

The Houston Parks Board

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2023 and 2022

The Houston Parks Board

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Independent Auditors' Report

To the Board of Directors of
The Houston Parks Board:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of The Houston Parks Board and Houston Parks Board Foundation, which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, 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 consolidated financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of The Houston Parks Board and Houston Parks Board Foundation as of June 30, 2023 and 2022, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of The Houston Parks Board and Houston Parks Board Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Houston Parks Board and Houston Parks Board Foundation's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Houston Parks Board and Houston Parks Board Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about The Houston Parks Board and Houston Parks Board Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Blazek & Vetterling

September 21, 2023

The Houston Parks Board

Consolidated Statements of Financial Position as of June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and cash equivalents <i>(Note 4)</i>	\$ 3,510,144	\$ 2,657,840
Receivable from Houston Parks Board LGC, Inc. <i>(Note 5)</i>		325,138
Prepaid expenses and other assets	880,800	1,127,809
Cash contractually restricted under Bayou Greenways maintenance agreement <i>(Notes 4 and 6)</i>	15,155,697	14,030,045
Cash and cash equivalents held for City-supported programs, park improvement projects, and maintenance <i>(Note 4)</i>	28,503,538	24,619,192
Contributions receivable, net <i>(Note 7)</i>	1,578,570	2,528,145
Investments <i>(Note 8)</i>	14,604,108	14,057,103
Property, net <i>(Note 9)</i>	<u>10,434,194</u>	<u>9,773,631</u>
TOTAL ASSETS	<u>\$ 74,667,051</u>	<u>\$ 69,118,903</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 1,107,293	\$ 748,924
Construction projects payable	148,842	724,944
Payable to Houston Parks Board LGC, Inc. <i>(Note 5)</i>	1,188,055	
Deferred revenue – special events	195,355	106,850
Funds held for others	<u>96,357</u>	<u>96,357</u>
Total liabilities	<u>2,735,902</u>	<u>1,677,075</u>
Commitments <i>(Note 10)</i>		
Net assets:		
Without donor restrictions <i>(Note 11)</i>	29,755,522	26,643,817
With donor restrictions <i>(Notes 12 and 13)</i>	<u>42,175,627</u>	<u>40,798,011</u>
Total net assets	<u>71,931,149</u>	<u>67,441,828</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 74,667,051</u>	<u>\$ 69,118,903</u>

See accompanying notes to consolidated financial statements.

The Houston Parks Board

Consolidated Statement of Activities for the year ended June 30, 2023

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
OPERATING REVENUE:			
Contributions	\$ 762,479	\$ 11,729,399	\$ 12,491,878
Special event – annual luncheon	648,178		648,178
Direct donor benefit costs – annual luncheon	(107,243)		(107,243)
Net investment return	1,651,639	421,905	2,073,544
Bayou Greenways maintenance fee <i>(Note 6)</i>	11,674,800		11,674,800
Parks improvement project fees – Houston Parks Board LGC, Inc. <i>(Note 5)</i>	<u>1,493,613</u>		<u>1,493,613</u>
Total operating revenue	16,123,466	12,151,304	28,274,770
Net assets released from restrictions:			
Bayou Greenways	3,064,741	(3,064,741)	
Other park projects	<u>7,708,947</u>	<u>(7,708,947)</u>	
Total	<u>26,897,154</u>	<u>1,377,616</u>	<u>28,274,770</u>
OPERATING EXPENSES:			
Program services:			
Bayou Greenways maintenance <i>(Note 6)</i>	10,501,566		10,501,566
City park improvements and additions	8,105,416		8,105,416
Bayou Greenways 2020 Projects <i>(Note 5)</i>	3,731,646		3,731,646
City-supported programs	<u>221,458</u>		<u>221,458</u>
Total program services	22,560,086		22,560,086
Management and general	711,601		711,601
Fundraising	<u>513,762</u>		<u>513,762</u>
Total operating expenses	<u>23,785,449</u>		<u>23,785,449</u>
CHANGES IN NET ASSETS	3,111,705	1,377,616	4,489,321
Net assets, beginning of year	<u>26,643,817</u>	<u>40,798,011</u>	<u>67,441,828</u>
Net assets, end of year	<u>\$ 29,755,522</u>	<u>\$ 42,175,627</u>	<u>\$ 71,931,149</u>

See accompanying notes to consolidated financial statements.

