

The Houston Parks Board

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2020 and 2019

The Houston Parks Board

Table of Contents

	Page
Independent Auditors' Report	1
Financial Statements:	
Consolidated Statements of Financial Position as of June 30, 2020 and 2019	2
Consolidated Statement of Activities for the year ended June 30, 2020	3
Consolidated Statement of Activities for the year ended June 30, 2019	4
Consolidated Statement of Functional Expenses for the year ended June 30, 2020	5
Consolidated Statement of Functional Expenses for the year ended June 30, 2019	6
Consolidated Statements of Cash Flows for the years ended June 30, 2020 and 2019	7
Notes to Consolidated Financial Statements for the years ended June 30, 2020 and 2019	8

Independent Auditors' Report

To the Board of Directors of
The Houston Parks Board:

We have audited the accompanying financial statements of The Houston Parks Board and Houston Parks Board Foundation, which comprise the consolidated statements of financial position as of June 30, 2020 and 2019 and the related consolidated statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

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

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

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

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

Opinion – In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Houston Parks Board and Houston Parks Board Foundation as of June 30, 2020 and 2019 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 22, 2020

The Houston Parks Board

Consolidated Statements of Financial Position as of June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents (<i>Note 5</i>)	\$ 2,832,233	\$ 1,493,975
Receivable from Houston Parks Board LGC, Inc. (<i>Note 6</i>)		518,704
Government grant receivable – Texas Commission on Environmental Quality	9,410	5,517,771
Prepaid expenses and other assets	990,334	860,134
Cash contractually restricted under Bayou Greenways maintenance agreement (<i>Notes 5 and 11</i>)	11,949,584	12,462,735
Cash and cash equivalents held for City-supported programs, park improvement projects, and maintenance (<i>Note 5</i>)	31,081,009	22,220,477
Contributions receivable, net (<i>Note 7</i>)	4,634,977	11,319,189
Investments (<i>Note 8</i>)	20,318,029	20,164,729
Property, net (<i>Note 9</i>)	<u>8,802,678</u>	<u>14,224,410</u>
TOTAL ASSETS	<u>\$ 80,618,254</u>	<u>\$ 88,782,124</u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued expenses	\$ 721,217	\$ 1,059,706
Construction projects payable	399,067	723,241
Payable to Houston Parks Board LGC, Inc. (<i>Note 6</i>)	946,666	
Deferred capital maintenance (<i>Note 11</i>)	3,188,650	2,194,260
Deferred revenue – special events	150,845	
Refundable advance (<i>Note 10</i>)	499,000	
Funds held for others	<u>96,357</u>	<u>96,357</u>
Total liabilities	<u>6,001,802</u>	<u>4,073,564</u>

Commitments (*Note 12*)

Net assets:

Without donor restrictions (<i>Note 13</i>)	12,713,821	12,064,196
With donor restrictions (<i>Notes 14 and 15</i>)	<u>61,902,631</u>	<u>72,644,364</u>
Total net assets	<u>74,616,452</u>	<u>84,708,560</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$ 80,618,254</u>	<u>\$ 88,782,124</u>
----------------------------------	----------------------	----------------------

See accompanying notes to consolidated financial statements.

