

The Houston Parks Board

Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2015 and 2014

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, which comprise the statements of financial position as of June 30, 2015 and 2014 and the related statements of activities, of functional expenses and of cash flows for the years then ended, and the related notes to the financial statements.

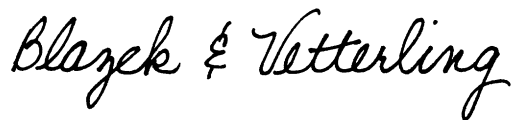
Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance 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 financial position of The Houston Parks Board as of June 30, 2015 and 2014 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



September 16, 2015

The Houston Parks Board

Statements of Financial Position as of June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
Cash (Note 3)	\$ 1,003,377	\$ 2,074,491
Receivable from affiliates:		
Receivable from Houston Parks Board Foundation (Note 4)	241,000	675
Receivable from Houston Parks Board LGC, Inc. (Note 4)		394,224
Prepaid expenses and other receivables	473,475	155,090
Cash and cash equivalents held for Bayou Greenways 2020 (Note 3)	9,469,550	5,112,696
Cash held for Bayou Greenways 2020 maintenance (Notes 3 and 8)	2,540,102	
Pledges receivable, net (Note 5)	11,852,911	10,813,568
Investments (Note 6)	12,872,517	14,780,636
Beneficial interest in funds held by Houston Parks Board Foundation (Notes 4 and 6)	5,197,502	5,427,377
Property, net (Note 7)	<u>11,879,977</u>	<u>11,869,027</u>
TOTAL ASSETS	<u>\$ 55,530,411</u>	<u>\$ 50,627,784</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,199,012	\$ 224,129
Payable to Houston Parks Board LGC, Inc. (Note 4)	595,974	
Construction projects payable	308,933	202,894
Funds held for others	<u>125,793</u>	<u>118,439</u>
Total liabilities	<u>2,229,712</u>	<u>545,462</u>
Commitments (Note 9)		
Net assets:		
Unrestricted (Note 10)	12,006,351	11,927,006
Temporarily restricted (Note 11)	35,976,643	32,815,191
Permanently restricted (Note 12)	<u>5,317,705</u>	<u>5,340,125</u>
Total net assets	<u>53,300,699</u>	<u>50,082,322</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 55,530,411</u>	<u>\$ 50,627,784</u>

See accompanying notes to financial statements.

The Houston Parks Board

Statement of Activities for the year ended June 30, 2015

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
OPERATING REVENUE:				
Contributions	\$ 492,767	\$ 16,343,079		\$ 16,835,846
Special event – annual luncheon	387,630			387,630
Direct donor benefit costs – annual luncheon	(51,645)			(51,645)
City concession and event fees	164,695			164,695
Investment return <i>(Note 6)</i>	158,900	24,470		183,370
Bayou Greenways 2020 maintenance <i>(Note 8)</i>	3,920,991	1,563,009		5,484,000
Parks improvement projects – Houston Parks Board LGC, Inc. <i>(Note 3)</i>	<u>88,208</u>			<u>88,208</u>
Total operating revenue	5,161,546	17,930,558		23,092,104
Net assets released from restrictions:				
Park projects	<u>11,302,501</u>	<u>(11,302,501)</u>		
Total	<u>16,464,047</u>	<u>6,628,057</u>		<u>23,092,104</u>
OPERATING EXPENSES:				
Program services:				
Bayou Greenways 2020 <i>(Note 3)</i>	5,542,815			5,542,815
City park improvements and additions	4,380,221			4,380,221
Bayou Greenways 2020 maintenance <i>(Note 8)</i>	3,868,760			3,868,760
City-supported programs	<u>1,642,957</u>			<u>1,642,957</u>
Total program services	15,434,753			15,434,753
Management and general	552,438			552,438
Fundraising	<u>348,909</u>			<u>348,909</u>
Total operating expenses	<u>16,336,100</u>			<u>16,336,100</u>
CHANGES IN NET ASSETS FROM OPERATIONS				
	127,947	6,628,057		6,756,004
Other changes:				
Funding to Houston Parks Board LGC, Inc. for land purchase	(3,236,730)		\$ (22,420)	(3,259,150)
Conveyance of land to City of Houston	(42,931)			(42,931)
Conveyance of land to Harris County Flood Control District	(5,671)			(5,671)
Net assets released for land purchases	3,236,730	(3,236,730)		
Change in beneficial interest in funds held by Houston Parks Board Foundation		<u>(229,875)</u>		<u>(229,875)</u>
CHANGES IN NET ASSETS	79,345	3,161,452	(22,420)	3,218,377
Net assets, beginning of year	<u>11,927,006</u>	<u>32,815,191</u>	<u>5,340,125</u>	<u>50,082,322</u>
Net assets, end of year	<u>\$ 12,006,351</u>	<u>\$ 35,976,643</u>	<u>\$ 5,317,705</u>	<u>\$ 53,300,699</u>

See accompanying notes to financial statements.

