

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

FINANCIAL STATEMENTS

December 31, 2018 and 2017



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**Midtown Improvement and Development Corporation
dba Midtown Parks Conservancy
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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, 2018 and 2017, and the related statements of activities, functional expenses 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, 2018 and 2017, 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.

Emphasis of matter

As discussed in Note 2 to the financial statements, management has adopted Financial Accounting Standards Board ASU 2016-14, Not-for-Profit Entities (Topic 958); this new standard requires changes to be made in how net assets are classified based on donor restrictions and has added multiple new disclosures. Our opinion is not modified with respect to that matter.

Carri Riggs & Ingram, L.L.C.

Houston, Texas

May 14, 2019

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

<i>December 31,</i>	2018	2017
Assets		
Cash and cash equivalents	\$ 2,597,446	\$ 3,080,644
Accounts receivable	15,346	27,834
Prepaid expense	312	312
Total assets	\$ 2,613,104	\$ 3,108,790
Liabilities		
Accounts payable	\$ 427,893	\$ 316,297
Commitments and contingencies (note 9)		
Net assets		
Without donor restrictions	210,222	603,434
With donor restrictions	1,974,989	2,189,059
Total net assets	2,185,211	2,792,493
Total liabilities and net assets	\$ 2,613,104	\$ 3,108,790

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>	2018	2017
Changes in net assets without donor restrictions		
Revenues and support		
Contributions	\$ 899,774	\$ 1,000,291
Lease and park rental revenue	34,195	43,800
Investment income	379	754
Other income	-	5,000
Net assets released from restrictions	555,915	786,646
Total revenues and support	1,490,263	1,836,491
Expenses		
Program services		
Legacy improvements	372,227	283,153
Park series	696,575	459,832
Park - Art	287,119	598,062
Midtown Park garage	300,947	427,211
Total program services	1,656,868	1,768,258
Management and general	217,107	232,570
Fundraising	9,500	58,583
Total expenses	1,883,475	2,059,411
Decrease in net assets without donor restrictions	(393,212)	(222,920)
Changes in net assets with donor restrictions		
Grants and contributions	341,845	338,273
Net assets released from restrictions	(555,915)	(786,646)
Decrease in net assets with donor restrictions	(214,070)	(448,373)
Change in net assets	(607,282)	(671,293)
Net assets, beginning of year	2,792,493	3,463,786
Net assets, end of year	\$ 2,185,211	\$ 2,792,493

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

**Midtown Improvement and Development Corporation
dba Midtown Parks Conservancy
Statement of Functional Expenses**

<i>For the year ended December 31, 2018</i>	Legacy			Midtown			Management		
	Improvements	Park Series	Park - Art	Parking Garage	Total Programs	and General	Fund Raising	Total Expenses	
Salaries and benefits	\$ 67,706	\$ 204,526	\$ 27,045	\$ 84,613	\$ 383,890	\$ 127,309	\$ -	\$ 511,199	
Services and professional fees	12,326	276,137	260,074	187,696	736,233	37,828	9,500	783,561	
Office and occupancy	-	39,600	-	-	39,600	41,357	-	80,957	
Travel and meeting	-	-	-	28,638	28,638	-	-	28,638	
Insurance	-	-	-	-	-	10,613	-	10,613	
Park programming	-	136,863	-	-	136,863	-	-	136,863	
Maintenance expenses	292,195	39,449	-	-	331,644	-	-	331,644	
Total expenses	\$ 372,227	\$ 696,575	\$ 287,119	\$ 300,947	\$ 1,656,868	\$ 217,107	\$ 9,500	\$ 1,883,475	

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

Midtown Improvement and Development Corporation
dba Midtown Parks Conservancy
Statement of Functional Expenses

<i>For the year ended December 31, 2017</i>	Legacy		Midtown			Management		Total Expenses	
	Improvements	Park Series	Park - Art	Parking Garage	Total Programs	and General	Fund Raising		
Salaries and benefits	\$ 56,757	\$ 141,892	\$ 28,378	\$ 56,757	\$ 283,784	\$ 154,055	\$ -	\$ -	\$ 437,839
Services and professional fees	12,847	108,586	569,684	330,061	1,021,178	28,797	58,583	-	1,108,558
Office and occupancy	-	15,238	-	-	15,238	40,732	-	-	55,970
Travel and meeting	-	-	-	11,707	11,707	-	-	-	11,707
Insurance	-	-	-	-	-	8,986	-	-	8,986
Park programming	-	175,473	-	-	175,473	-	-	-	175,473
Maintenance expenses	213,549	18,643	-	28,686	260,878	-	-	-	260,878
Total expenses	\$ 283,153	\$ 459,832	\$ 598,062	\$ 427,211	\$ 1,768,258	\$ 232,570	\$ 58,583	\$ -	\$ 2,059,411