The Houston Parks Board

Consolidated Statement of Activities for the year ended June 30, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
OPERATING REVENUE:			
Contributions	\$ 342,821	\$ 11,444,234	\$ 11,787,055
Special event – annual luncheon	439,811		439,811
Direct donor benefit costs – annual luncheon	(91,958)		(91,958)
Net investment return	733,665	(57,462)	676,203
Bayou Greenways maintenance (<i>Note 11</i>)	6,263,158	3,442,852	9,706,010
Parks improvement project fees – Houston Parks Board LGC, Inc. (<i>Note 6</i>)	<u>509,509</u>		<u>509,509</u>
Total operating revenue	8,197,006	14,829,624	23,026,630
Net assets released from restrictions:			
Bayou Greenways	17,746,032	(17,746,032)	
Other park projects	<u>2,323,201</u>	<u>(2,323,201)</u>	
Total	<u>28,266,239</u>	<u>(5,239,609)</u>	<u>23,026,630</u>
OPERATING EXPENSES:			
Program services:			
Bayou Greenways 2020 Projects (<i>Note 6</i>)	13,027,763		13,027,763
Bayou Greenways maintenance (<i>Note 11</i>)	10,971,337		10,971,337
City park improvements and additions	2,188,874		2,188,874
City-supported programs	<u>359,875</u>		<u>359,875</u>
Total program services	26,547,849		26,547,849
Management and general	656,729		656,729
Fundraising	<u>412,036</u>		<u>412,036</u>
Total operating expenses	<u>27,616,614</u>		<u>27,616,614</u>
CHANGES IN NET ASSETS FROM OPERATIONS	649,625	(5,239,609)	(4,589,984)
OTHER CHANGES IN NET ASSETS:			
Conveyance of land to City of Houston		<u>(5,502,124)</u>	<u>(5,502,124)</u>
CHANGES IN NET ASSETS	649,625	(10,741,733)	(10,092,108)
Net assets, beginning of year	<u>12,064,196</u>	<u>72,644,364</u>	<u>84,708,560</u>
Net assets, end of year	<u>\$ 12,713,821</u>	<u>\$ 61,902,631</u>	<u>\$ 74,616,452</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
Net investment return	1,363,130	317,969	1,681,099
Bayou Greenways maintenance (<i>Note 11</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	21,143,184	29,423,514
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>7,547,578</u>	<u>29,423,514</u>
OPERATING EXPENSES:			
Program services:			
Bayou Greenways 2020 Projects (<i>Note 6</i>)	11,374,555		11,374,555
Bayou Greenways maintenance (<i>Note 11</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	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 Functional Expenses for the year ended June 30, 2020

<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	\$ 249,252	\$ 5,672,533	\$ 963,918	\$ 158,844	\$ 159,917	\$ 197,336	\$ 7,401,800
Construction and design	3,415,212*	3,880,238	586,625				7,882,075
Funding to Houston Parks Board LGC, Inc. for land purchases	6,504,623						6,504,623
Salaries and related costs	1,482,219	1,162,264	533,407		479,556	207,627	3,865,073
Funding to City of Houston for land purchases	1,072,821						1,072,821
Supplies and equipment rental	101,364	51,185	45,052	139,492	6,533	2,829	346,455
Occupancy and maintenance	33,240	75,903	9,723		2,673	1,157	122,696
Insurance	44,090	45,197	16,496		6,939	2,607	115,329
Grants and scholarships	50,689		5,367	27,265			83,321
Depreciation	9,692	54,920					64,612
Travel	26,141	12,142	9,468	4,889	327	141	53,108
Meetings, conferences and events	11,686	6,736	2,263	29,282	575	249	50,791
Graphics and printing	24,628	9,616	11,326		118	51	45,739
Postage and shipping	2,067	603	301	103	91	39	3,204
Other	39		4,928				4,967
Total operating expenses	<u>\$13,027,763</u>	<u>\$10,971,337</u>	<u>\$ 2,188,874</u>	<u>\$ 359,875</u>	<u>\$ 656,729</u>	<u>\$ 412,036</u>	<u>\$27,616,614</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, 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
Occupancy and maintenance	41,430	48,069	16,946		5,147	2,585	114,177
Insurance	55,432	27,345	14,656		12,715	5,927	116,075
Grants and scholarships	500		10,787	32,242			43,529
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
Graphics and printing	41,074	15,670	13,313		7,262	3,648	80,967
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 Statements of Cash Flows for the years ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$(10,092,108)	\$ 8,847,622
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	64,611	53,887
Conveyance of land to City of Houston	5,502,124	
Net realized and unrealized (gain) loss on investments	485,193	(431,599)
Proceeds from Paycheck Protection Program advance	499,000	
Changes in operating assets and liabilities:		
Receivable from Houston Parks Board LGC, Inc.	518,704	(518,704)
Government grant receivable	5,508,361	(5,517,771)
Prepaid expenses and other assets	(130,200)	(51,342)
Contributions receivable	6,684,212	2,532,666
Accounts payable and accrued expenses	(338,489)	346,659
Construction projects payable	(324,174)	(216,126)
Payable to Houston Parks Board LGC, Inc.	946,666	(23,833)
Deferred revenue	<u>1,145,235</u>	<u>394,310</u>
Net cash provided by operating activities	<u>10,469,135</u>	<u>5,415,769</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales and maturities of investments	4,025,886	22,549,252
Purchases of investments	(4,786,775)	(24,582,886)
Net change in money market mutual funds held as investments	122,396	1,420,129
Purchase of property	<u>(145,003)</u>	<u>(5,570,525)</u>
Net cash used by investing activities	<u>(783,496)</u>	<u>(6,184,030)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	9,685,639	(768,261)
Cash and cash equivalents, beginning of year	<u>36,177,187</u>	<u>36,945,448</u>
Cash and cash equivalents, end of year	<u>\$ 45,862,826</u>	<u>\$ 36,177,187</u>
<i>Summary of cash and cash equivalents:</i>		
Cash and cash equivalents	\$ 2,832,233	\$ 1,493,975
Cash contractually restricted under Bayou Greenways maintenance agreement	11,949,584	12,462,735
Cash and cash equivalents held for City-supported programs, park improvement projects, and maintenance	<u>31,081,009</u>	<u>22,220,477</u>
Total cash and cash equivalents	<u>\$ 45,862,826</u>	<u>\$ 36,177,187</u>
<i>Supplemental disclosure of cash flow information:</i>		
Contribution of marketable securities	\$7,282,501	\$7,712,090

