

**SCENIC TEXAS, INC.**  
**(A NONPROFIT ORGANIZATION)**  
**FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2018**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Scenic Texas, Inc.  
Houston, Texas

We have audited the accompanying financial statements of Scenic Texas, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses 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**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 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, 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 Scenic Texas, Inc. as of December 31, 2018, 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.



September 25, 2019  
Houston, Texas

SCENIC TEXAS, INC.

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 2018

<b>ASSETS</b>	2018
Current Assets:	
Cash	\$ 644,910
Investments Held By Other Organization	393,446
Pledges And Other Receivables	148,100
Other Assets	<u>27,937</u>
Total Current Assets	<u>1,214,393</u>
Property & Equipment:	
Equipment & Furniture	88,136
Less Accumulated Depreciation	<u>(59,179)</u>
	<u>28,957</u>
Total Assets	<u>\$ 1,243,350</u>
 <b>LIABILITIES AND NET ASSETS</b>	
Current Liabilities:	
Accounts Payable	\$ 14,072
Accrued Liabilities	<u>1,695</u>
Total Current Liabilities	<u>15,767</u>
Net Assets:	
Without Donor Restrictions	1,083,435
With Donor Restrictions	<u>144,148</u>
Total Net Assets	<u>1,227,583</u>
Total Liabilities and Net Assets	<u>\$ 1,243,350</u>

See accompanying notes to financial statements.

SCENIC TEXAS, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2018 Total</u>
<b>REVENUE</b>			
Contributions And Support	\$ 59,405	\$ 119,050	\$ 178,455
Special Events	582,250		582,250
Donor Benefit Costs of Special Events	(46,134)		(46,134)
Program Fees	7,068		7,068
Other	745		745
Net Change In Investment	(22,964)		(22,964)
Net Assets Released From Donor Restriction	<u>331,150</u>	<u>(331,150)</u>	
Total Support and Revenue	<u>911,520</u>	<u>(212,100)</u>	<u>699,420</u>
<b>EXPENSES</b>			
Program Expenses			
Scenic Beautification	393,474		393,474
Education And Advocacy	145,948		145,948
Fundraising	117,018		117,018
Management And General	<u>140,276</u>		<u>140,276</u>
Total Expenses	<u>796,716</u>		<u>796,716</u>
Increase (Decrease) in Net Assets	<u>114,804</u>	<u>(212,100)</u>	<u>(97,296)</u>
Net Assets, Beginning of Year	<u>968,631</u>	<u>356,248</u>	<u>1,324,879</u>
Net Assets, End of Year	<u>\$ 1,083,435</u>	<u>\$ 144,148</u>	<u>\$ 1,227,583</u>

See accompanying notes to financial statements.

SCENIC TEXAS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services			Management and General	2018 Total
	Scenic Beautification	Education And Advocacy	Fundraising		
Salaries	\$ 145,178	\$ 84,652	\$ 52,711	\$ 66,465	\$ 349,006
Payroll Taxes and Benefits	27,724	16,087	10,088	12,670	66,569
Insurance	730	424	265	334	1,753
Supplies	890	251	268	195	1,604
Travel	12,369	341	15	4,471	17,196
Telephone	1,897	1,103	689	1,536	5,225
Rent Expense	16,519	9,602	5,998	7,562	39,681
Leases	2,154	1,252	782	986	5,174
Repairs and Maintenance	3,655	5,720	1,557	1,310	12,242
Professional Fees	48,025	3,821	4,000	33,500	89,346
Meals and Entertainment	16,374	2,756	573	3,746	23,449
Printing and Copying	3,561	5,852	3,733	24	13,170
Postage and Delivery	268	229	2	181	680
Permits and Licenses	1,258	782	1,499	2,127	5,666
Photography	3,314	7,276	15,910	1,860	28,360
Uncollectible Pledges			8,450		8,450
Advertising		45			45
In-Kind Expenses	95,000				95,000
Organization Membership Fees	5,558	646	110	106	6,420
Gifts and Awards	324	1,398	1,151	576	3,449
Other Expenses	3,676	877	1,563		6,116
Bank Service Charge	125		5,884	396	6,405
Depreciation	4,875	2,834	1,770	2,231	11,710
Total Expenses	<u>\$ 393,474</u>	<u>\$ 145,948</u>	<u>\$ 117,018</u>	<u>\$ 140,276</u>	<u>\$ 796,716</u>

See accompanying notes to financial statements.

SCENIC TEXAS, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ (97,296)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities	
Depreciation	11,710
(Increase) Decrease in Investments Held by Other Organization	22,964
(Increase) Decrease in Pledges and Other Receivable	809,678
(Increase) Decrease in Other Assets	(16,878)
Increase (Decrease) in Accounts Payable	(354,674)
Increase (Decrease) in Accrued Liabilities	<u>(5,720)</u>
Total Adjustments	<u>467,080</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>369,784</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Repayment of long-term debt	(500,000)
NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(500,000)</u>
NET INCREASE ( DECREASE ) IN CASH	<u>(130,216)</u>
CASH AT BEGINNING OF YEAR	<u>775,126</u>
CASH AT END OF YEAR	<u><u>\$ 644,910</u></u>

See accompanying notes to financial statements.