The Houston Parks Board

Consolidated Statement of Activities for the year ended June 30, 2022

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
OPERATING REVENUE:			
Contributions	\$ 726,099	\$ 5,202,730	\$ 5,928,829
Special event – annual luncheon	606,950		606,950
Direct donor benefit costs – annual luncheon	(102,345)		(102,345)
Net investment return	(1,343,451)	(821,065)	(2,164,516)
Bayou Greenways maintenance fee <i>(Note 6)</i>	11,280,000		11,280,000
Parks improvement project fees – Houston Parks Board LGC, Inc. <i>(Note 5)</i>	<u>755,839</u>		<u>755,839</u>
Total operating revenue	11,923,092	4,381,665	16,304,757
Net assets released from restrictions:			
Bayou Greenways	6,790,746	(6,790,746)	
Other park projects	<u>2,569,973</u>	<u>(2,569,973)</u>	
Total	<u>21,283,811</u>	<u>(4,979,054)</u>	<u>16,304,757</u>
OPERATING EXPENSES:			
Program services:			
Bayou Greenways maintenance <i>(Note 6)</i>	10,701,202		10,701,202
City park improvements and additions	2,776,599		2,776,599
Bayou Greenways 2020 Projects <i>(Note 5)</i>	7,861,605		7,861,605
City-supported programs	<u>283,647</u>		<u>283,647</u>
Total program services	21,623,053		21,623,053
Management and general	578,295		578,295
Fundraising	<u>465,057</u>		<u>465,057</u>
Total operating expenses	<u>22,666,405</u>		<u>22,666,405</u>
CHANGES IN NET ASSETS	(1,382,594)	(4,979,054)	(6,361,648)
Net assets, beginning of year	<u>28,026,411</u>	<u>45,777,065</u>	<u>73,803,476</u>
Net assets, end of year	<u>\$ 26,643,817</u>	<u>\$ 40,798,011</u>	<u>\$ 67,441,828</u>

See accompanying notes to consolidated financial statements.

The Houston Parks Board

Consolidated Statement of Functional Expenses for the year ended June 30, 2023

<u>EXPENSES</u>	<u>BAYOU GREENWAYS MAINTENANCE</u>	<u>CITY PARK IMPROVEMENTS AND ADDITIONS</u>	<u>BAYOU GREENWAYS 2020 PROJECTS</u>	<u>CITY-SUPPORTED PROGRAMS</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Professional fees and contract services	\$ 7,283,989	\$ 1,190,190	\$ 123,985	\$ 66,241	\$ 261,835	\$ 249,687	\$ 9,175,927
Construction and design	1,158,447*	4,883,978*	1,641,952*				7,684,377
Salaries and related costs	1,693,496	1,649,335	579,293		437,034	244,689	4,603,847
Funding to Houston Parks Board LGC, Inc. for land purchases			878,838				878,838
Supplies and equipment rental	105,071	203,869	66,489	155,217	2,770	1,551	534,967
Funding to City of Houston and Pasadena for land purchases			366,373				366,373
Occupancy and maintenance	147,202	45,089	18,003		2,190	1,226	213,710
Insurance	40,511	29,636	17,405		672	376	88,600
Depreciation	24,733	24,088	8,460		6,383	3,574	67,238
Graphics and printing	10,589	26,464	8,523		210	12,375	58,161
Meetings, conferences and events	22,671	27,325	7,377		129	72	57,574
Travel	13,240	20,905	11,532		203	114	45,994
Postage and shipping	1,024	3,959	1,708		22	12	6,725
Grants and scholarships	593	578	203		153	86	1,613
Other			1,505				1,505
Total operating expenses	<u>\$10,501,566</u>	<u>\$ 8,105,416</u>	<u>\$ 3,731,646</u>	<u>\$ 221,458</u>	<u>\$ 711,601</u>	<u>\$ 513,762</u>	<u>\$23,785,449</u>

*Includes both amounts funded and conveyed to the LGC as capital assets.