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>	2018	2017
Operating activities		
Change in net assets	\$ (607,282)	\$ (671,293)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Change in operating assets and liabilities		
Pledges receivable	-	418,909
Accounts receivable	12,488	(12,065)
Prepaid expense	-	50
Accounts payable	111,596	25,225
Net cash used in operating activities	(483,198)	(239,174)
Net change in cash and cash equivalents	(483,198)	(239,174)
Cash and cash equivalents, beginning of year	3,080,644	3,319,818
Cash and cash equivalents, end of year	\$ 2,597,446	\$ 3,080,644

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, encouragement and maintenance of employment, commerce, transportation, housing, tourism, recreation, the arts, entertainment, economic development, 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 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 contribution revenue for the years ended December 31, 2018 and 2017. For the years ended December 31, 2018 and 2017, the Authority contributed an additional \$890,000 and \$970,000, respectively, to the Conservancy in contributions for general operations. This contribution was in addition to the Authority’s obligations under executed agreements (see note 5).

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New Accounting Pronouncement

In 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Presentation of Financial Statements for Not-for-Profit Entities. The Conservancy has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The accompanying information for the 2017 financial statements has been restated to conform to the 2018 presentation and disclosure requirements of ASU 2016-14. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and availability of resources and related to functional allocation of expenses.

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 reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets without Donor Restrictions— Net assets that are not subject to or are no longer subject to donor imposed stipulations.

Net Assets with Donor Restrictions— Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

**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.

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. 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.



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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions

Contributions received are recorded as increases in net assets without donor restrictions or net asset with donor restrictions depending on the existence and/or nature of any donor restrictions. When restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. In the absence of donor restrictions to the contrary, restrictions on contributions of property or equipment or on assets restricted to acquiring property or equipment expire when the property or equipment is placed in service. Conditional contributions are recognized when the conditions are substantially met.

Revenue Recognition

The Conservancy recognizes lease and park rental revenue when 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, 2018 and 2017, management believes there were no uncertain tax positions.

Functional expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The majority of the expenses can be directly identified with the program or supporting service to which they relate and are charged accordingly. Salaries and benefits, services and professional fees and office and occupancy have been allocated among the programs and supporting services benefited on the basis of estimates of time and effort.

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.

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The Conservancy has evaluated subsequent events through the time the financial statements are available for issuance on May 14, 2019. No matters were identified affecting the accompanying financial statements or related disclosures.

NOTE 3 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Conservancy has a goal to maintain liquid financial assets to cover one year of general expenditures. The Conservancy receives unrestricted contributions from the Authority twice a year and strives to keep cash on hand to meet operating budget needs for 90 days. The Conservancy has \$2,612,792 of financial assets available within one year of the statement of financial position date consisting of cash of \$2,597,446 and accounts receivable of \$15,346 of which \$1,832,918 of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date.

NOTE 4: PROGRAM AND SUPPORTING SERVICES

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

- Legacy improvements are improvements to property owned by the Authority and the District under the management and maintenance agreement discussed in Note 5.
- Park series are programming responsibilities assumed over parks owned by the Authority under the management and maintenance agreement discussed in Note 5.
- 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 6.
- 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.

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

NOTE 5: 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 was 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 2018 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 6: 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. The Conservancy shall pay a monthly management fee totaling \$1,500, as amended on April 1, 2018. The amount of management fee shall not be increased before April 1, 2019, and is only subject to revision by mutual agreement of the parties. 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, 2018 and 2017 totaled \$40,600 and \$280,321, net of receipts, respectively and are included in Midtown Park garage program expenses on the statements of activities.

NOTE 7: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes:

<i>December 31,</i>	2018	2017
Capital campaign	\$ 1,596,130	\$ 1,842,255
Renewal and replacement - Legacy Improvements	58,058	58,058
Renewal and replacement	178,730	150,000
Maintenance of Legacy Improvements	142,071	138,746
Total	\$ 1,974,989	\$ 2,189,059

NOTE 8: 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 \$723,000 and \$493,000 for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, approximately \$296,000 and \$140,000, respectively, was payable to the Authority under this contract and is included in accounts payable in the accompanying statements of financial position.

The Conservancy provided maintenance and public improvements services to the District amounting to \$212,000 and \$206,000 for the years ended December 31, 2018 and 2017, respectively. At December 31, 2018, approximately \$15,000 was due from the District for reimbursable expenses.

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



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

NOTE 9: COMMITMENTS AND CONTINGENCIES

The Conservancy has entered into a contract of \$382,000 with an artist for creation and installation of original art in Midtown Park. Payments under the contract are made as work progresses in accordance with the terms of the agreement. At December 31, 2018, \$357,000 of such contract commitment has not yet been incurred.