

The Houston Parks Board

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2019 and 2018

The Houston Parks Board

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Independent Auditors' Report

To the Board of Directors of
The Houston Parks Board:

Report on the Financial Statements

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, 2019 and 2018 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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

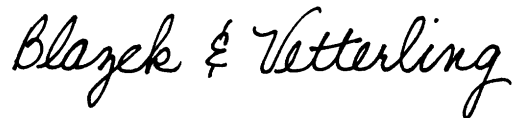
In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Houston Parks Board and Houston Parks Board Foundation as of June 30, 2019 and 2018 and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of New Accounting Standard

As discussed in Note 3 to the financial statements, The Houston Parks Board and Houston Parks Board Foundation adopted the amendments of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended June 30, 2019. These amendments have been applied on a retrospective basis to the financial statements as of and for the year ended June 30, 2018, except that certain information has been omitted as permitted by the ASU. Our opinion is not modified with respect to this matter.

Report Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2019 on our consideration of The Houston Parks Board and Houston Parks Board Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of The Houston Parks Board and Houston Parks Board Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Houston Parks Board and Houston Parks Board Foundation's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Blazek & Vetterling". The signature is written in a cursive, flowing style.

September 20, 2019

The Houston Parks Board

Consolidated Statements of Financial Position as of June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents (<i>Note 5</i>)	\$ 1,493,975	\$ 932,452
Receivable from Houston Parks Board LGC, Inc. (<i>Note 6</i>)	518,704	
Government grant receivable – Texas Commission on Environmental Quality	5,517,771	
Prepaid expenses and other assets	860,134	808,792
Cash contractually restricted under Bayou Greenways maintenance agreement (<i>Notes 5 and 10</i>)	12,462,735	8,688,332
Cash and cash equivalents held for City-supported programs, park improvement projects, and maintenance (<i>Note 5</i>)	4,630,120	4,376,878
Cash and cash equivalents held for Bayou Greenways Project (<i>Note 5</i>)	17,590,357	22,947,786
Contributions receivable, net (<i>Note 7</i>)	11,319,189	13,851,855
Investments (<i>Note 8</i>)	20,164,729	19,119,625
Property, net (<i>Note 9</i>)	<u>14,224,410</u>	<u>8,707,772</u>
TOTAL ASSETS	<u>\$ 88,782,124</u>	<u>\$ 79,433,492</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,059,706	\$ 713,047
Construction projects payable	723,241	939,367
Payable to Houston Parks Board LGC, Inc. (<i>Note 6</i>)		23,833
Deferred revenue (<i>Note 10</i>)	2,194,260	1,799,950
Funds held for others	<u>96,357</u>	<u>96,357</u>
Total liabilities	<u>4,073,564</u>	<u>3,572,554</u>
Commitments (<i>Note 11</i>)		
Net assets:		
Without donor restrictions (<i>Note 12</i>)	12,064,196	10,764,152
With donor restrictions (<i>Notes 13 and 14</i>)	<u>72,644,364</u>	<u>65,096,786</u>
Total net assets	<u>84,708,560</u>	<u>75,860,938</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 88,782,124</u>	<u>\$ 79,433,492</u>

See accompanying notes to consolidated financial statements.

