

**Midtown Improvement and  
Development Corporation  
dba Midtown Parks Conservancy**

**FINANCIAL STATEMENTS**

**December 31, 2017 and 2016**



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**Midtown Improvement and Development Corporation  
dba Midtown Parks Conservancy  
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December 31, 2017 and 2016**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Midtown Improvement and Development Corporation  
dba Midtown Parks Conservancy  
Houston, Texas

We have audited the accompanying financial statements of Midtown Improvement and Development Corporation, dba Midtown Parks Conservancy (the "Conservancy"), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and 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 the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Midtown Improvement and Development Corporation as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Change in Accounting Principle**

As described in Note 3 to the financial statements, the Conservancy allocated the 2017 administrative support provided to the program and administrative services benefited. Our opinion is not modified with respect to that matter.

*Carly Riggs & Ingram, L.L.C.*

Houston, Texas  
October 9, 2018

**Midtown Improvement and Development Corporation  
dba Midtown Parks Conservancy  
Statements of Financial Position**

<i>December 31,</i>	<b>2017</b>	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 3,080,644	\$ 3,319,818
Pledges receivable	-	428,278
Accounts receivable	27,834	6,400
Prepaid expense	312	362
<b>Total assets</b>	<b>\$ 3,108,790</b>	<b>\$ 3,754,858</b>
<b>Liabilities</b>		
Accounts payable	\$ 316,297	\$ 291,072
Commitments and contingencies		
<b>Net assets</b>		
Unrestricted	603,434	826,354
Temporarily restricted	2,189,059	2,637,432
<b>Total net assets</b>	<b>2,792,493</b>	<b>3,463,786</b>
<b>Total liabilities and net assets</b>	<b>\$ 3,108,790</b>	<b>\$ 3,754,858</b>

*The accompanying notes are an integral part of these financial statements.*

**Midtown Improvement and Development Corporation  
dba Midtown Parks Conservancy  
Statements of Activities**


<i>For the years ended December 31,</i>	<b>2017</b>	2016
<b>Changes in unrestricted net assets</b>		
Revenues and support		
Contributions	\$ 1,000,291	\$ 1,454,045
Lease revenue	43,800	56,155
Investment income	754	913
Other income	5,000	-
Net assets released from restrictions	786,646	289,617
<b>Total revenues and support</b>	<b>1,836,491</b>	1,800,730
Expenses		
Program services		
Legacy improvements	283,153	289,617
Park series	459,832	35,283
Park - Art	598,062	71,438
Midtown Park garage	427,211	6,907
<b>Total program services</b>	<b>1,768,258</b>	403,245
Management and general	232,570	547,714
Fundraising	58,583	125,038
<b>Total expenses</b>	<b>2,059,411</b>	1,075,997
(Decrease) increase in unrestricted net assets	(222,920)	724,733
<b>Changes in temporarily restricted net assets</b>		
Grants and contributions	338,273	2,750,000
Net assets released from restrictions	(786,646)	(289,617)
(Decrease) increase in temporarily restricted net assets	(448,373)	2,460,383
<b>Change in net assets</b>	<b>(671,293)</b>	3,185,116
<b>Net assets, beginning of year</b>	<b>3,463,786</b>	278,670
<b>Net assets, end of year</b>	<b>\$ 2,792,493</b>	\$ 3,463,786

*The accompanying notes are an integral part of these financial statements.*

**Midtown Improvement and Development Corporation  
dba Midtown Parks Conservancy  
Statements of Cash Flows**

<i>For the years ended December 31,</i>	<b>2017</b>	2016
<b>Operating activities</b>		
Change in net assets	\$ (671,293)	\$ 3,185,116
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Change in operating assets and liabilities		
Pledges receivable	418,909	(428,278)
Accounts receivable	(12,065)	(4,616)
Prepaid expense	50	(362)
Accounts payable	25,225	241,027
Net cash (used in) provided by operating activities	(239,174)	2,992,887
<b>Net change in cash and cash equivalents</b>	<b>(239,174)</b>	2,992,887
<b>Cash and cash equivalents, beginning of year</b>	<b>3,319,818</b>	326,931
<b>Cash and cash equivalents, end of year</b>	<b>\$ 3,080,644</b>	<b>\$ 3,319,818</b>

