

JONATHAN B TUCKER CPA

SCENIC TEXAS INC

FINANCIAL STATEMENTS

Year Ended December 31, 2017

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JONATHAN B TUCKER CPA

INDEPENDENT AUDITOR'S REPORT

To the BOARD of DIRECTORS of SCENIC TEXAS INC

I have audited the accompanying financial statements of SCENIC TEXAS INC (a nonprofit organization), which comprise the statement of financial position as of DECEMBER 31, 2017, and the related statements of activities and cash flows for the year 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 auditor's 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SCENIC TEXAS INC as of DECEMBER 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Jonathan B Tucker CPA

APRIL 24, 2018

	DECEMBER 31, 2017
ASSETS	
CASH AND CASH EQUIVALENTS	\$ 775,126
INVESTMENT HELD BY OTHER ORGANIZATION	416,410
PLEDGES AND OTHER RECEIVABLES	957,779
OTHER ASSETS	11,059
PROPERTY AND EQUIPMENT, NET	<u>40,666</u>
TOTAL ASSETS	<u><u>2,201,040</u></u>
LIABILITIES	
ACCOUNTS PAYABLE	368,746
ACCRUED EXPENSES	7,415
NOTE PAYABLE	<u>500,000</u>
TOTAL LIABILITIES	876,161
NET ASSETS	
UNRESTRICTED	968,631
TEMPORARILY RESTRICTED	<u>356,248</u>
TOTAL NET ASSETS	1,324,879
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,201,040</u></u>

YEAR ENDED DECEMBER 31, 2017

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	<u>TOTAL</u>
REVENUE			
CONTRIBUTIONS AND SUPPORT	\$ 23,578	\$ 377,420	\$ 400,998
SPECIAL EVENTS	460,375		460,375
DONOR BENEFIT COSTS OF SPECIAL EVENTS	(37,639)		(37,639)
PROGRAM FEES	18,541		18,541
OTHER	1,382		1,382
NET CHANGE IN INVESTMENT	43,033		43,033
IN-KIND CONTRIBUTIONS	-		-
	<u>509,270</u>	<u>377,420</u>	<u>886,690</u>
NET ASSETS RELEASED FROM RESTRICTION			
PROGRAM EXPENDITURES/TIME	<u>1,225,040</u>	<u>(1,225,040)</u>	<u>-</u>
TOTAL REVENUE	1,734,310	(847,620)	886,690
EXPENSES			
PROGRAM EXPENSES			
SCENIC BEAUTIFICATION	304,610		304,610
STREETSCAPE	127,264		127,264
BROADWAY/HOBBY REDEVELOPMENT	<u>831,301</u>		<u>831,301</u>
TOTAL PROGRAM EXPENSES	1,263,175		1,263,175
MANAGEMENT AND GENERAL	95,901		95,901
FUNDRAISING	<u>82,102</u>		<u>82,102</u>
TOTAL EXPENSES	<u>1,441,178</u>		<u>1,441,178</u>
EXCESS OF REVENUE OVER EXPENSES	<u>293,132</u>	<u>(847,620)</u>	<u>(554,488)</u>
BEGINNING NET ASSETS	<u>675,499</u>	<u>1,203,868</u>	<u>1,879,367</u>
ENDING NET ASSETS	<u>\$ 968,631</u>	<u>\$ 356,248</u>	<u>\$ 1,324,879</u>

YEAR ENDED DECEMBER 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

EXCESS OF REVENUE OVER EXPENSES	\$ (554,488)
ADJUSTMENTS TO RECONCILE EXCESS OF REVENUE OVER EXPENSES TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
DEPRECIATION	11,540
INVESTMENT HELD BY OTHER ORGANIZATION	(43,033)
PLEDGES AND OTHER RECEIVABLES	921,971
OTHER ASSETS	(4,768)
ACCOUNTS PAYABLE	(892,947)
ACCRUED EXPENSES	<u>4,030</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>(557,695)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
PROPERTY AND EQUIPMENT, NET	<u>(2,040)</u>
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>(2,040)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
NOTE PAYABLE	<u>(500,000)</u>
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(500,000)</u>
NET INCREASE (DECREASE) IN CASH	(1,059,735)
CASH, BEGINNING OF YEAR	<u>1,834,861</u>
CASH, END OF YEAR	<u>\$ 775,126</u>

SUPPLEMENTAL DISCLOSURES

INCOME TAXES PAID	\$ -
INTEREST PAID	\$ -

NOTE 1: NATURE OF ORGANIZATION

Scenic Texas, Inc. (the "Organization") is a 501(c)(3) non-profit organization incorporated in Texas in 1984. The Organization is dedicated to the preservation and enhancement of our state's visual environment, particularly as seen by the traveling public. The Organization operates statewide through chapters located in Austin, Dallas, Fort Worth, Houston (main office), San Antonio, Comal County, Fayette County and the Hill Country. Scenic Texas and its chapters are affiliates of Scenic America, a national organization.