The Houston Parks Board

Consolidated Statement of Activities for the year ended June 30, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
OPERATING REVENUE:			
Contributions	\$ 330,172	\$ 10,680,364	\$ 11,010,536
Special event – annual luncheon	751,141		751,141
Direct donor benefit costs – annual luncheon	(93,235)		(93,235)
Government grant – Texas Commission on Environmental Quality		5,499,963	5,499,963
Operating net investment return	1,363,130	31,487	1,394,617
Bayou Greenways maintenance (<i>Note 10</i>)	5,081,602	4,644,888	9,726,490
Parks improvement project fees – Houston Parks Board LGC, Inc. (<i>Note 6</i>)	<u>847,520</u>		<u>847,520</u>
Total operating revenue	8,280,330	20,856,702	29,137,032
Net assets released from restrictions:			
Bayou Greenways	12,477,593	(12,477,593)	
Other park projects	<u>1,118,013</u>	<u>(1,118,013)</u>	
Total	<u>21,875,936</u>	<u>7,261,096</u>	<u>29,137,032</u>
OPERATING EXPENSES:			
Program services:			
Bayou Greenways 2020 Projects (<i>Note 6</i>)	11,374,555		11,374,555
Bayou Greenways maintenance (<i>Note 10</i>)	6,524,835		6,524,835
City park improvements and additions	1,309,672		1,309,672
City-supported programs	<u>371,338</u>		<u>371,338</u>
Total program services	19,580,400		19,580,400
Management and general	593,449		593,449
Fundraising	<u>402,043</u>		<u>402,043</u>
Total operating expenses	<u>20,575,892</u>		<u>20,575,892</u>
CHANGES IN NET ASSETS FROM OPERATIONS	1,300,044	7,261,096	8,561,140
OTHER CHANGES IN NET ASSETS:			
Net investment return (<i>Note 14</i>)		<u>286,482</u>	<u>286,482</u>
CHANGES IN NET ASSETS	1,300,044	7,547,578	8,847,622
Net assets, beginning of year	<u>10,764,152</u>	<u>65,096,786</u>	<u>75,860,938</u>
Net assets, end of year	<u>\$ 12,064,196</u>	<u>\$ 72,644,364</u>	<u>\$ 84,708,560</u>

See accompanying notes to consolidated financial statements.

The Houston Parks Board

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

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
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 net investment return	513,379	10,018	523,397
Bayou Greenways maintenance (<i>Note 10</i>)	6,383,990	1,357,260	7,741,250
Parks improvement project fees – Houston Parks Board LGC, Inc. (<i>Note 6</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 6</i>)	8,677,326		8,677,326
Bayou Greenways maintenance (<i>Note 10</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)
Net investment return (<i>Note 14</i>)	<u>40,013</u>	<u>406,495</u>	<u>446,508</u>
CHANGES IN NET ASSETS	(2,793,826)	5,195,554	2,401,728
Net assets, beginning of year (<i>Note 3</i>)	<u>13,557,978</u>	<u>59,901,232</u>	<u>73,459,210</u>
Net assets, end of year	<u>\$ 10,764,152</u>	<u>\$ 65,096,786</u>	<u>\$ 75,860,938</u>

See accompanying notes to consolidated financial statements.

