

**The Houston Parks Board**

Financial Statements  
and Independent Auditors' Report  
for the years ended June 30, 2016 and 2015

# 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 statement of financial position as of June 30, 2016 and statement of financial position of The Houston Parks Board as of June 30, 2015 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 consolidated financial position of The Houston Parks Board and Houston Parks Board Foundation as of June 30, 2016, the financial position of The Houston Parks Board as of June 30, 2015 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 21, 2016

## The Houston Parks Board

Consolidated Statement of Financial Position as of June 30, 2016 and  
Statement of Financial Position as of June 30, 2015

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	<u>2016</u>	<u>2015</u>
ASSETS		
Cash (Note 3)	\$ 90,489	\$ 106,931
Prepaid expenses and other receivables	413,832	714,475
Cash held for Bayou Greenways capital reserve (Notes 3 and 8)	4,282,278	2,540,102
Cash held for City-supported programs, park improvements projects, and maintenance (Note 3)	5,022,456	896,446
Cash and cash equivalents held for Bayou Greenways Project (Note 3)	14,229,200	9,469,550
Pledges receivable, net (Note 5)	20,958,800	11,852,911
Investments (Note 6)	18,028,891	12,872,517
Beneficial interest in funds held by Houston Parks Board Foundation (Note 6)		5,197,502
Property, net (Note 7)	<u>11,887,630</u>	<u>11,879,977</u>
TOTAL ASSETS	<u>\$ 74,913,576</u>	<u>\$ 55,530,411</u>

### LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued expenses	\$ 764,715	\$ 1,199,012
Construction projects payable	312,913	308,933
Payable to Houston Parks Board LGC, Inc. (Note 4)	606	595,974
Funds held for others	<u>102,166</u>	<u>125,793</u>
Total liabilities	<u>1,180,400</u>	<u>2,229,712</u>
Commitments (Note 9)		
Net assets:		
Unrestricted (Note 10)	13,088,734	12,006,351
Temporarily restricted (Notes 11 and 13)	55,307,229	35,976,643
Permanently restricted (Notes 12 and 13)	<u>5,337,213</u>	<u>5,317,705</u>
Total net assets	<u>73,733,176</u>	<u>53,300,699</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 74,913,576</u>	<u>\$ 55,530,411</u>

See accompanying notes to financial statements.

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## 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>
<b>OPERATING REVENUE:</b>				
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 <i>(Note 6)</i>	384,139	3,130		387,269
Bayou Greenways maintenance agreement <i>(Note 8)</i>	4,338,058	2,595,542		6,933,600
Parks improvement project fees – Houston Parks Board LGC, Inc. <i>(Note 4)</i>	<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:				
Park projects	<u>11,283,704</u>	<u>(11,283,704)</u>		
Total	<u>17,455,740</u>	<u>19,933,176</u>	<u>19,508</u>	<u>37,408,424</u>
<b>OPERATING EXPENSES:</b>				
Program services:				
Bayou Greenways 2020 Projects <i>(Note 4)</i>	5,722,173			5,722,173
Bayou Greenways maintenance <i>(Note 8)</i>	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	13,214,256			13,214,256
Management and general	621,710			621,710
Fundraising	<u>433,087</u>			<u>433,087</u>
Total operating expenses	<u>14,269,053</u>			<u>14,269,053</u>
<b>CHANGES IN NET ASSETS FROM OPERATIONS</b>				
	3,186,687	19,933,176	19,508	23,139,371
Other changes:				
Funding to Houston Parks Board LGC, Inc. for land purchases	(1,809,158)			(1,809,158)
Funding to City of Houston for land purchase	(417,000)			(417,000)
Change in beneficial interest in funds held by Houston Parks Board Foundation	<u>121,854</u>	<u>(602,590)</u>		<u>(480,736)</u>
<b>CHANGES IN NET ASSETS</b>	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 financial statements.*