*The accompanying notes are an integral part of these financial statements.*



## **Midtown Improvement and Development Corporation dba Midtown Parks Conservancy Notes to Financial Statements**

### **NOTE 1: ORGANIZATION**

Midtown Improvement and Development Corporation (“MIDCorp”), is a Texas not-for-profit organization and was formed on December 30, 2013. In October 2016, MIDCorp filed with the State of Texas to assume the name Midtown Parks Conservancy (the “Conservancy”). MIDCorp was formed to aid and assist Midtown Redevelopment Authority (the “Authority”) and Midtown Management District (the “District”) with the promotion, development, maintenance, safety and the public welfare in Midtown Houston. In addition, the Conservancy maintains and operates several Authority owned facilities including Midtown Park, Midtown Park Parking Garage and Bagby Park.

The Conservancy began operations on July 1, 2015.

The Conservancy is currently conducting an \$8 million capital campaign to fund the enhancements and art installations included in the visionary master plan of Midtown Park.

The Conservancy’s primary sources of operating income are contributions from local government corporations and private corporate donors. Two contributors accounted for 97% of grant and contribution income for the year ended December 31, 2017. Four contributors accounted for 100% of grant and contribution income for the year ended December 31, 2016. For the years ended December 31, 2017 and 2016, the Authority contributed an additional \$970,000 and \$1,200,000, respectively, to the Conservancy in unrestricted support. This contribution was in addition to the Authority’s obligations under executed agreements (see note 4).

### **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### ***Financial Statement Presentation***

The Conservancy’s financial records are maintained on the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America. The Conservancy is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted as follows:

Unrestricted Net Assets – Represent expendable funds available for operations which are not otherwise limited by donor restrictions.

Temporarily Restricted Net Assets – Consist of contributed funds subject to donor imposed restrictions related to a specific purpose or requiring a specific passage of time before the funds can be spent.

Permanently Restricted Net Assets – Contain donor-imposed restrictions that stipulate the resources be maintained permanently, but permit expenditure of income derived from the donated assets for temporarily restricted or unrestricted purposes. The Conservancy had no permanently restricted net assets at December 31, 2017 or 2016.



**Midtown Improvement and Development Corporation  
dba Midtown Parks Conservancy  
Notes to Financial Statements**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Cash Equivalents***

For the purposes of the statements of cash flows, the Conservancy considers demand deposit accounts and highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

***Pledges Receivable***

Unconditional pledges receivable are recorded as revenues in the year the pledge is made. Pledges that are expected to be collected within one year are reported at net realizable value. Pledges that are expected to be collected in future years are discounted, if material, to estimate the net present value of future cash flows. Pledges receivable at December 31, 2017 are expected to be collected in 2018. A pledge totaling \$425,000 was due from one donor at December 31, 2016.

***Accounts Receivable***

Accounts receivable represents amount owed to the Conservancy. An allowance for doubtful accounts is established based on a current review of the balances owed. The Conservancy considers all accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been established. If amounts become uncollectible, they will be charged to operations when that determination is made.

***Concentrations of Credit Risk***

At various times during the years, the Conservancy's cash balances may exceed federally insured limits. The Conservancy has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents, due to the financial strength of the financial institution where deposits are held.

***Fair Value Considerations***

The Conservancy uses fair value to measure financial and certain nonfinancial assets and liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value hierarchy established and prioritized fair value measurements into three levels based on the nature of the inputs. The hierarchy gives the highest priority to inputs based on market data from independent sources (observable inputs-Level 1) and the lowest priority to a reporting entity's internal assumptions based upon the best information available when external market data is limited or unavailable (unobservable inputs-Level 3).

The fair value option allows entities to choose, at specified election dates, to measure eligible financial assets and financial liabilities at fair value that are not otherwise required to be measured at fair value. If an organization elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. The Conservancy did not elect the fair value option for the measurement of any eligible assets or liabilities.

**Midtown Improvement and Development Corporation  
dba Midtown Parks Conservancy  
Notes to Financial Statements**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Conservancy's financial instruments (primarily cash and cash equivalents, receivables, and liabilities) are carried in the accompanying statements of financial position at amounts which reasonably approximate fair value.

***Contributions***

The Conservancy's contributions are considered to be available for unrestricted use unless specifically restricted by the donor and are recognized as revenue when the unconditional commitment is received from the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted net assets. When a donor stipulated time restriction ends or stipulated purpose is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Conditional contributions are recognized when the conditions are substantially met.