The Houston Parks Board

Consolidated Statement of Functional Expenses for the year ended June 30, 2019

<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>
Professional fees and contract services	\$ 351,280	\$ 4,302,001	\$ 456,532	\$ 185,505	\$ 137,696	\$ 170,566	\$ 5,603,580
Construction and design	3,999,146*	1,117,011	228,864				5,345,021
Funding to Houston Parks Board LGC, Inc. for land purchases	4,562,309						4,562,309
Salaries and related costs	1,556,998	906,170	515,064		414,645	208,288	3,601,165
Funding to City of Houston for land purchases	606,722						606,722
Supplies and equipment rental	111,034	32,943	43,162	131,735	12,881	6,471	338,226
Insurance	55,432	27,345	14,656		12,715	5,927	116,075
Occupancy and maintenance	41,430	48,069	16,946		5,147	2,585	114,177
Graphics and printing	41,074	15,670	13,313		7,262	3,648	80,967
Depreciation	8,083	45,804					53,887
Travel	22,264	11,149	6,386	7,039	980	492	48,310
Meetings, conferences and events	12,152	16,661	2,600	14,702	1,367	687	48,169
Grants and scholarships	500		10,787	32,242			43,529
Postage and shipping	3,677	702	740	115	256	128	5,618
Other	2,454	1,310	622		500	3,251	8,137
Total operating expenses	<u>\$11,374,555</u>	<u>\$ 6,524,835</u>	<u>\$ 1,309,672</u>	<u>\$ 371,338</u>	<u>\$ 593,449</u>	<u>\$ 402,043</u>	<u>\$20,575,892</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, 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>
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
Funding to Houston Parks Board LGC, Inc. for land purchases	2,388,624						2,388,624
Salaries and related costs	1,564,766	746,745	444,716		400,212	161,982	3,318,421
Funding to City of Houston for land purchases	43,655						43,655
Supplies and equipment rental	89,095	15,686	81,196	149,127	6,991	22,116	364,211
Insurance	43,820	41,370	6,783		6,104	2,471	100,548
Occupancy and maintenance	35,391	42,856	28,678	17,673	5,039	2,040	131,677
Graphics and printing	15,775	5,649	15,920		14,389	30,472	82,205
Depreciation	8,264	45,295					53,559
Travel	11,364	8,323	2,897	8,480	1,687	683	33,434
Meetings, conferences and events	21,380	4,179	3,646	3,548	1,238	501	34,492
Grants and scholarships	125	50	1,325	116,275			117,775
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 Statements of Cash Flows for the years ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 8,847,622	\$ 2,401,728
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	53,887	53,559
Conveyance of land to City of Houston		3,071,491
Conveyance of land to Harris County Flood Control District		
Net realized and unrealized (gain) loss on investments	(431,599)	18,142
Changes in operating assets and liabilities:		
Receivable from Houston Parks Board LGC, Inc.	(518,704)	
Government grant receivable	(5,517,771)	
Prepaid expenses and other assets	(51,342)	(214,386)
Contributions receivable	2,532,666	1,467,384
Accounts payable and accrued expenses	346,659	19,540
Construction projects payable	(216,126)	537,444
Payable to Houston Parks Board LGC, Inc.	(23,833)	(191,931)
Deferred revenue	<u>394,310</u>	<u>1,799,950</u>
Net cash provided by operating activities	<u>5,415,769</u>	<u>8,962,921</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales and maturities of investments	22,549,252	14,896,218
Purchases of investments	(24,582,886)	(14,103,707)
Net change in money market mutual funds held as investments	1,420,129	(1,350,321)
Purchase of property	<u>(5,570,525)</u>	<u>(35,132)</u>
Net cash used by investing activities	<u>(6,184,030)</u>	<u>(592,942)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(768,261)	8,369,979
Cash and cash equivalents, beginning of year	<u>36,945,448</u>	<u>28,575,469</u>
Cash and cash equivalents, end of year	<u>\$ 36,177,187</u>	<u>\$ 36,945,448</u>
<i>Summary of cash and cash equivalents:</i>		
Cash and cash equivalents held for Bayou Greenways Project	\$ 17,590,357	\$ 22,947,786
Cash contractually restricted under Bayou Greenways maintenance agreement	12,462,735	8,688,332
Cash and cash equivalents held for City-supported programs, park improvement projects, and maintenance	4,630,120	4,376,878
Cash and cash equivalents	<u>1,493,975</u>	<u>932,452</u>
Total cash and cash equivalents	<u>\$ 36,177,187</u>	<u>\$ 36,945,448</u>
<i>Supplemental disclosure of cash flow information:</i>		
Contribution of marketable securities	\$7,712,090	\$8,545,886

See accompanying notes to consolidated financial statements.

The Houston Parks Board

Notes to Consolidated Financial Statements for the years ended June 30, 2019 and 2018

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 Parks Board), 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 – Parks Board reports 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.

Government grant receivable and contributions receivable that are expected to be collected 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 are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

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 – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service unless the donor also has placed a time restriction on the use of the long-lived asset, in which case the release occurs over the term of the time restriction. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

Contributions are recognized at fair value when an unconditional commitment is received from the donor. Conditional contributions are recognized in the same manner when the conditions are substantially met.

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.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly

identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. All other allocable costs are based on these percentages.

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. Parks Board 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 June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. This ASU could impact the timing of revenue recognition and the financial statement disclosures related to such transactions. Parks Board are required to apply the amendments in its June 30, 2020 financial statements. The amendments should be applied on a modified prospective basis, but retrospective application also is permitted. Management does not expect this adoption will have a material impact on the financial statements.

NOTE 3 – ADOPTION OF ACCOUNTING STANDARDS UPDATES 2016-14

HPB adopted the amendments of ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended June 30, 2019. These amendments have been applied on a retrospective basis to the financial statements for the year ended June 30, 2018, except that information regarding liquidity and availability of resources has been omitted as permitted by the ASU. Adoption of this ASU resulted in reclassification of previously reported activities and net assets to conform to the 2019 presentation but had no impact on total net assets or total changes in net assets for 2018.