## The Houston Parks Board

### Statement of Activities for the year ended June 30, 2015

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
<b>OPERATING REVENUE:</b>				
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 Project maintenance <i>(Note 8)</i>	3,920,991	1,563,009		5,484,000
Parks improvement project fees – Houston Parks Board LGC, Inc. <i>(Note 4)</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>
<b>OPERATING EXPENSES:</b>				
Program services:				
Bayou Greenways 2020 Projects <i>(Note 4)</i>	5,542,815			5,542,815
Bayou Greenways maintenance <i>(Note 8)</i>	3,868,760			3,868,760
City park improvements and additions	4,380,221			4,380,221
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>
<b>CHANGES IN NET ASSETS FROM OPERATIONS</b>				
	127,947	6,628,057		6,756,004
Other changes:				
Funding to Houston Parks Board LGC, Inc. for land purchases	(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>
<b>CHANGES IN NET ASSETS</b>	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 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>2016 TOTAL</u>
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
Insurance	67,616	33,558	6,969		2,036	1,167	111,346
Graphics and printing	25,132	6,761	9,009		7,978	51,086	99,966
Occupancy and maintenance	26,030	15,056	35,404		6,581	3,773	86,844
Grants and scholarships			17,500	29,297			46,797
Depreciation	8,262	20,995					29,257
Meetings, conferences and events	6,916	4,558	5,287	7,330	1,497	858	26,446
Travel	7,983	9,486	5,535	224	1,182	677	25,087
Postage and shipping	2,268	271	355	68	188	108	3,258
Other	<u>14,549</u>	<u>937</u>	<u>39,098</u>	<u>          </u>	<u>14,648</u>	<u>372</u>	<u>69,604</u>
Total operating expenses	<u>\$ 5,722,173</u>	<u>\$ 4,574,798</u>	<u>\$ 2,252,610</u>	<u>\$ 664,675</u>	<u>\$ 621,710</u>	<u>\$ 433,087</u>	14,269,053
Funding to Houston Parks Board LGC, Inc. for land purchases							1,809,158
Funding to City of Houston for land purchase							<u>417,000</u>
Total expenses							<u>\$16,495,211</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>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>2015 TOTAL</u>
Construction and design	\$ 3,963,380		\$ 3,959,742				\$ 7,923,122
Professional fees and contract services	401,563	\$ 3,391,416	105,745	\$ 835,776	\$ 271,671	\$ 125,330	5,131,501
Salaries and related costs	969,921	362,382	187,130		257,425	170,384	1,947,242
Supplies and equipment rental	100,081	30,502	43,115	580,150	11,963	47,527	813,338
Insurance	44,996	38,480	15,895		1,250		100,621
Graphics and printing	9,488	4,679	19,976		2,018	1,335	37,496
Occupancy and maintenance	19,523	16,130	7,809		4,944	3,272	51,678
Grants and scholarships			27,500	163,117			190,617
Depreciation	8,618	13,521					22,139
Meetings, conferences and events	16,422	3,272	2,578	35,463	797	528	59,060
Travel	6,603	7,085	5,114	26,532	139	92	45,565
Postage and shipping	1,681	644	2,935	1,919	341	225	7,745
Other	<u>539</u>	<u>649</u>	<u>2,682</u>	<u>          </u>	<u>1,890</u>	<u>216</u>	<u>5,976</u>
Total operating expenses	<u>\$ 5,542,815</u>	<u>\$ 3,868,760</u>	<u>\$ 4,380,221</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 purchases							<u>3,259,150</u>
Total expenses							<u>\$19,595,250</u>

*See accompanying notes to financial statements.*



## The Houston Parks Board

### Consolidated Statement of Cash Flows for the year ended June 30, 2016 and Statement of Cash Flows for the year ended June 30, 2015