***Revenue Recognition***

The Conservancy recognizes lease revenue monthly as service is provided.

***Income Taxes***

The Conservancy is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as a public charity under Section 509(a)(2).

The Conservancy accounts for uncertain tax positions, when it is more likely than not, that such an asset or a liability will be realized. As of December 31, 2017 and 2016, management believes there were no uncertain tax positions.

***Use of Estimates***

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, the amounts of reported revenues and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

***Subsequent Events***

The Conservancy has evaluated subsequent events through the time the financial statements are available for issuance on October 9, 2018. No other matters were identified affecting the accompanying financial statements or related disclosures that have not already been disclosed elsewhere in the financial statements.

**Midtown Improvement and Development Corporation  
dba Midtown Parks Conservancy  
Notes to Financial Statements**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Recent financial accounting pronouncement***

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Under this ASU, net assets will be presented in two classes: net assets with donor restrictions and net assets without donor restrictions. Underwater endowments will be included in net assets with donor restrictions and new or enhanced disclosures regarding the composition of net assets will be required. Disclosures regarding liquidity and availability of resources for general operating expenditures within one year of the date of the statement of financial position must also be presented. The ASU requires expenses to be presented by both nature and function, and investment return will be presented net of investment expenses. Absent specific donor stipulations, the Conservancy will use the placed-in-service approach for reporting expirations of restrictions on long-lived assets. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Adoption of this ASU will impact the presentation and disclosures of the Conservancy's financial statements. The Conservancy did not elect to early adopt this standard.

**NOTE 3: PROGRAM AND SUPPORTING SERVICES**

The cost of providing the various programs and activities of the Conservancy has been summarized on a functional basis in the accompanying statements of activities.

The following program and supporting services are included in the statements of activities:

- Legacy improvements are improvements to property owned by the Authority and the District under the management and maintenance agreement discussed in Note 4.
- Park series are programming responsibilities assumed over parks owned by the Authority under the management and maintenance agreement discussed in Note 4.
- Park – art consists of costs of artists contracted for the design and installation of works of art in the parks owned by the Authority.
- Midtown Park garage consists of costs associated to manage, operate and maintain Midtown Park Parking Garage under the parking management agreement discussed in Note 5.
- Fundraising activities are directed at soliciting and receiving funds, gifts, and grants to enable the Conservancy to fulfill its purpose.
- Management and general consists of general supporting services that are necessary for the Conservancy's daily operations and coordination of program activities.

During 2017, the Conservancy evaluated the amount of the administrative support required for the coordination of program activities. As a result, the Conservancy determined that salary related costs should be allocated 65% and 35% to program and administrative services, respectively. Other administrative support expenses been allocated among program and administrative services directly benefited. Accordingly, \$648,501 has been allocated among these functions beginning January 1, 2017.

**Midtown Improvement and Development Corporation  
dba Midtown Parks Conservancy  
Notes to Financial Statements**

**NOTE 4: AGREEMENTS WITH MIDTOWN REDEVELOPMENT AUTHORITY AND MIDTOWN MANAGEMENT DISTRICT**

In July 2015, MIDCorp and the Authority and the District entered into a Management and Maintenance Agreement. Also in July 2015, MIDCorp entered into an Operating Agreement with the Authority. The Authority is a public non-profit local government corporation created and organized under the provisions of Chapter 431, Texas Transportation Code, and authorized and approved by the City of Houston, Texas (the "City") and the District is a special purpose district created under Chapter 3809, Texas Special District Local Laws.

***Management and Maintenance Agreement***

Under the terms of the Management and Maintenance Agreement, the Conservancy will provide management and maintenance services related to certain public improvements (the "Improvements") that are beyond the maintenance responsibility of the City and are within the boundaries of the Service Area, as defined in the agreement. The Agreement is effective for ten years from July 1, 2015 and automatically renews in consecutive ten year periods.

Both the Authority and the District will budget and contribute funds annually to fund the maintenance obligations as defined in the agreement. The Authority's annual budget is subject to approval by City Council. Beginning February 1, 2016, the District shall make a contribution totaling \$200,000, and in each subsequent year, the District's contribution shall be equal to the prior year's contribution plus three percent. The Authority will provide an annual contribution equal to 25% of the annual District contribution beginning February 1, 2016. Contributions from the District will be used to maintain, repair and replace, as needed, the Legacy Improvements as defined in the agreement. The Agreement is subject to amendment on or after July 1, 2018. However, as of the date of this report, no amendments has been made to the Agreement.