The Houston Parks Board

Statement of Activities for the year ended June 30, 2014

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
OPERATING REVENUE:				
Contributions	\$ 182,935	\$ 22,728,628		\$ 22,911,563
Special event – annual luncheon	440,983			440,983
Direct donor benefit costs – annual luncheon	(43,458)			(43,458)
City concession and event fees	529,904			529,904
Investment return (<i>Note 6</i>)	788,288	23,975		812,263
Parks improvement projects – Houston Parks Board LGC, Inc. (<i>Note 3</i>)	<u>30,117</u>			<u>30,117</u>
Total operating revenue	1,928,769	22,752,603		24,681,372
Net assets released from restrictions:				
Park projects	8,932,289	(8,932,289)		
Purchase of land	<u>42,931</u>	<u>(42,931)</u>		
Total	<u>10,903,989</u>	<u>13,777,383</u>		<u>24,681,372</u>
OPERATING EXPENSES:				
Program services:				
Bayou Greenways 2020 (<i>Note 3</i>)	5,018,303			5,018,303
City park improvements and additions	2,735,275			2,735,275
Bayou Greenways 2020 maintenance (<i>Note 8</i>)	218,196			218,196
City-supported programs	<u>1,239,693</u>			<u>1,239,693</u>
Total program services	9,211,467			9,211,467
Management and general	296,721			296,721
Fundraising	<u>199,403</u>			<u>199,403</u>
Total operating expenses	<u>9,707,591</u>			<u>9,707,591</u>
CHANGES IN NET ASSETS FROM OPERATIONS				
	1,196,398	13,777,383		14,973,781
Other changes:				
Funding to Houston Parks Board LGC, Inc. for land purchase	(186,511)		\$ (594,244)	(780,755)
Funding to City of Houston for land purchase	(308,199)			(308,199)
Conveyance of land to Houston Parks Board LGC, Inc.	(298,926)			(298,926)
Change in beneficial interest in funds held by Houston Parks Board Foundation		<u>736,231</u>		<u>736,231</u>
CHANGES IN NET ASSETS	402,762	14,513,614	(594,244)	14,322,132
Net assets, beginning of year	<u>11,524,244</u>	<u>18,301,577</u>	<u>5,934,369</u>	<u>35,760,190</u>
Net assets, end of year	<u>\$ 11,927,006</u>	<u>\$ 32,815,191</u>	<u>\$ 5,340,125</u>	<u>\$ 50,082,322</u>

See accompanying notes to financial statements.

The Houston Parks Board

Statement of Functional Expenses for the year ended June 30, 2015

<u>EXPENSES</u>	<u>BAYOU GREENWAYS 2020</u>	<u>CITY PARK IMPROVEMENTS AND ADDITIONS</u>	<u>BAYOU GREENWAYS 2020 MAINTENANCE</u>	<u>CITY-SUPPORTED PROGRAMS</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2015 TOTAL</u>
Construction and design	\$ 3,963,380	\$ 3,959,742					\$ 7,923,122
Professional fees and contract services	401,563	105,745	\$ 3,391,416	\$ 835,776	\$ 271,671	\$ 125,330	5,131,501
Salaries and related costs	969,921	187,130	362,382		257,425	170,384	1,947,242
Supplies and equipment rental	100,081	43,115	30,502	580,150	11,963	47,527	813,338
Grants and scholarships		27,500		163,117			190,617
Insurance	44,996	15,895	38,480		1,250		100,621
Meetings, conferences and events	16,422	2,578	3,272	35,463	797	528	59,060
Occupancy and maintenance	19,523	7,809	16,130		4,944	3,272	51,678
Travel	6,603	5,114	7,085	26,532	139	92	45,565
Graphics and printing	9,488	19,976	4,679		2,018	1,335	37,496
Depreciation	8,618		13,521				22,139
Postage and shipping	1,681	2,935	644	1,919	341	225	7,745
Other	<u>539</u>	<u>2,682</u>	<u>649</u>		<u>1,890</u>	<u>216</u>	<u>5,976</u>
Total operating expenses	<u>\$ 5,542,815</u>	<u>\$ 4,380,221</u>	<u>\$ 3,868,760</u>	<u>\$ 1,642,957</u>	<u>\$ 552,438</u>	<u>\$ 348,909</u>	16,336,100
Funding to Houston Parks Board LGC, Inc. for land purchase							<u>3,259,150</u>
Total expenses							<u>\$19,595,250</u>

See accompanying notes to financial statements.