SCENIC TEXAS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

**A. 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 was dedicated to enhancing the visual appeal of the nearly two-mile-long Broadway/Hobby corridor connecting Hobby Airport and Interstate 45. The Broadway Project added 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.

**B. 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.

New Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. ASU 2016-14 requires significant changes to the financial reporting model of organizations who follow the not-for-profit reporting model. The changes include reducing the classes of net assets from three classes to two – net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Organization, including required disclosures about liquidity and availability of resources and increased disclosures on functional expenses. The new standard is effective for the Organization’s year ending December 31, 2018 and thereafter and must be applied on a retrospective basis. The Organization adopted the ASU effective January 1, 2018. Adoption of the ASU did not result in any reclassifications or restatements to net assets or changes in net assets.



SCENIC TEXAS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Presentation

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.

Support and Revenue

The support and revenue are recorded based on the accrual method.

Classification of Net Assets

Net assets of the Organization are classified based on the presence or absence of donor-imposed restrictions. Net assets are comprised of two groups as follows:

*Net Assets Without Donor Restrictions* – Amounts that are not subject to usage restrictions based on donor-imposed requirements. This class also includes assets previously restricted where restrictions have expired or been met.

*Net Assets with Donor Restrictions* – Assets subject to usage limitations based on donor-imposed or grantor restrictions. These restrictions may be temporary or may be based on a particular use. Restrictions may be met by the passage of time or by actions of the Organization. Certain restrictions may need to be maintained in perpetuity.

Earnings related to restricted net assets will be included in net assets without donor-restrictions unless otherwise specifically required to be included in donor-restricted net assets by the donor or by applicable state law.

On occasion, the governing board may designate a portion of net assets without donor restrictions for a specific purpose. Designated net assets are not governed by donor-imposed restrictions and may be reversed by the governing board at any time.

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. The bank accounts at times exceeded the Federal Depository Insurance Coverage (“FDIC”) limit.

SCENIC TEXAS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

Functional Expenses

Expenses are charged to program services based on direct expenditures incurred. Functional expenses which cannot readily be related to program services are allocated between programs and supporting services based upon a reasonable method for allocating the Organization's indirect functional expenditures.

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.

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.

SCENIC TEXAS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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.

**C. 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, 2018:

Domestic Equity	\$	97,693	25%
Global Equity		42,374	11%
Foreign Equity		50,479	13%
Fixed Income		94,348	23%
Global Fixed Income		15,659	4%
Alternative Assets		57,758	15%
Money Market		35,135	9%
Total investment held by other organization	\$	<u>393,446</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;

SCENIC TEXAS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

**C. INVESTMENT HELD BY OTHER ORGANIZATION (Continued)**

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, 2018 are as follows:

	Level 1	Level 2	Level 3
Investment in GHCF	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 393,446</u>

Changes in fair value of Level 3 assets at December 31, 2018:

Balance at December 31, 2017	\$ 416,410
Unrealized gain/(loss)	(20,877)
Administrative fees	(2,087)
Grants approved	-
Total net change in investment	<u>(22,964)</u>
Balance at December 31, 2018	<u>\$ 393,446</u>

**D. 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.

SCENIC TEXAS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

**D. PLEDGES AND OTHER RECEIVABLES (Continued)**

At December 31, 2018, pledges and other receivables by type consists of the following:

General pledges and program receivables	\$	48,000
Campaign For A More Scenic Houston		76,350
Broadway Project		23,750
Total pledges and other receivables	\$	<u>148,100</u>

At December 31, 2018, pledges and other receivables by time consists of the following:

Amounts due in less than one year	\$	71,750
Amounts due in less than two years		76,350
Amounts due in less than three years		0
Total pledges and other receivables	\$	<u>148,100</u>

**E. IN-KIND CONTRIBUTIONS**

The Organization received pledges for in-kind donations to the Broadway Project. In kind services provided in 2018 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, 2018 was \$95,000 and is included in Broadway/Hobby Redevelopment expense.

**F. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The following reflects the Organization’s financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date:

Financial assets at year-end	\$	1,186,456
Less those unavailable for general expenditures within one year, due to:		
Donor-imposed restrictions as to use		<u>144,148</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u>1,042,308</u>

**G. NET ASSETS WITH DONOR RESTRICTIONS**

At December 31, 2018, temporarily restricted net assets consist of the following:

Donor restricted, chapters	\$	19,006
Donor restricted, purpose (programs)		<u>125,142</u>
Total donor restricted net assets	\$	<u>144,148</u>

SCENIC TEXAS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018

**H. OPERATING LEASES**

The Organization rents office space and equipment under written leases. Total rent expense for the year ended December 31, 2018 is approximately \$48,855.

At December 31, 2018, future minimum operating lease payments are as follows:

Year ending December 31,		
2019	\$	25,500
2020		26,149
2021		26,798
2022		23,121
2023		2,028
Total	\$	<u>103,596</u>

**I. 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, 2018 is approximately \$354.

**J. 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, 2018 are approximately \$10,047.

**K. DATE OF MANAGEMENT'S REVIEW**

The Organization has evaluated subsequent events through September 25, 2019, the date which the financial statements were available to be issued. No subsequent events requiring disclosure have occurred.