See accompanying notes to consolidated financial statements.

The Houston Parks Board

Notes to Consolidated Financial Statements for the years ended June 30, 2020 and 2019

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, City Management Districts, TIRZs and 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. Fifty-one percent of the Foundation’s Board of Directors are appointed by HPB.

Affiliated organization

Houston Parks Board LGC, Inc.

In 2008, HPB entered into a management agreement with Houston Parks Board LGC, Inc. (the LGC), a local government corporation created that same year 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. Through its manager, HPB, the LGC acquires land for new public parks and develops and improves new and existing public parks. The Board of Directors of the LGC are appointed by the Mayor and confirmed by the City Council.

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 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. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are subject to one or more barriers that must be overcome before HPB is entitled to receive or retain the funds. Conditional contributions are recognized in the same manner when the conditions are met. Funding received before the conditions are met is reported as advance contributions.

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.

Special events revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special events revenue is recognized when the event occurs. Direct donor benefit costs represent the cost of goods and services provided to attendees of the special events.

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 pronouncement – In May 2014, the Financial Accounting Standards Board 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. HPB is required to adopt this ASU for fiscal year 2021 using an appropriate retrospective method. Management believes the adoption of this ASU will not have a material impact on the financial statements and expects the impact to be primarily additional disclosures.

NOTE 3 – ADOPTION OF ACCOUNTING STANDARD

Effective July 1, 2019, HPB adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance clarifies the distinction between contributions and exchange transactions and between conditional and unconditional contributions. This ASU has been applied on a retrospective basis to the financial statements for the year ended June 30, 2019. Adoption of this standard had no impact on 2019 net assets or changes in net assets.

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 comprise the following:

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash	\$ 45,862,826	\$ 36,177,187
Receivables and other assets	147,091	628,163
Investments	20,318,029	20,164,729
Government grants receivable and contributions receivable	<u>4,644,387</u>	<u>16,836,960</u>
Total financial assets	70,972,333	73,807,039
Less financial assets not available for general expenditure:		
Donor-restricted endowment assets	(5,857,791)	(5,911,130)
Donor-restricted assets subject to satisfaction of restriction	(5,819,032)	(22,363,106)
Funds held for others	(96,357)	(96,357)
Other board-designated assets not expected to be available in the upcoming year	<u>(614,994)</u>	<u>(615,134)</u>
Total financial assets available for general expenditure	<u>\$ 58,584,159</u>	<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. Bayou Greenways 2020 will be substantially completed within the next year and at June 30, 2020, HPB has cash, investments, and pledges totaling approximately \$33 million.