The Houston Parks Board

Statement of Functional Expenses for the year ended June 30, 2014

<u>EXPENSES</u>	<u>BAYOU GREENWAYS 2020</u>	<u>CITY PARK IMPROVEMENTS AND ADDITIONS</u>	<u>BAYOU GREENWAYS 2020 MAINTENANCE</u>	<u>CITY-SUPPORTED PROGRAMS</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2014 TOTAL</u>
Construction and design	\$ 4,346,077	\$ 2,253,267					\$ 6,599,344
Professional fees and contract services	129,483	75,971	\$ 214,476	\$ 430,534	\$ 127,979	\$ 102,967	1,081,410
Salaries and related costs	450,687	301,928			144,823	51,117	948,555
Supplies and equipment rental	23,815	22,857	1,968	674,734	3,991	41,101	768,466
Grants and scholarships				52,427			52,427
Insurance	4,261	47,505			1,566	632	53,964
Meetings, conferences and events	1,468	2,126		23,611	540	218	27,963
Occupancy and maintenance	12,948	10,625		1,200	4,732	1,910	31,415
Travel	4,281	9,237	417	24,535	112	45	38,627
Graphics and printing	37,109	7,081		27,642	2,918	1,178	75,928
Depreciation	6,261						6,261
Postage and shipping	1,200	787	38	4,075	319	129	6,548
Other	<u>713</u>	<u>3,891</u>	<u>1,297</u>	<u>935</u>	<u>9,741</u>	<u>106</u>	<u>16,683</u>
Total operating expenses	<u>\$ 5,018,303</u>	<u>\$ 2,735,275</u>	<u>\$ 218,196</u>	<u>\$ 1,239,693</u>	<u>\$ 296,721</u>	<u>\$ 199,403</u>	9,707,591
Funding to Houston Parks Board LGC, Inc. for land purchase							780,755
Funding to City of Houston for land purchase							<u>308,199</u>
Total expenses							<u>\$10,796,545</u>

See accompanying notes to financial statements.

The Houston Parks Board

Statements of Cash Flows for the years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 3,218,377	\$ 14,322,132
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	22,139	6,261
Conveyance of land to Houston Parks Board LGC, Inc.	42,931	298,926
Contributions for land acquisition		(196,633)
Conveyance of land to Harris County Flood Control District	5,671	
Change in value of funds held by Houston Parks Board Foundation	229,875	(736,231)
Net realized and unrealized (gain) loss on investments	254,456	(357,597)
Changes in operating assets and liabilities:		
Receivable from affiliates	153,899	(67,322)
Prepaid expenses and other receivables	(318,385)	(7,089)
Pledges receivable	(1,039,343)	(5,584,208)
Accounts payable and accrued expenses	974,883	41,886
Payable to Houston Parks Board LGC, Inc.	595,974	
Construction projects payable	106,039	(235,078)
Funds held for others	7,354	82,324
Refundable advances		(502,281)
Net cash provided by operating activities	<u>4,253,870</u>	<u>7,065,090</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales and maturities of investments	11,453,584	7,844,717
Purchases of investments	(11,222,325)	(6,827,352)
Net change in money market mutual funds held as investments	1,422,404	(1,722,628)
Net change in cash held for Bayou Greenways 2020 maintenance	(2,540,102)	
Net change in cash and cash equivalents held for Bayou Greenways 2020 Project	(4,356,854)	(5,112,696)
Purchase of property and equipment	(81,691)	(168,153)
Net cash used by investing activities	<u>(5,324,984)</u>	<u>(5,986,112)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions for land acquisition		<u>196,633</u>
NET CHANGE IN CASH	(1,071,114)	1,275,611
Cash, beginning of year	<u>2,074,491</u>	<u>798,880</u>
Cash, end of year	<u>\$ 1,003,377</u>	<u>\$ 2,074,491</u>

See accompanying notes to financial statements.