In addition, the Authority will also assist the Conservancy in establishing a Renewal and Replacement Fund, to which the Authority will budget and contribute a minimum of \$25,000 annually until the Renewal and Replacement Fund reaches five percent of the value of the Improvements in the Service Area. The value of the improvements is subject to reevaluation every five years.

***Operating Agreement***

Under the terms of the Operating Agreement, the Conservancy will operate, manage, maintain and preserve the Park Facilities (including Bagby Park, Midtown Park and Midtown Park Parking Garage), as defined in the agreement. The agreement is effective for 40 years and automatically renews for two consecutive 20 year periods. Under the terms of the Operating Agreement, the Authority shall pay an Annual Management Fee totaling \$250,000 per year for the first two years, then each year thereafter an amount not to exceed \$500,000 per year based on the Conservancy's fiscal year 2017 Annual Operating Plan. Certain credits are applied towards the Annual Maintenance Fee based on excess facilities revenues as defined by the terms of the agreement. The Authority's annual budget is subject to approval by City Council.

In addition, the Authority shall pay to the Conservancy for the first ten years of the Operating Agreement, \$50,000 to be applied to the Renewal and Replacement Fund as described in the Management and Maintenance Agreement.

**Midtown Improvement and Development Corporation  
dba Midtown Parks Conservancy  
Notes to Financial Statements**

**NOTE 5: PARKING MANAGEMENT AGREEMENT**

Under the terms of the Parking Management Agreement, effective December 1, 2016, WINPARK Management, LLC (“WINPARK”) will manage, operate and maintain Midtown Park Parking Garage (“Garage”), as defined in the agreement. The agreement is effective for 5 years and can be extended for 1 year extension terms, upon written request. Under the terms of this agreement, the Conservancy shall pay an Annual Management Fee of \$30,000 per year for the first two years, payable in 12 equal monthly installments. Under the terms of this agreement, WINPARK shall remit monthly receipts collected from charges for use of the parking facility net of operating expenses paid by WINPARK. If the monthly charges do not cover the monthly operating expenses, the Conservancy shall pay any deficit to WINPARK. The parking garage expenses for the year ended December 31, 2017 totaled \$280,321, net of receipts and are included in Midtown Park garage program expenses on the statements of activities.

Effective April 1, 2018, the management fee was amended to a monthly management fee of \$1,500. The amount of the management fee shall not be increased before April 1, 2019, and thereafter is subject to revision by mutual agreement of the parties.

**NOTE 6: RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

<i>December 31,</i>	<b>2017</b>	<b>2016</b>
Capital campaign	\$ 1,842,255	\$ 2,425,000
Renewal and replacement - Legacy Improvements	58,058	97,259
Renewal and replacement	150,000	75,000
Maintenance of Legacy Improvements	138,746	40,173
<b>Total</b>	<b>\$ 2,189,059</b>	<b>\$ 2,637,432</b>

**NOTE 7: RELATED PARTY TRANSACTIONS**

The Conservancy has an administrative contract with the Authority whereby the Authority provides administrative and management services to the Conservancy beginning January 1, 2016. The Authority provides office space, certain equipment and certain staff services to the Conservancy totaling approximately \$493,000 and \$372,000 for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017 and 2016, approximately \$140,000 and \$106,000, respectively, was payable to the Authority under this contract.

In addition, the Conservancy’s three board members also serve as the Executive Director of the Authority and the District, the Board Chairman of the Authority and the Board Chairman of the District.



**Midtown Improvement and Development Corporation  
dba Midtown Parks Conservancy  
Notes to Financial Statements**

**NOTE 8: COMMITMENTS AND CONTINGENCIES**

The Conservancy was assigned a retail lease agreement, dated April 2014, with a tenant to operate food services at Bagby Park. The lease agreement expires in June 2025. Rental income received under the lease agreement totaled \$43,800 and \$56,155 for the years ended December 31, 2017 and 2016, respectively. In August 2018, the tenant vacated the leased premises which is considered an event of default by the tenant under the executed agreement. The future minimum lease payments before default in August 2018 is \$28,000. The Conservancy is currently in the process of finding a new tenant.

The Conservancy has entered into various contracts with consultants related to the capital campaign. Payments under the contracts are made monthly in accordance with the terms of the agreements.