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). At June 30, 2020, approximately \$12 million is available for capital maintenance projects. 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>2020</u>	<u>2019</u>
Bank deposits	\$ 23,275,773	\$ 18,833,077
Money market mutual funds	<u>22,587,053</u>	<u>17,344,110</u>
Total cash and cash equivalents	<u>\$ 45,862,826</u>	<u>\$ 36,177,187</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 agreed 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 exceeded both the matching obligation to the City and its Bayou Greenways Capital Campaign goal of \$120 million by raising, in private and other sources of government funding, over \$125 million (including conditional pledges of approximately \$2.3 million) to complete the campaign. In 2020, HPB conveyed approximately \$4,300,000 in capital assets and provided approximately \$8,700,000 in private funding to the LGC for Bayou Greenways. Additionally, HPB conveyed and funded approximately \$6,600,000 of land directly to the City for Bayou Greenways. 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.

During the fiscal year ending June 30, 2020, HPB funded or conveyed approximately \$7.9 million of Bayou Greenways construction and land directly to the City. Cumulatively, HPB funded \$49.8 million in land, design, and construction management. HPB has added over 740 acres of new parks and greenspace to the Bayou Greenways system and expects the Bayou Greenways Project to be 94% complete or under construction by the end of calendar year 2020. When completed, the system will connect over 3,000 acres of parks and greenspaces with ribbons of new trails over 170 miles in length.

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 agreed 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. Cumulatively, HPB has expended approximately \$2.1 million of design costs for the TE project as of June 30, 2020.

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 \$4,148,750 to the LGC for this project. At June 30, 2020, approximately \$2.6 million has been funded and expended by LGC for this project.

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, 2020, approximately \$38,000 has been funded by the South Post Oak Redevelopment Authority for this project.

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, 2020, approximately \$1.1 million 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 provided construction management. Cumulatively, HPB has paid the City \$3,067,267 for project construction as of June 30, 2020.

In fiscal year 2020, the LGC and HPB, acting as management for the LGC, entered into an agreement with Harris County to construct segments of Bayou Greenways 2020 along Halls Bayou Greenway and Sims Bayou Greenway. The County is funding \$5,000,000 to the LGC for this project.

In fiscal year 2020, the LGC and HPB, acting as management for the LGC, entered into an infrastructure management agreement with the Southwest Houston Redevelopment Authority and Tax Increment Reinvestment Zone Twenty (TIRZ20) for the design and construction of hike and bike trails in Sharpstown and along the CenterPoint easement in Sharpstown. The Southwest Houston Redevelopment Authority is funding \$2,924,500 for this project. At June 30, 2020, approximately \$157,000 has been funded by the Southwest Houston Redevelopment Authority for this project to the LGC.

During fiscal years 2020 and 2019, HPB conveyed approximately \$2,600,000 and \$830,000, 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>2020</u>	<u>2019</u>
Contributions receivable:		
Bayou Greenways	\$ 1,826,473	\$ 10,502,630
Other	2,840,360	864,858
Discount to net present value at 0.2% to 2.6%	<u>(28,856)</u>	<u>(48,299)</u>
Contributions receivable, net	<u>\$ 4,634,977</u>	<u>\$ 11,319,189</u>

Contributions receivable at June 30, 2020 are expected to be collected as follows:

2021	\$ 1,733,624
2022	1,587,967
2023	1,160,879
2024	<u>184,363</u>
Total contributions receivable	<u>\$ 4,666,833</u>

Conditional contributions – At June 30, 2020, HPB has approximately \$2,610,000 of conditional contributions. The commitments are conditioned upon donor approval of land acquisitions along Greens Bayou, raising additional funds for the Brock Park golf course, and beginning construction for the Lee LeClear Tennis Center. These gifts will be recognized as contribution revenue when the conditions the donor has established are substantially met.

Conditional contributions from government agencies – At June 30, 2020, HPB has approximately \$1,448,000 of conditional contributions from a government agency for the purchase of land along Clear Creek Bayou. The contribution will be recognized as revenue as qualifying grant expenditures are incurred.

Concentrations – At June 30, 2020, approximately 59% of contributions receivable are due from two donors. At June 30, 2019, approximately 80% of contributions receivable are due from two donors. During 2020, approximately 42% of contributions revenue recognized are from two donors. During 2019, approximately 53% of contributions revenue recognized are from three donors.