See accompanying notes to consolidated financial statements.

The Houston Parks Board

Consolidated Statement of Functional Expenses for the year ended June 30, 2022

<u>EXPENSES</u>	<u>BAYOU GREENWAYS MAINTENANCE</u>	<u>CITY PARK IMPROVEMENTS AND ADDITIONS</u>	<u>BAYOU GREENWAYS 2020 PROJECTS</u>	<u>CITY-SUPPORTED PROGRAMS</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL</u>
Professional fees and contract services	\$ 6,812,147	\$ 819,483	\$ 355,588	\$ 205,188	\$ 180,151	\$ 220,774	\$ 8,593,331
Construction and design	2,040,259*	688,436*	1,210,167*				3,938,862
Salaries and related costs	1,482,767	912,284	889,679		381,936	227,222	3,893,888
Funding to Houston Parks Board LGC, Inc. for land purchases			4,464,385				4,464,385
Supplies and equipment rental	146,022	195,215	179,543	65,835	1,512	900	589,027
Funding to City of Houston for land purchases			670,441				670,441
Occupancy and maintenance	109,424	39,421	19,706		548	326	169,425
Insurance	44,798	19,415	25,055		1,750	494	91,512
Depreciation	24,236	14,912	14,542		6,243	3,714	63,647
Graphics and printing	18,278	36,012	13,250		140	9,624	77,304
Meetings, conferences and events	13,598	19,742	4,605	620	125	74	38,764
Travel	5,963	17,763	9,930	7,004	185	110	40,955
Postage and shipping	3,669	4,191	4,689		69	41	12,659
Grants and scholarships	38	9,723	23	5,000	10	6	14,800
Other	<u>3</u>	<u>2</u>	<u>2</u>		<u>5,626</u>	<u>1,772</u>	<u>7,405</u>
Total operating expenses	<u>\$10,701,202</u>	<u>\$ 2,776,599</u>	<u>\$ 7,861,605</u>	<u>\$ 283,647</u>	<u>\$ 578,295</u>	<u>\$ 465,057</u>	<u>\$22,666,405</u>

*Includes both amounts funded and conveyed to the LGC as capital assets.

See accompanying notes to consolidated financial statements.

The Houston Parks Board

Consolidated Statements of Cash Flows for the years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 4,489,321	\$ (6,361,648)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	67,237	63,647
Contributions of land		(29,621)
Net realized and unrealized loss on investments	8,220	2,905,151
Changes in operating assets and liabilities:		
Receivable from Houston Parks Board LGC, Inc.	325,138	(325,138)
Prepaid expenses and other assets	247,009	(196,657)
Contributions receivable	949,575	1,615,752
Accounts payable and accrued expenses	358,369	163,606
Construction projects payable	(576,102)	(33,924)
Payable to Houston Parks Board LGC, Inc.	1,188,055	(248,488)
Deferred revenue – special events	88,505	(216,277)
Paycheck Protection Program – refundable advance		(591,231)
Net cash provided (used) by operating activities	<u>7,145,327</u>	<u>(3,254,828)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales and maturities of investments	3,191,656	11,350,114
Purchases of investments	(2,888,615)	(4,849,663)
Net change in money market mutual funds held as investments	(858,266)	86,261
Purchase of property	<u>(727,800)</u>	<u>(82,889)</u>
Net cash provided (used) by investing activities	<u>(1,283,025)</u>	<u>6,503,823</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,862,302	3,248,995
Cash and cash equivalents, beginning of year	<u>41,307,077</u>	<u>38,058,082</u>
Cash and cash equivalents, end of year	<u>\$ 47,169,379</u>	<u>\$ 41,307,077</u>
<i>Summary of cash and cash equivalents:</i>		
Cash and cash equivalents	\$ 3,510,144	\$ 2,657,840
Cash contractually restricted under Bayou Greenways maintenance agreement	15,155,697	14,030,045
Cash and cash equivalents held for City-supported programs, park improvement projects, and maintenance	<u>28,503,538</u>	<u>24,619,192</u>
Total cash and cash equivalents	<u>\$ 47,169,379</u>	<u>\$ 41,307,077</u>
<i>Supplemental disclosure of cash flow information:</i>		
Contributions of marketable securities	\$7,096,078	\$340,771

