>	<u>\$ 2,706,000</u>	<u>\$ 5,211,704</u>
Endowment net assets	<u>\$ 0</u>	<u>\$ 2,505,704</u>	<u>\$ 2,706,000</u>	<u>\$ 5,211,704</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, 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> </u>	<u>(24,477)</u>	<u> </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 return:				
Net realized and unrealized gain		240,674		240,674
Interest and dividends		<u>205,834</u>		<u>205,834</u>
Net investment return		<u>446,508</u>		<u>446,508</u>
Investment management fees	<u> </u>	<u>(33,563)</u>	<u> </u>	<u>(33,563)</u>
Endowment net assets, June 30, 2018	<u>\$ 0</u>	<u>\$ 2,918,649</u>	<u>\$ 2,706,000</u>	<u>\$ 5,624,649</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 2018 and 2017.

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 19, 2018, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