NOTE 8 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments are being held for following:

	<u>2020</u>	<u>2019</u>
Bayou Greenways	\$ 7,268,561	\$ 7,271,327
Houston Parks Board Foundation	6,468,046	6,526,264
Operating	3,698,034	3,483,750
Park and park improvement project, programs and maintenance	<u>2,883,388</u>	<u>2,883,388</u>
Total investments	<u>\$ 20,318,029</u>	<u>\$ 20,164,729</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, 2020 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Fixed-income funds:				
Total return mutual	\$ 6,193,761			\$ 6,193,761
High yield and preferred mutual	1,608,322			1,608,322
Other mutuals	1,090,590			1,090,590
Exchange-traded short and intermediate term	2,518,582			2,518,582
Corporate bonds – investment grade		\$ 523,720		523,720
Municipal bonds, notes, and other		463,550		463,550
U. S. Treasury bonds and notes		451,040		451,040
Equities:				
Mutual funds:				
Emerging markets	965,012			965,012
Large-cap	736,588			736,588
Small-cap	441,855			441,855
International	201,455			201,455
Real assets	732,705			732,705
Alternatives	306,445			306,445
Common stock:				
Large-cap	1,283,498			1,283,498
International	508,437			508,437
Mid-cap and small-cap	256,173			256,173
Exchange-traded funds:				
Large-cap	825,539			825,539
Mid-cap	503,866			503,866
International	375,357			375,357
Money market mutual funds	<u>331,534</u>			<u>331,534</u>
Total investments	18,879,719	1,438,310		20,318,029
Money market mutual funds held as cash equivalents	<u>22,587,053</u>			<u>22,587,053</u>
Total assets measured at fair value	<u>\$ 41,466,772</u>	<u>\$ 1,438,310</u>	<u>\$ 0</u>	<u>\$ 42,905,082</u>

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:				
Fixed-income funds:				
Total return mutual	\$ 5,501,103			\$ 5,501,103
High yield and preferred mutual	773,959			773,959
Other mutuals	1,526,146			1,526,146
Bank loans	1,088,481			1,088,481
Exchange-traded short and intermediate term	2,314,633			2,314,633
Corporate bonds – investment grade		\$ 607,504		607,504
Municipal bonds, notes, and other		457,847		457,847
U. S. Treasury bonds and notes		541,835		541,835
Equities:				
Mutual funds:				
Emerging markets	879,291			879,291
Large-cap	1,131,616			1,131,616
Small-cap	630,693			630,693
International	177,556			177,556
Real assets	717,172			717,172
Alternatives	316,411			316,411
Common stock:				
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
Money market mutual funds	<u>453,930</u>			<u>453,930</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>

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.
- *Exchange-traded funds* and *equity securities* 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>2020</u>	<u>2019</u>
Land	\$ 8,632,034	\$ 14,026,230
Vehicles	278,201	241,125
Building and improvements	91,817	91,817
Furniture and equipment	<u>33,405</u>	<u>33,405</u>
Total property, at cost	9,035,457	14,392,577
Accumulated depreciation	<u>(232,779)</u>	<u>(168,167)</u>
Property, net	<u>\$ 8,802,678</u>	<u>\$ 14,224,410</u>

Land owned by HPB as of June 30, 2020 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
- Farnsworth Expansion – 0.29 acres
- Halls Bayou-Curry – 0.54 acres
- Halls Bayou-Garver Properties – 16 acres
- Harris County-Belleau Woods, section 2, block 18, lots 8 and 9; block 21, lot 20 – 0.66 acres
- Sims Bayou-Alexander – 3.93 acres
- Sims Bayou-Chevis – 0.32 acres
- Sims Bayou-F. Hart – 0.22 acres
- Sims Bayou-Harmouche – 0.05 acres
- Sims Bayou-J. Hart – 0.31 acres
- Sims Bayou-Jimerson – 0.33 acres
- Sims Bayou-Smith – 1.31 acres
- 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):

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

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

NOTE 10 – REFUNDABLE ADVANCE

In April 2020, HPB received an unsecured bank loan of \$499,000 funded through the Federal Paycheck Protection Program (PPP). The loan bears interest at 1.0% and may be repaid over 5 years. PPP loan principal and interest may be forgiven, in whole or in part, if funds are used for the intended purposes within 24 weeks of funding. HPB applied for forgiveness in September 2020 and will recognize any forgiveness granted upon approval by the lender.