NOTE 4 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of June 30, 2019 comprise the following:

Financial assets at June 30, 2019:	
Cash	\$ 36,177,187
Receivables and other assets	628,163
Investments	20,164,729
Contributions receivable and government grants receivable	<u>16,836,960</u>
Total financial assets	73,807,039
Less financial assets not available for general expenditure:	
Donor-restricted assets subject to satisfaction of restriction	28,370,593
Other board-designated assets not expected to be available in 2020	<u>615,134</u>
Total financial assets available for general expenditure	<u>\$ 44,821,312</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, HPB considers all expenditures related to its ongoing activities to create, improve, protect, and advocate for parks for everyone, which includes project expenditures associated with major initiatives such as Bayou Greenways 2020, as well as the conduct of services undertaken to support those activities, to be general expenditures. HPB has entered into a maintenance contract with the City that require amounts paid in excess of amounts used in each given year to be accumulated for capital improvements (see Note 10). Contractually-restricted assets for park maintenance and capital improvements are budgeted to be spent within the next year and are included as general expenditures.

As part of HPB’s liquidity management, it structures its financial assets to be available as its general expenditures and liabilities become due or as additional funding opportunities are presented. HPB’s Board of Directors has designated a portion of its resources without donor restrictions as board-designated to be used for specific purposes. These funds are invested for long-term appreciation and current income but remain available to be spent at the Board of Directors’ discretion.

NOTE 5 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2019</u>	<u>2018</u>
Bank deposits	\$ 18,833,077	\$ 12,987,554
Money market mutual funds	<u>17,344,110</u>	<u>23,957,894</u>
Total cash and cash equivalents	<u>\$ 36,177,187</u>	<u>\$ 36,945,448</u>

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

NOTE 6 – 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 \$112.8 million (including conditional pledges of approximately \$7 million) and is within approximately \$7.2 million of reaching its \$120 million Bayou Greenways Capital Campaign goal. Cumulatively, as of June 30, 2019, HPB has funded and conveyed approximately \$39.4 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 2019, HPB conveyed approximately \$4,500,000 in capital assets and provided approximately \$5,000,000 in private funding to the LGC for Bayou Greenways. In 2018, HPB conveyed approximately \$3,700,000 in capital assets and provided approximately \$3,200,000 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 2019 and 2018, HPB has expended approximately \$109,000 and \$126,000, respectively, of design costs for the TE project under this agreement. At June 30, 2019, approximately \$470,000 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, 2019, approximately \$1.4 million has been expended for this project.

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, 2019, approximately \$432,000 has been funded by the Gulfgate Redevelopment Authority for this project to the LGC.

In fiscal year 2019, the LGC and HPB, acting as management for the LGC, entered into an infrastructure management agreement with South Post Oak Redevelopment Authority and Tax Increment Reinvestment Zone Nine (TIRZ9) to complete bus stop and pedestrian crossing improvements along the Sims Bayou. The South Post Oak Redevelopment Authority is funding \$477,000 to the LGC for this project. At June 30, 2019, approximately \$25,000 has been funded by the South Post Oak Redevelopment Authority for this project to the LGC.

In fiscal year 2019, the LGC and HPB, acting as management for the LGC, entered into an infrastructure management agreement with Spring Branch Management District for the design and construction of hike and bike trails along the CenterPoint easement in Spring Branch. The Spring Branch Management District is funding \$3,000,000 to the LGC for this project. At June 30, 2019, approximately \$147,000 has been funded by the Spring Branch Management District for this project.

HPB and the City entered into an agreement in which HPB committed 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, 2019.

During fiscal years 2019 and 2018, HPB conveyed approximately \$830,000 and \$169,000, respectively, in capital assets to the LGC under the terms of the Bayou Greenways maintenance agreement (see Note 10).

NOTE 7 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following:

	<u>2019</u>	<u>2018</u>
Contributions receivable:		
Bayou Greenways	\$ 10,502,630	\$ 13,267,227
Other	864,858	665,000
Discount to net present value at 0.50% to 2.63%	<u>(48,299)</u>	<u>(80,372)</u>
Contributions receivable, net	<u>\$ 11,319,189</u>	<u>\$ 13,851,855</u>

Contributions receivable at June 30, 2019 are expected to be collected as follows:

2020	\$ 10,118,330
2021	550,014
2022	403,739
2023	<u>295,405</u>
Total contributions receivable	<u>\$ 11,367,488</u>

Conditional contributions receivable – At June 30, 2019, HPB has approximately \$3,300,000 of conditional contributions receivable. The commitments are conditioned upon donor approval of land acquisitions along Greens Bayou, raising additional funds for the Brock Park golf course, and entering agreements for the North Houston Highway Improvement project. These gifts will be recognized as contribution revenue when the conditions the donor has established are substantially met.