The Houston Parks Board

Notes to Financial Statements for the years ended June 30, 2015 and 2014

NOTE 1 – ORGANIZATION

Organization – The Houston Parks Board (HPB) was created in 1976 in response to a request by Houston’s major foundations and civic leaders who wanted to contribute to the City of Houston’s (the City) park system through an organization that would represent their needs and desires. Since its inception, HPB has raised and leveraged millions of dollars and touched at least 75% of the City’s parkland through acquisitions and/or capital improvements. HPB works with the City’s Parks and Recreation Department, Harris County Precincts, Harris County Flood Control District, other non-profit 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.

Affiliated organizations

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.

Houston Parks Board Foundation

Houston Parks Board Foundation (the Foundation) was created in 2011 as a nonprofit corporation for the benefit of HPB and is classified as a public charity under §501(c)(3) of the Internal Revenue Code (the Code). The Foundation’s net assets have been included in the statement of financial position as a beneficial interest.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Federal income tax status – HPB is exempt from federal income tax under §501(c)(3) of the Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi). HPB files annual federal information returns that are subject to routine examination; however, there are no examinations for any tax periods currently in progress. HPB believes it is no longer subject to examinations of returns for tax years ended before June 30, 2012.

Operating measure – Land conveyances, funding for City land purchases, and changes in the fair value of the beneficial interest in the Foundation are reported as nonoperating transactions. All other activities of HPB are reflected as operating revenue and expense.

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.

Beneficial interest in funds held by Houston Parks Board Foundation is reported at the fair value of the Foundation's assets, which approximates the present value of future cash flows. The change in the value of the Foundation net assets from year to year is recognized as an increase or decrease in net assets in the statement of activities. Distributions received from the Foundation assets are recognized as contributions.

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 held by the Foundation, 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 revenue. 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 – Certain reclassifications have been made to the prior year financial statements to conform with the current presentation.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2015</u>	<u>2014</u>
Bank deposits	\$ 6,166,002	\$ 7,187,187
Money market mutual funds	<u>6,847,027</u>	<u> </u>
Total cash and cash equivalents	<u>\$ 13,013,029</u>	<u>\$ 7,187,187</u>

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

NOTE 4 – TRANSACTIONS WITH AFFILIATED ORGANIZATIONS

Houston Parks Board LGC, Inc.

On November 6, 2012, the 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 \$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. Cumulatively, as of June 30, 2015, HPB has funded and conveyed approximately \$11,000,000 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 work in progress. At June 30, 2015, \$774,058 is due to the LGC under the terms of this agreement and is included in amounts payable to the LGC. At June 30, 2014, \$204,423 is due to the LGC under the terms of this agreement and is included in receivable from the LGC.

The LGC and HPB, acting as management for the LGC, entered into an agreement with Memorial Heights Redevelopment Authority (the Authority) and anticipates working with the City, Harris County Flood Control District Tax Increment Reinvestment Zone (TIRZ) 5 to complete work along White Oak Bayou for a total project cost of approximately \$3,844,000. The Authority is funding all costs for this project through this agreement with the LGC. At June 30, 2015, \$18,868 is due from the LGC under the terms of this agreement and included in payable to the LGC. At June 30, 2014, \$321,046 is due from the LGC under the terms of this agreement and included in receivable from the LGC.

In fiscal year 2012, the LGC and HPB, acting as management for the LGC, entered into an infrastructure management agreement with the Authority and TIRZ 5 to provide up to \$1.3 million in funding to the

LGC for the White Oak Bayou Bridge improvements project. At June 30, 2014, HPB has advanced \$294,975 to the LGC for this project which is included in receivable from the LGC.

In fiscal year 2013, the LGC and HPB, acting as management for the LGC, entered into an interlocal agreement with the Harris County Flood Control District (the District) to provide \$100,000 in funding to the LGC for the demolition of the exiting abandoned railroad bridge at the White Oak Bayou. During fiscal year 2014, HPB was reimbursed approximately \$50,000 in demolition costs for this project from the LGC.

In fiscal year 2014, the LGC and HPB, acting as management for the LGC, entered into an interlocal agreement with the City for the construction of improvements to Mandell Park. The City provided \$315,000 for this project to the LGC. During fiscal years 2015 and 2014, HPB was reimbursed approximately \$27,000 and \$288,000, respectively, from the LGC for construction costs for the Mandell Park improvement project. At June 30, 2014, \$26,768 is due to the LGC for advances and is included in receivable from the LGC.