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 20,432,477	\$ 3,218,377
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	29,257	22,139
Conveyance of land to City of Houston		42,931
Conveyance of land to Harris County Flood Control District		5,671
Change in beneficial interest in Houston Parks Board Foundation	5,197,502	229,875
Net noncash assets and liabilities acquired at fair value	(5,218,083)	
Net realized and unrealized loss on investments	82,137	254,456
Changes in operating assets and liabilities:		
Prepaid expenses and other receivables	300,643	(164,486)
Pledges receivable	(9,105,889)	(1,039,343)
Accounts payable and accrued expenses	(434,297)	974,883
Construction projects payable	3,980	106,039
Payable to Houston Parks Board LGC, Inc.	(595,368)	595,974
Funds held for others	<u>(23,627)</u>	<u>7,354</u>
Net cash provided by operating activities	<u>10,668,732</u>	<u>4,253,870</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sales and maturities of investments	4,753,233	11,453,584
Purchases of investments	(4,013,575)	(11,222,325)
Net change in money market mutual funds held as investments	(760,086)	1,422,404
Net change in cash held for City-supported programs, park improvements projects, and maintenance	(4,126,010)	379,486
Net change in cash held for Bayou Greenways capital reserve	(1,742,176)	(2,540,102)
Net change in cash and cash equivalents held for Bayou Greenways Project	(4,759,650)	(4,356,854)
Purchase of property	<u>(36,910)</u>	<u>(81,691)</u>
Net cash used by investing activities	<u>(10,685,174)</u>	<u>(4,945,498)</u>
<b>NET CHANGE IN CASH</b>	(16,442)	(691,628)
Cash, beginning of year	<u>106,931</u>	<u>798,559</u>
Cash, end of year	<u>\$ 90,489</u>	<u>\$ 106,931</u>

*See accompanying notes to financial statements.*

## The Houston Parks Board

Notes to Consolidated Financial Statements for the year ended June 30, 2016 and  
Financial Statements for the year ended June 30, 2015

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### 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 (City) 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.

Houston Parks Board Foundation (the Foundation) was created in 2011 as a nonprofit corporation for the benefit of HPB. For the year ended June 30, 2015, the Foundation’s net assets were included in the statement of financial position as a beneficial interest totaling \$5,197,502. 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 has been consolidated with HPB at June 30, 2016. The fair value of the net assets of the Foundation at June 30, 2016 include investments totaling \$5,218,083.

#### 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 statement of financial position at June 30, 2016 includes 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 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 Internal Revenue Code, and in June 2016 was reclassified from a public charity to a Type I supporting organization of HPB under §509(a)(3).

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 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.

Beneficial interest in funds held by Houston Parks Board Foundation is reported at the fair value of the Foundation's assets at June 30, 2015, 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 of \$240,000 in 2016 and \$241,000 in 2015 received from the Foundation were recognized as contributions by HPB.

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 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.

### **NOTE 3 – CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist of the following:

	<u>2016</u>	<u>2015</u>
Bank deposits	\$ 10,022,720	\$ 6,166,002
Money market mutual funds	<u>13,601,703</u>	<u>6,847,027</u>
Total cash and cash equivalents	<u>\$ 23,624,423</u>	<u>\$ 13,013,029</u>

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

### **NOTE 4 – TRANSACTIONS WITH THE LGC**

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 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. Cumulatively, as of June 30, 2016, HPB has funded and conveyed approximately \$15,600,000 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. 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. In 2015, HPB conveyed approximately \$304,000 in capital assets and provided approximately \$6,900,000 in private funding to the LGC for Bayou Greenways. At June 30, 2016 and 2015, approximately \$121,000 and \$774,000, respectively, are due to the LGC under the terms of this agreement.

The LGC and HPB, acting as management for the LGC, entered into an agreement with Memorial Heights Redevelopment Authority (the Authority) and Tax Increment Reinvestment Zone Five (TIRZ 5) to work with the City and Harris County Flood Control District to complete pathways and trails along White Oak Bayou for a total project cost of approximately \$4,973,000. The Authority is funding up to

\$3,844,000 of costs for this project through this agreement with the LGC. HPB and the LGC have committed to provide funding in excess of \$3,844,000.

In fiscal year 2012, the LGC and HPB, acting as management for the LGC, entered into an infrastructure management agreement with the Authority to complete the White Oak Bayou Bridge improvements project for a total project cost of approximately of \$1,459,000. The Authority is funding up to \$1,294,000 of costs for this project through this agreement with the LGC. HPB and the LGC have committed to provide funding in excess of \$1,294,000. During fiscal years 2016 and 2015, HPB has expended approximately \$8,000 and \$137,000, respectively, of design and construction management costs for the White Oak Bayou Bridge improvements project under this agreement. This project was completed in April 2016.