Concentrations – At June 30, 2019, approximately 80% of contributions receivable are due from two donors. At June 30, 2018, approximately 77% of contributions receivable are due from two donors. During 2019, approximately 53% of contributions recognized are from three donors. During 2018, approximately 65% of contributions recognized are from three donors.

NOTE 8 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments are being held for following:

	<u>2019</u>	<u>2018</u>
Bayou Greenways	\$ 7,271,327	\$ 7,268,097
Houston Parks Board Foundation	6,526,264	6,237,922
Operating	3,483,750	2,721,409
Park and park improvement project, programs and maintenance	<u>2,883,388</u>	<u>2,892,197</u>
Total investments	<u>\$ 20,164,729</u>	<u>\$ 19,119,625</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, 2019 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Bond mutual funds:				
Total return	\$ 5,501,103			\$ 5,501,103
Inflation protected	1,526,146			1,526,146
Bank loans	1,088,481			1,088,481
High yield	385,612			385,612
Equity mutual funds:				
Large-cap	1,131,616			1,131,616
Emerging markets	879,291			879,291
Small-cap	630,693			630,693
Preferred stock	388,347			388,347
Energy limited partnership	363,454			363,454
Real estate	213,965			213,965
Foreign small/mid growth	177,556			177,556
Other	456,164			456,164
Exchange-traded bond funds:				
Short and intermediate term	2,314,633			2,314,633
Equity securities:				
Large-cap	1,818,631			1,818,631
Small-cap	346,138			346,138
Exchange-traded funds:				
Mid-cap	468,968			468,968
International	412,815			412,815
Corporate bonds – investment grade		\$ 607,504		607,504
U. S. Treasury bonds and notes		541,835		541,835
Money market mutual funds	453,930			453,930
Municipal bonds, notes, and other	<u> </u>	<u>457,847</u>		<u>457,847</u>
Total investments	18,557,543	1,607,186		20,164,729
Money market mutual funds held as cash equivalents	<u>17,344,110</u>			<u>17,344,110</u>
Total assets measured at fair value	<u>\$ 35,901,653</u>	<u>\$ 1,607,186</u>	<u>\$ 0</u>	<u>\$ 37,508,839</u>

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:				
Total return	\$ 2,226,208			\$ 2,226,208
High yield	1,440,287			1,440,287
Short and intermediate term	2,670,729			2,670,729
Emerging markets	75,921			75,921
Equity mutual funds:				
Large-cap	681,009			681,009
Emerging markets	523,359			523,359
Small-cap	239,938			239,938
Energy limited partnership	202,834			202,834
Real estate	233,726			233,726
Foreign small/mid growth	161,706			161,706
Foreign large blend	517,010			517,010
Mid-cap	320,776			320,776
Multi-alternative	278,705			278,705
Other	507,272			507,272
Exchange-traded bond funds:				
Short and intermediate term	214,999			214,999
High yield	777,473			777,473
Investment grade corporate	576,459			576,459
Equity securities:				
Large-cap	2,516,117			2,516,117
Small-cap	400,037			400,037
Exchange-traded funds:				
International	334,783			334,783
Large-cap	484,764			484,764
Preferred stock	71,649			71,649
Corporate bonds – investment grade		\$ 686,843		686,843
U. S. Treasury bonds and notes		654,512		654,512
Money market mutual funds	1,874,059			1,874,059
Municipal bonds, notes, and other	<u>448,450</u>	<u>448,450</u>		<u>448,450</u>
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>

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, and municipal bonds and notes* 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.

NOTE 9 – PROPERTY

Property consists of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 14,026,230	\$ 8,526,267
Vehicles	241,125	211,140
Building and improvements	91,817	91,817
Furniture and equipment	<u>33,405</u>	<u>33,405</u>
Total property, at cost	14,392,577	8,862,629
Accumulated depreciation	<u>(168,167)</u>	<u>(154,857)</u>
Property, net	<u>\$ 14,224,410</u>	<u>\$ 8,707,772</u>

Land owned by HPB as of June 30, 2019 consists of the following tracts:

Without donor restrictions (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

With donor restrictions (land to be maintained in perpetuity for park purposes):

Baham – 12.42 acres
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
Gasaway – 52.14 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 10 – 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 2019 and 2018, HPB received \$10,120,800 and \$9,541,200, respectively, and expended approximately \$6,600,000 and \$6,700,000, respectively, under this agreement for maintenance, including amounts contributed to the Capital Replacement Reserve Fund of \$4,644,888 and \$1,357,260 in 2019 and 2018, respectively, as defined under this agreement. HPB has exceeded the cap amount as defined under the agreement. At June 30, 2019 and 2018, approximately \$2,200,000 and \$1,800,000, respectively, is reported as deferred revenue to be expended for budgeted capital maintenance improvements in the future. While it is intended for these funds to be spent within the next year, there could be delays based upon approval of projects by Federal and City agencies.