See accompanying notes to consolidated financial statements.

The Houston Parks Board

Notes to Consolidated Financial Statements for the years ended June 30, 2023 and 2022

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 invested over \$258 million supporting over 250 parks and creating more than 14,000 acres of new parks and trails. HPB works with the City of Houston (the City) Parks and Recreation Department, Harris County Precincts, Harris County Flood Control District, City Management Districts, TIRZs, 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 the 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 – The 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.

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. An allowance for contributions receivable is provided when it is believed balances may not be collected in full.

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 community groups 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 event revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special event revenue is recognized when the event occurs. Direct donor benefit costs represent the cost of goods and services provided to attendees of the special event. Amounts received for future events are recorded as deferred revenue.

Bayou Greenways maintenance and park improvement revenues are derived from contract fees for the maintenance of trails and green space along the Bayou Greenways and management of various park projects. Maintenance fees are recognized over the 12-month period as the services are provided in an amount that reflects the consideration that HPB expects to be entitled to in exchange for those services under contract. Park improvement project fees are recognized as the services are provided for each individual project. Payments are due during the contract year. There are no contract assets or liabilities.

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.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

NOTE 3 – 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>2023</u>	<u>2022</u>
Financial assets:		
Cash and cash equivalents	\$ 47,169,379	\$ 41,307,077
Receivables and other assets	376,502	649,661
Contributions receivable	1,578,570	2,528,145
Investments	<u>14,604,108</u>	<u>14,057,103</u>
Total financial assets	63,728,559	58,541,986
Less financial assets not available for general expenditure:		
Donor-restricted endowment assets	(6,809,900)	(6,730,995)
Donor-restricted assets subject to satisfaction of restriction	(4,256,323)	(5,455,886)
Funds held for others	(96,357)	(96,357)
Other board-designated assets not expected to be available in the upcoming year	<u>(152,171)</u>	<u>(628,707)</u>
Total financial assets available for general expenditure	<u>\$ 52,413,808</u>	<u>\$ 45,630,041</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, Beyond the Bayou, and 50/50 Park Partners, 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, 2023, HPB has cash and pledges totaling approximately \$12 million obligated to be expended for design and construction.

HPB has entered into a maintenance contract with the City that requires amounts paid in excess of amounts used in each given year to be accumulated for capital replacement projects (see Note 11). At June 30, 2023, approximately \$15 million is available for capital maintenance projects. Contractually-restricted assets for capital replacement projects 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 but remain available to be spent at the Board of Directors’ discretion.

NOTE 4 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	<u>2023</u>	<u>2022</u>
Bank deposits	\$ 26,649,341	\$ 28,408,636
Money market mutual funds	<u>20,520,038</u>	<u>12,898,441</u>
Total cash and cash equivalents	<u>\$ 47,169,379</u>	<u>\$ 41,307,077</u>

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

NOTE 5 – TRANSACTIONS WITH THE LGC AND GOVERNMENT AGENCIES

On November 6, 2012, Houston voters approved a \$166 million parks bond proposition of which \$100 million was designated to support Bayou Greenways, a major capital city project initiative to provide 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 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.