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 2016 and 2015, HPB has expended approximately \$828,000 and \$745,000, 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 at \$2.2 million. During fiscal years 2016 and 2015, HPB has expended approximately \$211,000 and \$617,000, respectively, of design costs for the CMAQ project under this agreement.

**NOTE 5 – PLEDGES RECEIVABLE**

Pledges receivable consist of the following:

	<u>2016</u>	<u>2015</u>
Pledges receivable	\$ 21,019,792	\$ 11,872,860
Discount to net present value at 0.5%	<u>(60,992)</u>	<u>(19,949)</u>
Pledges receivable, net	<u>\$ 20,958,800</u>	<u>\$ 11,852,911</u>

At June 30, 2016, approximately 97% of pledges receivable were for Bayou Greenways. At June 30, 2015, approximately 98% of pledges receivable were for Bayou Greenways.

Pledges receivable at June 30, 2016 are expected to be collected as follows:

2017	\$ 13,645,057
2018	3,336,735
2019	2,038,000
2020	<u>2,000,000</u>
Total pledges receivable	<u>\$ 21,019,792</u>

*Conditional pledge receivable* – At June 30, 2016, HPB has a \$21,428,572 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, 2016, approximately 86% of pledges are due from three donors. At June 30, 2015, approximately 87% of pledges are due from five donors. During 2016, approximately 83% of contributions recognized are from four donors. During 2015, approximately 67% of contributions recognized are from four donors.

#### NOTE 6 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments are being held for following:

	<u>2016</u>	<u>2015</u>
Bayou Greenways	\$ 7,273,342	\$ 6,104,983
Houston Parks Board Foundation	5,218,083	
Park and park improvements projects, programs and maintenance	2,807,513	4,349,331
Operating	<u>2,729,953</u>	<u>2,418,203</u>
Total investments	<u>\$ 18,028,891</u>	<u>\$ 12,872,517</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 for HPB and the Foundation 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:				
Total return	\$ 1,913,425			\$ 1,913,425
High yield	1,463,557			1,463,557
Short and intermediate term	1,356,278			1,356,278
Equity securities:				
Large-cap	2,545,323			2,545,323
Mid-cap	437,171			437,171
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
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
Money market mutual funds	1,295,312			1,295,312
U. S. Treasury bonds and notes		1,087,819		1,087,819
Municipal bonds and notes		758,212		758,212
Exchange-traded equity funds:				
Mid-cap	328,510			328,510
International	194,806			194,806
Large-cap	75,791			75,791
Government agency bonds		205,477		205,477
Total investments	14,409,782	3,619,109		18,028,891
Money market 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>

Assets measured at fair value for HPB 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
Equity securities:				
Large-cap	674,877			674,877
Mid-cap	255,940			255,940
Equity mutual funds:				
Small-cap	54,859			54,859
Mid-cap	177,547			177,547
Large-cap	404,815			404,815
Exchange-traded bond funds	1,048,178			1,048,178
Corporate bonds – investment grade		\$ 1,702,465		1,702,465
Money market mutual funds	427,920			427,920
U. S. Treasury bonds and notes		1,452,615		1,452,615
Municipal bonds and notes		650,390		650,390
Exchange-traded equity funds:				
Mid-cap	174,442			174,442
International	388,570			388,570
Large-cap	54,446			54,446
Small-cap	322,881			322,881
Government agency bonds	<u>                    </u>	<u>506,309</u>		<u>506,309</u>
Total investments	8,560,738	4,311,779		12,872,517
Money market funds held as cash equivalents for Bayou Greenways	6,847,027			6,847,027
Beneficial interest in funds held by the Foundation	<u>                    </u>	<u>                    </u>	<u>\$ 5,197,502</u>	<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>

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.
- *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>2016</u>	<u>2015</u>
Interest and dividends	\$ 465,694	\$ 430,098
Net realized and unrealized loss on investments	(82,137)	(254,456)
Other	<u>3,712</u>	<u>7,728</u>
Total investment return	<u>\$ 387,269</u>	<u>\$ 183,370</u>

Investment fees of \$44,096 and \$46,740 at June 30, 2016 and 2015, 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, 2016 and 2015 consist of the following:

Balance at July 1, 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	5,197,502
Change in beneficial interest in funds held by the Foundation	20,581
Investments acquired by HPB ( <i>Note 1</i> )	<u>(5,218,083)</u>
Balance at June 30, 2016	<u>\$ 0</u>

## NOTE 7 – PROPERTY

Property consists of the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 11,710,101	\$ 11,708,080
Vehicles	109,964	75,075
Building and improvements	91,817	91,817
Furniture and equipment	<u>33,405</u>	<u>33,405</u>
Total property, at cost	11,945,287	11,908,377
Accumulated depreciation	<u>(57,657)</u>	<u>(28,400)</u>
Property, net	<u>\$ 11,887,630</u>	<u>\$ 11,879,977</u>

Land owned by HPB as of June 30, 2016 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-Castro – 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  
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 – 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 2016 and 2015, HPB received \$6,933,600 and \$5,484,000, respectively, and expended approximately \$4,600,000 and \$3,800,000, respectively, under this agreement for maintenance with the remaining balance contributed to the Capital Replacement Reserve fund as defined under this agreement.

## **NOTE 9 – COMMITMENTS**

### *Bayou Greenways 2020 Project – City of Houston*

As a part of the \$120 million commitment with the City for Bayou Greenways (see Note 3), HPB has raised, in private and other sources of government funding, approximately \$103 million (including conditional pledges of approximately \$21 million) with approximately \$17 million remaining in the 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 intends 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, 2016, HPB has funded approximately \$216,000 under this agreement and no amounts were paid to the City in 2016 or 2015. 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. Cumulatively, HPB has paid the City \$3,067,267 for project construction as of June 30, 2016. In 2016, HPB paid the City approximately \$1,200,000, which is included in Bayou Greenways 2020 projects expense.
- 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 \$237,000 in design and construction costs and cumulatively paid the City \$344,938 related to this agreement as of June 30, 2016. No amounts were paid to the City in 2016 or 2015.

### *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, 2016, HPB had outstanding commitments of approximately \$2.1 million 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, 2016, no balance was outstanding on this line of credit.

#### NOTE 10 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	<u>2016</u>	<u>2015</u>
Operating	\$ 2,853,098	\$ 2,381,222
Board designated for Foundation	121,854	
Board designated for office expansion	481,000	
Property, net	<u>9,632,782</u>	<u>9,625,129</u>
Total unrestricted net assets	<u>\$ 13,088,734</u>	<u>\$ 12,006,351</u>

#### NOTE 11 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Bayou Greenways	\$ 41,663,075	\$ 26,390,476
Park development and improvements	4,010,577	1,617,754
Bayou Greenways capital replacement reserve fund	3,856,853	1,563,009
Purchases of additional parkland	1,895,802	1,891,615
Accumulated earnings on permanent endowments (Foundation)	1,888,912	2,491,502
City-supported programs	752,473	1,062,358
Maintenance reserve funds	706,368	706,368
Houston Area Greenways	523,199	
Other	<u>9,970</u>	<u>253,561</u>
Total temporarily restricted net assets	<u>\$ 55,307,229</u>	<u>\$ 35,976,643</u>

#### NOTE 12 – PERMANENTLY RESTRICTED NET ASSETS

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

	<u>2016</u>	<u>2015</u>
Land held for parks and green space	\$ 2,254,848	\$ 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>356,857</u>
Total permanently restricted net assets	<u>\$ 5,337,213</u>	<u>\$ 5,317,705</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 endowment funds as permanently restricted net assets. The remaining portion of the donor-restricted endowment funds that are not classified as permanently restricted net assets are 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 for the Foundation consolidated as of June 30, 2016 is as follows:

	<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>

#### 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 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. During 2016, the Board of Directors of the Foundation approved a distribution to HPB totaling \$240,000. During 2015, the Board of Directors of the Foundation approved a distribution to HPB totaling \$241,000.

#### **NOTE 14 – SUBSEQUENT EVENTS**

In August 2016, HPB increased their bank line of credit to \$9,000,000. The updated 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. No amounts have been drawn on this line of credit through September 21, 2016.

In August 2016, HPB entered into a design contract of approximately \$1.2 million for work on Greens Bayou.

Management has evaluated subsequent events through September 21, 2016, 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.

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