NOTE 11 – COMMITMENTS

In fiscal year 2019, HPB and the City of Pasadena entered into an interlocal agreement to provide labor, material and supervision for the Pasadena Healthy Parks Plan. The estimated cost to complete the project is \$350,000. The City of Pasadena agrees to fund a matching commitment of \$50,000 for the completion of this project. At June 30, 2019, approximately \$242,000 in estimated costs remain for this project.

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, 2019, HPB had outstanding commitments of approximately \$11,200,000 for construction projects in progress. At June 30, 2019, the LGC had outstanding commitments of approximately \$7,800,000 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, 2019, no balance was outstanding on this line of credit.

NOTE 12 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

	<u>2019</u>	<u>2018</u>
Property, net	\$ 6,546,343	\$ 6,529,668
Operating	4,895,896	3,614,679
Board-designated for office expansion	481,000	481,000
Board-designated for Foundation	<u>140,957</u>	<u>138,805</u>
Total net assets without donor restrictions	<u>\$ 12,064,196</u>	<u>\$ 10,764,152</u>

NOTE 13 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Bayou Greenways	\$ 41,236,051	\$ 43,319,878
Bayou Greenways Capital Replacement Reserve Fund	9,595,504	6,513,000
Park development and improvements	2,957,263	2,980,691
Purchases of additional parkland	1,895,167	1,895,167
Beyond the Bayous	848,404	904,543
Communities of Care	776,540	
Park maintenance reserve funds	706,368	706,368
City-supported programs	657,895	593,021
Other	<u>5,610</u>	<u>5,000</u>
Total subject to expenditure for specified purpose	58,678,802	56,917,668
Required to be maintained in perpetuity for parks and greenspace:		
Land held for parks and green space	7,678,067	2,178,104
Development of permanent parks and green space	376,365	376,365
Endowments subject to spending policy and appropriation:		
HPB Foundation Endowment Funds	<u>5,911,130</u>	<u>5,624,649</u>
Total net assets with donor restrictions	<u>\$ 72,644,364</u>	<u>\$ 65,096,786</u>

NOTE 14 – 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 this interpretation, the Foundation classifies the original value of gifts and the unappropriated investment earnings on donor-restricted endowments as *net assets with donor restrictions*. 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 assets consist of the following:

	<u>2019</u> WITH DONOR RESTRICTIONS	<u>2018</u> WITH DONOR RESTRICTIONS
Original donor-restricted gifts to be maintained in perpetuity	\$ 2,706,000	\$ 2,706,000
Accumulated net investment return	<u>3,205,130</u>	<u>2,918,649</u>
Endowment net assets	<u>\$ 5,911,130</u>	<u>\$ 5,624,649</u>

Changes in endowment net assets are as follows:

	<u>WITH DONOR RESTRICTIONS</u>		<u>TOTAL</u>
	<u>ACCUMULATED NET INVESTMENT RETURN</u>	<u>REQUIRED TO BE MAINTAINED IN PERPETUITY</u>	
Endowment net assets, June 30, 2017	<u>\$ 2,505,704</u>	<u>\$ 2,706,000</u>	<u>\$ 5,211,704</u>
Net investment return	446,508		446,508
Investment management fees	<u>(33,563)</u>		<u>(33,563)</u>
Endowment net assets, June 30, 2018	<u>2,918,649</u>	<u>2,706,000</u>	<u>5,624,649</u>
Net investment return	320,881		320,881
Investment management fees	<u>(34,400)</u>		<u>(34,400)</u>
Endowment net assets, June 30, 2019	<u>\$ 3,205,130</u>	<u>\$ 2,706,000</u>	<u>\$ 5,911,130</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 2019 and 2018.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 20, 2019, 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.