In fiscal year 2014, the LGC and HPB, acting as management for the LGC, entered into an interlocal agreement with the City for the restoration of Woodland Park. The City provided \$300,000 to the LGC for this project. During fiscal years 2015 and 2014, HPB has reimbursed approximately \$23,000 and \$244,000, respectively, in construction and maintenance costs for the Woodland Park restoration project. At June 30, 2015, \$32,993 is due to the LGC for advances and is included in payable to the LGC. At June 30, 2014, \$55,987 is due to the LGC for advances and is included in receivable from the LGC.

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 and acquire the necessary right-of-way and real property for the Transportation Enhancement project estimated at \$1.8 million. During fiscal years 2015 and 2014, HPB expended approximately \$745,000 and \$183,000, respectively, of design costs for the Transportation Enhancement project under this agreement.

In fiscal year 2014, the LGC and HPB, acting as management for the LGC, entered into an interlocal agreement with the City to provide \$165,000 in funding to the LGC for the construction of improvements to Avenue Place Park. At June 30, 2015, \$165,000 is due from the LGC under the terms of this agreement and is included in payable to the LGC.

In fiscal year 2015, the LGC and HPB, acting as management for the LGC, entered into an interlocal agreement with the City to provide \$1,500,000 in funding to the LGC for the design and construction of hike and bike trails along Centerpoint transmission corridors. At June 30, 2015, \$7,986 is due from the LGC under the terms of this agreement and included in payable to the LGC.

In fiscal year 2015, the LGC and HPB, acting as management for the LGC, entered into an interlocal agreement with the City to manage the replacement planting of certain trees within the City right-of-way at 5003 Kirby Drive. The City provided \$300,000 in funding for the project to the LGC. At June 30, 2015, \$18,000 is due from the LGC under the terms of this agreement and included in payable to the LGC.

In fiscal year 2015, the LGC and HPB, acting as management for the LGC, entered into an infrastructure management agreement with Memorial Heights Redevelopment Authority to provide \$63,000 in funding to the LGC for the design, acquisition, and construction of the Woodland Park Trails System. At June 30, 2015, \$1,267 is due from the LGC under the terms of this agreement and is included in payable to the LGC.

Cumulatively, as of June 30, 2015, HPB has transferred and funded approximately \$9,100,000 of land to the LGC.

Houston Parks Board Foundation

Distributions to HPB from the Foundation's HPB Endowment Trust Restricted Fund are limited to 5% of the investments on the first day of the fiscal year. Distributions to HPB from the Foundation's PP Endowment Foundation Restricted Fund are limited to 5% of the rolling three year quarterly average of the investments. The portion of net assets that are distributable by the Board of Directors of the Foundation are classified as temporarily restricted net assets. At June 30, 2015, the Foundation had approved a distribution payable to HPB totaling \$241,000 which is reported as receivable from the Foundation.

There were no distributions to HPB in 2014. HPB provides management services to the Foundation and pays all expenses on their behalf.

NOTE 5 – PLEDGES RECEIVABLE

Pledges receivable consist of the following:

	<u>2015</u>	<u>2014</u>
Pledges receivable	\$ 11,872,860	\$ 10,832,483
Discount to net present value at 0.5%	<u>(19,949)</u>	<u>(18,915)</u>
Pledges receivable, net	<u>\$ 11,852,911</u>	<u>\$ 10,813,568</u>

Pledges receivable at June 30, 2015 are expected to be collected as follows:

2016	\$ 9,143,951
2017	1,459,114
2018	1,227,150
2019	<u>42,645</u>
Total pledges receivable	<u>\$ 11,872,860</u>

At June 30, 2015, approximately 98% of pledges receivable were for Bayou Greenways projects. At June 30, 2014, approximately 99% of pledges receivable were for Bayou Greenways projects.

Conditional pledge receivable – At June 30, 2015, HPB has a \$28,571,429 conditional pledge receivable. The commitment is conditioned upon the donor approval of specific components and phase requirements of Bayou Greenways. This gift will be recognized as contribution revenue when the conditions are substantially met.