Scenic Texas seeks and supports public policies at all levels of government that promote scenic conservation and beautification and limit actions that are harmful to the visual environment. The Organization provides communications and information to stakeholders in the environmental arena and supports state-wide outreach efforts to facilitate policies that protect the visual appearance of Texas' cities and countryside. The Organization also manages a certification program for municipalities who adopt certain legislation and promote certain standards to protect the visual appearance of their public areas.

In 2015, Scenic Texas, through the Scenic Houston chapter, raised funds and developed plans for the Broadway/Hobby Corridor Redevelopment Project ("Broadway Project"). The \$6.2 million project is dedicated to enhancing the visual appeal of the nearly two-mile-long Broadway/Hobby corridor connecting Hobby Airport and Interstate 45. The Broadway Project will add 410 live oaks and other trees, providing both shade and beauty to the corridor. Additional improvements include upgraded LED street lights, enhanced crosswalks, and cohesive landscaping and groundcover. The project commenced in 2016 and was completed in early 2017.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Organization is presented to assist in understanding the Organization's financial statements. The financial statements and notes are the representation of the Organization's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America.

Basis of accounting

The financial statements have been prepared using the accrual basis of accounting. Consequently, support and revenues and the related assets are recognized when earned and expenses are recognized when a liability is incurred. Accordingly, the financial statements are intended to present assets, liabilities, revenues, expenses and changes in net assets in conformity with accounting principles generally accepted in the United States of America.

Presentation of financial statements

The classification of the Organization's net assets and its support, revenue and expenses is based on the existence or absence of donor imposed restrictions. It requires that the amounts for each of three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position and that the amounts of change in each of those classes of net assets be displayed in a statement of activities.

Cash and cash equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. At year end, cash and cash equivalents included only deposits at commercial banks and other financial institutions.

Pledges and other receivables

Pledges and other receivables that are expected to be collected within one year are reported at net realizable value. If material, amounts expected to be collected in future years are discounted to estimate the present value of future cash flows. Discounts are computed using assumed risk-free interest rates applicable to the years in which the promises are received. Amortization of discounts are included in contribution revenue. An allowance for pledges is made when it is believed that pledges receivable may not be collected in full.

Property, equipment, and depreciation

Property and equipment are recorded at cost, or, if donated, at fair market value on the date of donation. The Organization capitalizes individual property items with a cost in excess of \$1,000. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Useful lives of assets range from 5 - 7 years. Depreciation expense is allocated to program, management and general, and fundraising expenses.

Net asset classification

Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- Unrestricted net assets include those net assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.
- Temporarily restricted net assets include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Contributions

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations limiting their use are recognized as restricted support.

Donated goods and services

The Organization receives donated services from certain professionals for program activities. These services require specialized skills, are provided by entities or persons possessing those skills, and would need to be purchased if they were not donated. The fair value of these services has

been recognized in the statement of activities because the criteria for recognition under FAS ASC 958 have been satisfied.

The Organization also receives donated services from a variety of unpaid volunteers. No amounts have been recognized in the statement of activities because the criteria for recognition of such volunteer effort under FAS ASC 958 have not been satisfied.

Income taxes

The Organization is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and is classified as a publicly charity. There was no unrelated business income tax payable for the year.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3: INVESTMENT HELD BY OTHER ORGANIZATION

The Organization is party to an agreement with Greater Houston Community Foundation (GHCF). According to the agreement, amounts deposited by the Organization with GHCF will be invested and held for the benefit of the Organization. The Organization may request grants from these funds from GHCF and the funds cannot be distributed to any other party without the express permission of the Organization. The investments held by GHCF are in pooled accounts with the following investment composition as reported by GHCF at December 31, 2017:

Domestic Equity	\$	118,344	28%	%
Global Equity		41,391	10%	
Foreign Equity		11,243	3%	
Fixed Income		145,119	35%	
Alternative Assets		54,467	13%	
Real Assets		15,282	4%	
Money Market		30,564	7%	
Total investment held by other organization	\$	<u>416,410</u>	<u>100</u>	%

The Organization adopted guidance that established a framework for measuring fair value and expanding its disclosures about fair value measurements. The standard provides a consistent definition for fair value which focuses on an exit price between market participants in an orderly transaction. The standard also prioritizes, within the measurement of fair value, the use of market-based information over entity specific information and establishes a three-level hierarchy for fair value measurements based on the transparency of information used in the valuation of the respective financial instrument. The standard defines three levels of inputs which may be used to measure fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument; and

Level 3: Prices are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into determination of fair value require significant management judgment or estimation based on assumptions used to measure assets and liabilities.

Assets measured at fair value at December 31, 2017 are as follows:

	Level 1	Level 2	Level 3
Investment in GHCF	\$ <u> -</u>	\$ <u> -</u>	\$ <u> 416,410</u>

Changes in fair value of Level 3 assets at December 31, 2017:

Balance at December 31, 2016	\$	373,377
Unrealized gain/(loss)		45,010
Administrative fees		(1,977)
Grants approved		<u> -</u>
Total net change in investment		<u> 43,033</u>
Balance at December 31, 2017	\$	<u> 416,410</u>

NOTE 4: PLEDGES AND OTHER RECEIVABLES

Pledges receivable include an unconditional promise to receive cash. Unconditional promises are reported at fair value at the date that there is sufficient verifiable evidence documenting that a promise was made by the donor and received by the Organization. The promises are reported as either temporarily or permanently restricted support if received with donor stipulations that sufficiently limit the use of the donated assets or if the promises include payments due in future periods. Due to the timing of future payments and the immaterial difference that would result by computing a discount using an assumed risk-free interest rate, future payments are reported at stated amounts. No allowance has been provided due to collection history on pledges.