NOTE 11 – 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. Under this agreement in fiscal years 2020 and 2019, HPB received \$10,700,400 and \$10,120,800, respectively, and expended approximately \$11,200,000 and \$6,600,000, respectively, under this agreement for maintenance, including amounts contributed to the Capital Replacement Reserve Fund of \$3,442,852 and \$4,644,888 in 2020 and 2019, respectively. HPB has exceeded the cap amount as defined under the agreement. Approximately \$3,200,000 and \$2,200,000, respectively, is reported as deferred revenue at June 30, 2020 and 2019 to be expended for budgeted capital maintenance improvements in the future. While it is intended for these funds to be spent, there could be delays based upon approval of projects by Federal, County, and City agencies.

NOTE 12 – COMMITMENTS

In fiscal year 2019, HPB and the City of Pasadena entered into an interlocal agreement to provide labor, materials 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, 2020, approximately \$32,000 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, 2020, HPB had outstanding commitments of approximately \$3,600,000 for construction projects in progress. At June 30, 2020, the LGC had outstanding commitments of approximately \$17,800,000 for construction projects in progress. HPB is acting as project management for the LGC on these construction projects.

Line of Credit – HPB has an available 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, 2020, no balance was outstanding on this line of credit.

NOTE 13 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

	<u>2020</u>	<u>2019</u>
Property, net	\$ 6,518,807	\$ 6,546,343
Operating	5,580,020	4,895,896
Board-designated for office expansion	481,000	481,000
Board-designated for Foundation	<u>133,994</u>	<u>140,957</u>
Total net assets without donor restrictions	<u>\$ 12,713,821</u>	<u>\$ 12,064,196</u>

NOTE 14 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Bayou Greenways	\$ 33,029,070	\$ 41,236,051
Bayou Greenways Capital Replacement Reserve Fund	8,102,185	9,595,504
Park development and improvements	4,745,425	2,957,263
Beyond the Bayous	3,652,936	848,404
Purchases of additional parkland	1,895,167	1,895,167
Park maintenance reserve funds	706,368	706,368
Communities of Care	653,375	776,540
City-supported programs	553,190	657,895
Other	<u>46,887</u>	<u>5,610</u>
Total subject to expenditure for specified purpose	53,384,603	58,678,802
Required to be maintained in perpetuity for parks and greenspace:		
Land held for parks and green space	2,283,871	7,678,067
Development of permanent parks and green space	376,366	376,365
Endowments subject to spending policy and appropriation:		
HPB Foundation Endowment Funds	<u>5,857,791</u>	<u>5,911,130</u>
Total net assets with donor restrictions	<u>\$ 61,902,631</u>	<u>\$ 72,644,364</u>

NOTE 15 – 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>2020</u> WITH DONOR RESTRICTIONS	<u>2019</u> WITH DONOR RESTRICTIONS
Original donor-restricted gifts to be maintained in perpetuity	\$ 2,706,000	\$ 2,706,000
Accumulated net investment return	<u>3,151,791</u>	<u>3,205,130</u>
Endowment net assets	<u>\$ 5,857,791</u>	<u>\$ 5,911,130</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, 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>
Net investment return	(20,531)		(20,531)
Investment management fees	<u>(32,808)</u>		<u>(32,808)</u>
Endowment net assets, June 30, 2020	<u>\$ 3,151,791</u>	<u>\$ 2,706,000</u>	<u>\$ 5,857,791</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 2020 and 2019.

NOTE 16 – PANDEMIC AND SUBSEQUENT EVENTS

On March 11, 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the coronavirus (COVID-19) and on March 13, 2020, a national emergency was declared in the United States. The extent of the impact of COVID-19 on HPB's operational and financial performance will depend on developments such as the duration and spread of the outbreak, impact on donors, employees, and vendors all of which are uncertain and cannot be predicted. Therefore, while this matter could negatively impact HPB's operating results and financial position, the financial impact cannot be reasonably estimated at this time.

Management has evaluated subsequent events through September 22, 2020, 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.