Concentration – At June 30, 2015, approximately 87% of pledges are due from five donors. At June 30, 2014, approximately 85% of pledges are due from four donors. During 2015, approximately 67% of contributions recognized are from four donors. During 2014, approximately 80% of contributions recognized are from three donors.

NOTE 6 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments are being held for following:

	<u>2015</u>	<u>2014</u>
Bayou Greenways 2020 Project	\$ 6,104,983	\$ 6,562,492
Park and park improvements projects, programs and maintenance	4,349,331	6,823,752
Operating	<u>2,418,203</u>	<u>1,394,392</u>
Total investments	<u>\$ 12,872,517</u>	<u>\$ 14,780,636</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, 2015 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Bond mutual funds:				
Total return	\$ 1,779,500			\$ 1,779,500
High yield	1,457,468			1,457,468
Short and intermediate term	1,339,295			1,339,295
Corporate bonds – investment grade		\$ 1,702,465		1,702,465
U. S. Treasury bonds and notes		1,452,615		1,452,615
Exchange-traded bond funds – high yield	1,048,178			1,048,178
Exchange-traded equity funds:				
International	388,570			388,570
Small-cap	322,881			322,881
Mid-cap	174,442			174,442
Large-cap	54,446			54,446
Equity securities:				
Large-cap	674,877			674,877
Mid-cap	255,940			255,940
Municipal bonds and notes		650,390		650,390
Equity mutual funds:				
Large-cap	404,815			404,815
Mid-cap	177,547			177,547
Small-cap	54,859			54,859
Government agency bonds		506,309		506,309
Money market mutual funds	<u>427,920</u>			<u>427,920</u>
Total investments	8,560,738	4,311,779		12,872,517
Money market funds held as cash equivalents				
for Bayou Greenways 2020 Project	6,847,027			6,847,027
Beneficial interest in funds held by the				
Foundation			\$ 5,197,502	<u>5,197,502</u>
Total assets measured at fair value	<u>\$ 15,407,765</u>	<u>\$ 4,311,779</u>	<u>\$ 5,197,502</u>	<u>\$ 24,917,046</u>

Assets measured at fair value at June 30, 2014 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Bond mutual funds:				
Total return	\$ 1,463,982			\$ 1,463,982
High yield	1,343,374			1,343,374
Short and intermediate term	1,201,159			1,201,159
Corporate bonds – investment grade		\$ 2,306,318		2,306,318
U. S. Treasury bonds and notes		1,535,967		1,535,967
Exchange-traded bond funds – high yield	1,075,382			1,075,382
Exchange-traded equity funds:				
International	427,150			427,150
Small-cap	333,778			333,778
Mid-cap	186,245			186,245
Large-cap	93,789			93,789
Equity securities:				
Large-cap	668,995			668,995
Mid-cap	254,346			254,346
Municipal bonds and notes		652,651		652,651
Equity mutual funds:				
Large-cap	591,052			591,052
Mid-cap	115,543			115,543
Government agency bonds		680,581		680,581
Money market mutual funds	<u>1,850,324</u>			<u>1,850,324</u>
Total investments	9,605,119	5,175,517		14,780,636
Beneficial interest in funds held by the Foundation				
			<u>\$ 5,427,377</u>	<u>5,427,377</u>
Total assets measured at fair value	<u>\$ 9,605,119</u>	<u>\$ 5,175,517</u>	<u>\$ 5,427,377</u>	<u>\$ 20,208,013</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.
- *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.
- *Exchange-traded funds and equity securities* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Beneficial interest in funds held by the Foundation* is invested in equity securities, equity mutual funds, exchange-traded funds, exchange-traded bond funds, and bond mutual funds and is considered Level 3 due to limited access by HPB. HPB's beneficial interest represents 100% of the underlying assets of the Foundation whose value is based upon their audited financial statements.

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>2015</u>	<u>2014</u>
Interest and dividends	\$ 430,098	\$ 443,581
Net realized and unrealized gain (loss) on investments	(254,456)	357,597
Other	<u>7,728</u>	<u>11,085</u>
Total investment return	<u>\$ 183,370</u>	<u>\$ 812,263</u>

Investment fees of \$46,740 and \$46,556 at June 30, 2015 and 2014, respectively, are included in management and general expenses in the statement of activities.