Cumulatively, HPB has funded \$68 million in land, design, and construction management. HPB has added over 901 acres of new parks and green space to the Bayou Greenways system. Bayou Greenways has obligated all funds at June 30, 2023 to the remaining projects to connect over 3,000 acres of parks and green spaces with ribbons of new trails of more than 165 miles.

Land, capital assets, and funding conveyed from HPB to the LGC are summarized as follows:

	<u>2023</u>	<u>2022</u>
50/50 Parks Partners Initiatives	\$ 3,976,370	\$ 57,655
Bayou Greenways	2,301,975	5,367,461
Bayou Greenways maintenance	631,771	1,842,011
Other park and green space projects	<u>128,270</u>	<u>674,882</u>
Total	<u>\$ 7,038,386</u>	<u>\$ 7,942,009</u>

HPB, acting as management of the LGC, receives project management fees for Bayou Greenways and other various projects in accordance with each of the agreements. These amounts totaled approximately \$1,488,000 and \$752,000 in 2023 and 2022, respectively. The agreements for various park projects at June 30, 2023 are summarized as follows:

PROJECT NAME	AGREEMENT TYPE	CONTRACT ENTITIES	TOTAL BUDGET AND FUNDING COMMITMENTS	HPB FUNDING COMMITMENTS	OUTSTANDING PROJECT COMMITMENTS
Sims Bayou Lighting Improvements in Gulfgate	Infrastructure Management Agreement	Gulfgate Redevelopment Authority, Reinvestment Zone Number Eight (TIRZ 8), City of Houston	\$2,917,450	None	\$675,000
Spring Branch Trail	Infrastructure Management Agreement	Spring Branch Management District, City of Houston	\$8,611,000	None	\$5,821,000
Sims & Halls Bayou Greenways	Interlocal Agreement	Harris County Commissioner Precinct One	\$5,000,000	None	\$2,397,000
Hill at Sims Regional Park	Interlocal Agreement	Harris County Commissioner Precinct One	\$1,587,940	None	\$729,000
Sharpstown Trail	Infrastructure Management Agreement	Southwest Houston Redevelopment Authority, Reinvestment Zone Number Twenty (TIRZ 20), City of Houston	\$6,311,500	None	\$5,500,000
Vogel Creek Greenway	Interlocal Agreement	City of Houston, Houston Parks and Recreation Department, Houston Public Works Department, Harris County	\$6,000,000	\$3,000,000	\$4,707,000
Brays Bayou Greenway	Interlocal Agreement	Harris County Commissioner Precinct Three, Harris County Commissioner Precinct Four	\$3,300,000	None	\$3,300,000
50/50 Parks Partners Initiative	Interlocal Agreement	City of Houston	\$20,912,625	\$9,820,000	\$7,805,000

NOTE 6 – BAYOU GREENWAYS MAINTENANCE AGREEMENT

In fiscal year 2014, HPB entered into a 30-year agreement with the City to provide on-going maintenance and capital replacement for the Bayou Greenways system. The Bayou Greenways system constitutes an integrated system of connected linear parks with walking, running, and bicycle trails and open green space along the 9 major bayous within the City limits. On June 30, 2023, HPB maintained approximately 3,285 acres of Bayou Greenways, an increase of 479 acres or 2% from June 30, 2022.

- Under this agreement, the City agrees to provide an annual maintenance fee to HPB with increasing escalations each year. In fiscal years 2023 and 2022, HPB received an annual maintenance fee from the City of \$11,674,800 and \$11,280,000, respectively, and expended approximately \$10,400,000 in 2023 and \$11,200,000 in 2022.
- The terms of the agreement provide that at each year end, unspent funds will be utilized for future capital replacement projects. At June 30, 2023, HPB has approximately \$14.5 million of contractually-restricted net assets for these projects. Further, the agreement provides for a cap on the amount of Capital Replacement Reserve allowed to be held by HPB. HPB has not exceeded the Capital Replacement Reserve cap, as defined under the agreement.