During 2013, the Organization launched a multiyear initiative called the Campaign for a More Scenic Houston. With financial support from 100% of its Board of Directors, Scenic Houston (a chapter of Scenic Texas) launched the initiative to generate \$750,000 over the next three to five years. These funds allow Scenic Houston to build its capacity and to play an even more meaningful role in preserving and enhancing the visual character of Houston.

During 2015, the Organization raised funds for the Broadway Project. Pledges included multiyear commitments and contributed services and materials for the project.

At December 31, 2017, pledges and other receivables by type consists of the following:

General pledges and program receivables	\$	237,751
Campaign For A More Scenic Houston		33,383
Broadway Project		<u>686,645</u>
Total pledges and other receivables	\$	<u>957,779</u>

At December 31, 2017, pledges and other receivables by time consists of the following:

Amounts due in less than one year	\$	931,791
Amounts due in less than two years		25,988
Amounts due in less than three years		<u>-</u>
Total pledges and other receivables	\$	<u>957,779</u>

NOTE 5: PROPERTY AND EQUIPMENT, NET

At December 31, 2017, property and equipment consists of the following:

Furniture and equipment	\$	52,409
Leasehold improvements		35,728
Accumulated depreciation		<u>(47,471)</u>
Total property and equipment, net	\$	<u>40,666</u>
Total depreciation expense at December 31, 2017	\$	11,540

NOTE 6: NOTE PAYABLE

At December 31, 2017, note payable consists of the following:

Loan payable bearing interest at LIBOR plus 3.25% payable in quarterly interest only payments. Interest payments are subject to reimbursement to the Organization by a taxing authority. Principal payments of \$500,000 are due on or before August 31, 2017 and upon maturity of August 31, 2018. Principal and interest payment amounts are provided to the Organization by a taxing authority.	\$ <u>500,000</u>
Total note payable	\$ <u>500,000</u>

At December 31, 2017, future minimum payments are as follows:

Year ending December 31,	
2018	\$ 500,000
2019	-
2020	-
2021	-
Thereafter	<u>-</u>
Total future minimum payments	\$ <u>500,000</u>

NOTE 7: NET ASSETS TEMPORARILY RESTRICTED

At December 31, 2017, temporarily restricted net assets consist of the following:

Temporarily restricted, chapters	\$ 35,423
Temporarily restricted, purpose (programs)	170,825
Temporarily restricted, time	<u>150,000</u>
Total temporarily restricted net assets	\$ <u>356,248</u>

NOTE 8: IN-KIND CONTRIBUTIONS

The Organization received pledges for in-kind donations to the Broadway Project. In kind services provided in 2017 include maintenance services on project assets. The maintenance services were pledged for a two year period for a total of \$190,000. The total for these services provided for the year ended December 31, 2017 was \$71,250 and is included in Broadway/Hobby Redevelopment expense.

NOTE 9: OPERATING LEASES

The Organization rents office space and equipment under written leases. Total rent expense for the year ended December 31, 2017 is approximately \$48,328.

At December 31, 2017, future minimum operating lease payments are as follows:

Year ending December 31,		
2018	\$	23,699
2019		23,472
2020		24,121
2021		24,770
Thereafter		<u>21,093</u>
Total	\$	<u>117,155</u>

NOTE 10: RELATED PARTY TRANSACTIONS

The Organization has several chapters throughout the state. Some of the chapters create a board of directors and committees to manage their activities. The Houston chapter has several committees including a board of directors and executive committee to manage its programs. These chapter committees are considered subcommittees of the statewide organization and are delegated limited authority over the affairs of their chapter. However, they are subordinate to the Organization's Board of Directors. The Organization engaged a law firm to provide legal services. Attorneys with the firm are also members of the Houston board of directors (subcommittee), but not Directors of the Organization. Total legal expense for these services for the year ended December 31, 2017 is approximately \$1,500.

NOTE 11: RETIREMENT PLAN

The Organization established a SIMPLE retirement savings plan for the benefit of all employees through a voluntary salary contribution. The Organization matches employee contributions up to a limit of 3% of annual compensation. Employer contributions for the year ended December 31, 2017 are approximately \$9,500.

NOTE 12: CONCENTRATIONS OF CREDIT RISK

The financial instruments that potentially subject the Organization to concentration of credit risk consist primarily of cash and cash equivalent accounts in financial institutions, which from time to time could exceed the Federal Depository Insurance Coverage ("FDIC") limit.

NOTE 13: DATE OF MANAGEMENT'S REVIEW

The Organization has evaluated subsequent events through the date of the Independent Auditor's Report, the date which the financial statements were available to be issued. No subsequent events requiring disclosure have occurred.