Changes in the fair value of Level 3 assets for the years ended June 30, 2015 and 2014 consist of the following:

Balance at July 1, 2013	\$ 4,691,146
Change in beneficial interest in funds held by the Foundation	<u>736,231</u>
Balance at June 30, 2014	5,427,377
Change in beneficial interest in funds held by the Foundation	11,125
Distributions to HPB	<u>(241,000)</u>
Balance at June 30, 2015	<u>\$ 5,197,502</u>

NOTE 7 – PROPERTY

Property consists of the following:

	<u>2015</u>	<u>2014</u>
Land	\$ 11,708,080	\$ 11,750,066
Building and improvements	91,817	91,817
Vehicles	75,075	
Furniture and equipment	<u>33,405</u>	<u>33,405</u>
Total property, at cost	11,908,377	11,875,288
Accumulated depreciation	<u>(28,400)</u>	<u>(6,261)</u>
Property, net	<u>\$ 11,879,977</u>	<u>\$ 11,869,027</u>

Land owned by HPB as of June 30, 2015 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-Fogle – 0.35 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-Lidstone – 0.22 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
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

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
Fitzgerald Property – 0.29 acres
Golden Eagle Lodge Property – 0.13 acres
Halls Bayou Park – 3.50 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 – CITY MAINTENANCE AGREEMENT

In fiscal year 2014, HPB entered into a 30-year agreement with the City to provide maintenance and capital replacement for the Bayou Greenways 2020 project, 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 year 2015, HPB received \$5,484,000 and expended approximately \$3,800,000 under this agreement for maintenance with the remaining balance contributed to the Capital Replacement Reserve as defined under this agreement.

NOTE 9 – COMMITMENTS

Bayou Greenways 2020 Project – City of Houston

As a part of the \$120 million commitment for the Bayou Greenways 2020 Project (see Note 3), HPB has raised, in private and other sources of government funding, approximately \$94 million (including conditional pledges of approximately \$29 million) with approximately \$26 million remaining in their commitment of funding. HPB has entered into agreements with the City related to projects within the scope of Bayou Greenways as follows:

- HPB and the City entered into an agreement in which HPB intended to provide approximately \$1,300,000 for park amenities and to purchase the remaining land for the Sims Bayou Recreation Plan. Cumulatively, as of June 30, 2015, HPB has funded approximately \$216,000 under this agreement. The scope of this project is expected to be reduced based upon project approval by the Army Corp of Engineers.
- HPB and the City entered into an agreement in which HPB intends to provide \$3.2 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. HPB will provide construction management. HPB has paid the City \$1,883,886 for project construction as of June 30, 2015.
- HPB entered into an agreement with the City to provide \$656,000 in funding for the City's Texas Department of Transportation grant for trail construction on Brays Bayou. HPB has paid approximately \$233,000 in design and construction costs and paid the City \$344,938 related to this agreement.

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, 2015, HPB had outstanding commitments of approximately \$264,000 for construction projects in progress.

Line of Credit

In August 2014, HPB obtained a \$2,500,000 revolving line of credit with a bank. The line of credit is collateralized by the unrestricted portion of the investment portfolio of HPB and the Foundation and expires in August 2021. At June 30, 2015, no balance was outstanding on this line of credit.

NOTE 10 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	<u>2015</u>	<u>2014</u>
Operating	\$ 2,381,222	\$ 2,312,827
Property, net	<u>9,625,129</u>	<u>9,614,179</u>
Total unrestricted net assets	<u>\$ 12,006,351</u>	<u>\$ 11,927,006</u>

NOTE 11 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Bayou Greenway 2020	\$ 26,390,476	\$ 22,377,944
Distributable net assets held by the Foundation	2,491,502	2,721,377
Purchases of additional parkland	1,891,615	1,970,855
Park development and improvements	1,617,754	1,890,404
Bayou Greenway 2020 capital replacement reserve	1,563,009	
City-supported programs	1,062,358	3,091,397
Maintenance reserve funds	706,368	701,420
Office expansion	241,000	
Other	<u>12,561</u>	<u>61,794</u>
Total temporarily restricted net assets	<u>\$ 35,976,643</u>	<u>\$ 32,815,191</u>

NOTE 12 – PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2015</u>	<u>2014</u>
Donor-restricted gifts held by the Foundation for support of HPB	\$ 2,706,000	\$ 2,706,000
Land held for parks and green space	2,254,848	2,254,848
Development of permanent parks and green space	<u>356,857</u>	<u>379,277</u>
Total permanently restricted net assets	<u>\$ 5,317,705</u>	<u>\$ 5,340,125</u>

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 16, 2015, 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.