NOTE 7 – CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following:

	<u>2023</u>	<u>2022</u>
Contributions receivable	\$ 1,593,436	\$ 2,544,836
Discount to net present value at 0.18% to 4.87%	<u>(14,866)</u>	<u>(16,691)</u>
Contributions receivable, net	<u>\$ 1,578,570</u>	<u>\$ 2,528,145</u>

Contributions receivable at June 30, 2023 are expected to be collected as follows:

2024	\$ 1,158,483
2025	<u>434,953</u>
Total contributions receivable	<u>\$ 1,593,436</u>

Conditional contributions – At June 30, 2023, HPB has \$1,745,079 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, beginning construction for the Lee LeClear Tennis Center and to expand, enhance community engagement opportunities at Vogle Creek. These gifts will be recognized as contribution revenue when the conditions the donor has established are substantially met.

Concentrations – At June 30, 2023, approximately 63% of contributions receivable are due from two donors. At June 30, 2022, approximately 56% of contributions receivable are due from two donors. During 2023, approximately 60% of contribution revenue recognized is from one donor. During 2022, approximately 15% of contribution revenue recognized is from one donor.

NOTE 8 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments are being held for the following:

	<u>2023</u>	<u>2022</u>
Houston Parks Board Foundation	\$ 6,952,182	\$ 7,360,656
Park and park improvement project, programs and maintenance	2,824,545	2,824,545
Operating	<u>4,827,381</u>	<u>3,871,902</u>
Total investments	<u>\$ 14,604,108</u>	<u>\$ 14,057,103</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, 2023 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity securities:				
Mutual funds:				
International	\$ 985,166			\$ 985,166
Large-cap	940,053			940,053
Real assets	748,725			748,725
Emerging markets	581,299			581,299
Small-cap	401,911			401,911
Alternatives	386,591			386,591
Common stock:				
Large-cap	927,552			927,552
Mid-cap and small-cap	438,909			438,909
International	422,798			422,798
Exchange-traded funds:				
Large-cap	592,553			592,553
Mid-cap	546,278			546,278
Fixed-income:				
Mutual funds:				
Total return	3,474,805			3,474,805
High yield and preferred	422,691			422,691
Other	459,252			459,252
Exchange-traded short and intermediate term	1,949,303			1,949,303
Government bonds and notes		\$ 192,997		192,997
Money market mutual funds	<u>1,133,225</u>			<u>1,133,225</u>
Total investments	14,411,111	192,997		14,604,108
Money market mutual funds held as cash equivalents	<u>20,520,038</u>			<u>20,520,038</u>
Total assets measured at fair value	<u>\$ 34,931,149</u>	<u>\$ 192,997</u>	<u>\$ 0</u>	<u>\$ 35,124,146</u>

Assets measured at fair value at June 30, 2022 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Investments:				
Equity securities:				
Mutual funds:				
International	\$ 943,286			\$ 943,286
Large-cap	896,255			896,255
Real assets	732,524			732,524
Emerging markets	654,267			654,267
Small-cap	469,945			469,945
Alternatives	306,261			306,261
Common stock:				
Large-cap	959,585			959,585
Mid-cap and small-cap	436,841			436,841
International	326,207			326,207
Exchange-traded funds:				
Large-cap	638,290			638,290
Mid-cap	618,880			618,880
Fixed-income:				
Mutual funds:				
Total return	3,438,897			3,438,897
High yield and preferred	246,692			246,692
Other	440,417			440,417
Exchange-traded short and intermediate term	2,177,071			2,177,071
Government bonds and notes		\$ 296,877		296,877
Corporate bonds – investment grade		199,849		199,849
Money market mutual funds	<u>274,959</u>			<u>274,959</u>
Total investments	13,560,377	496,726		14,057,103
Money market mutual funds held as cash equivalents	<u>12,898,441</u>			<u>12,898,441</u>
Total assets measured at fair value	<u>\$ 26,458,818</u>	<u>\$ 496,726</u>	<u>\$ 0</u>	<u>\$ 26,955,544</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.
- *Common stock* and *exchange-traded funds* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Government 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>2023</u>	<u>2022</u>
Land	\$ 10,201,175	\$ 9,612,678
Vehicles	536,878	397,575
Building and improvements	91,817	91,817
Furniture and equipment	<u>33,405</u>	<u>33,405</u>
Total property, at cost	10,863,275	10,135,475
Accumulated depreciation	<u>(429,081)</u>	<u>(361,844)</u>
Property, net	<u>\$ 10,434,194</u>	<u>\$ 9,773,631</u>

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 – COMMITMENTS AND CONTINGENCIES

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, 2023, HPB had outstanding commitments of approximately \$7,600,000 for construction projects in progress. At June 30, 2022, the LGC had outstanding commitments of approximately \$24,600,000 for construction projects in progress. HPB is acting as project management for the LGC on these construction projects.

In the normal course of business, construction related contracts have resulted in an asserted claim against HPB. HPB has purchased liability insurance and may rely on contractual indemnity and third-party insurance to minimize financial risk related to asserted and unasserted claims, and HPB does not expect any such claims to have a material adverse effect on its financial position.

NOTE 11 – NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions are comprised of the following:

	<u>2023</u>	<u>2022</u>
Property, net	\$ 7,196,871	\$ 6,537,550
Operating	7,936,810	6,279,445
Contractually-restricted for capital replacement projects	14,469,670	13,198,115
Board-designated for office improvements		481,000
Board-designated for Foundation	<u>152,171</u>	<u>147,707</u>
Total net assets without donor restrictions	<u>\$ 29,755,522</u>	<u>\$ 26,643,817</u>

NOTE 12 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted as follows:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Bayou Greenways	\$ 12,250,716	\$ 15,233,685
Beyond the Bayous	11,336,972	3,861,972
Park development and improvements	4,581,032	7,788,616
Purchases of additional parkland	1,895,167	1,895,167
City-supported programs	706,890	594,403
Park maintenance reserve funds	706,368	706,368
Communities of Care	285,265	365,726
Other	<u>5,000</u>	<u>24,004</u>
Total subject to expenditure for specified purpose	31,767,410	30,469,941
Required to be maintained in perpetuity for parks and green space:		
Land held for parks and green space	3,237,323	3,236,081
Development of permanent parks and green space	360,994	360,994
Endowments subject to spending policy and appropriation:		
HPB Foundation endowment funds	<u>6,809,900</u>	<u>6,730,995</u>
Total net assets with donor restrictions	<u>\$ 42,175,627</u>	<u>\$ 40,798,011</u>

NOTE 13 – FOUNDATION ENDOWMENT FUNDS

The Foundation holds two endowment funds that were established with donor restrictions to support the operations of HPB. The Board of Directors of the Foundation has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of 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>2023</u>	<u>2022</u>
	<u>WITH DONOR</u>	<u>WITH DONOR</u>
	<u>RESTRICTIONS</u>	<u>RESTRICTIONS</u>
Original donor-restricted gifts to be maintained in perpetuity	\$ 2,706,000	\$ 2,706,000
Accumulated net investment return	<u>4,103,900</u>	<u>4,024,995</u>
Endowment net assets	<u>\$ 6,809,900</u>	<u>\$ 6,730,995</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, 2021	\$ 4,846,060	\$ 2,706,000	\$ 7,552,060
Net investment return	(780,598)		(780,598)
Investment management fees	(40,467)		(40,467)
Endowment net assets, June 30, 2022	<u>4,024,995</u>	<u>2,706,000</u>	<u>6,730,995</u>
Net investment return	463,799		463,799
Investment management fees	(41,894)		(41,894)
Distributions	(343,000)		(343,000)
Endowment net assets, June 30, 2023	<u>\$ 4,103,900</u>	<u>\$ 2,706,000</u>	<u>\$ 6,809,900</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.

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 21, 2023, 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.