



FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015



KEEP INDIANAPOLIS BEAUTIFUL, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Keep Indianapolis Beautiful, Inc.
Indianapolis, Indiana

We have audited the accompanying financial statements of Keep Indianapolis Beautiful, Inc., which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, 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.

Auditor's 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 of 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 Keep Indianapolis Beautiful, Inc. as of December 31, 2016 and 2015 and the changes in net assets, functional expenses, and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Alending CPA Group

April 3, 2017

KEEP INDIANAPOLIS BEAUTIFUL, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2016 AND 2015

	<u>ASSETS</u>	
	<u>2016</u>	<u>2015</u>
Assets:		
Cash and cash equivalents	\$ 862,991	\$ 737,503
Investments	140,782	129,209
Accounts receivable	179,718	263,722
Pledges receivable	108,000	188,237
Prepaid expenses and other assets	1,645	59,655
Property and equipment, net	3,138,542	3,150,288
Endowment investments	<u>52,051</u>	<u>40,399</u>
Total assets	<u>\$ 4,483,729</u>	<u>\$ 4,569,013</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Long-term debt	\$ 805,976	\$ 849,630
Accounts payable	92,798	56,287
Accrued expenses and other liabilities	<u>45,039</u>	<u>70,551</u>
Total liabilities	<u>943,813</u>	<u>976,468</u>
Net Assets:		
Unrestricted net assets	2,960,487	2,876,920
Temporarily restricted net assets	539,510	685,706
Permanently restricted net assets	<u>39,919</u>	<u>29,919</u>
Total net assets	<u>3,539,916</u>	<u>3,592,545</u>
Total liabilities and net assets	<u>\$ 4,483,729</u>	<u>\$ 4,569,013</u>

See accompanying Notes to Financial Statements.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Changes in Unrestricted Net Assets		
Public Support and Revenues:		
Contributions	\$ 1,090,395	\$ 958,998
In-kind contributions - program supplies	208,768	292,545
Total public support and revenues	<u>1,299,163</u>	<u>1,251,543</u>
Program Revenues:		
Contract revenue	1,429,411	1,403,584
Fees for services	18,188	12,736
Total program revenues	<u>1,447,599</u>	<u>1,416,320</u>
Other Revenues:		
Interest and investment income (loss), net	9,995	(3,168)
Other income, net	39,544	44,467
Total other revenues	<u>49,539</u>	<u>41,299</u>
Net Assets Released from Restrictions	<u>812,646</u>	<u>1,050,091</u>
Total unrestricted support and revenues	<u>3,608,947</u>	<u>3,759,253</u>
Expenses:		
Program services:		
Beautification and Placemaking	1,235,079	1,364,612
Community Forestry	529,384	691,355
Youth Programming	782,433	735,502
Total program services	<u>2,546,896</u>	<u>2,791,469</u>
Supporting services:		
Management and general	572,196	510,630
Fundraising	406,288	374,354
Total operating expenses	<u>3,525,380</u>	<u>3,676,453</u>
Increase in unrestricted net assets	<u>83,567</u>	<u>82,800</u>
Changes in Temporarily Restricted Net Assets		
Contributions	664,798	912,581
Interest and investment income (loss), net	1,652	(1,140)
Net assets released from restrictions	<u>(812,646)</u>	<u>(1,050,091)</u>
Decrease in temporarily restricted net assets	<u>(146,196)</u>	<u>(138,650)</u>
Changes in Permanently Restricted Net Assets		
Contributions	<u>10,000</u>	<u>-0-</u>
Total decrease in net assets	(52,629)	(55,850)
Net Assets, Beginning of Year	<u>3,592,545</u>	<u>3,648,395</u>
Net Assets, End of Year	<u>\$ 3,539,916</u>	<u>\$ 3,592,545</u>

See accompanying Notes to Financial Statements.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2016 (WITH COMPARATIVE TOTALS FOR 2015)

	Program Services					2016 Total	2015 Total
	Beautification and Placemaking	Community Forestry	Youth Programming	Management and General	Fundraising		
Labor and Benefits:							
Salaries	\$ 350,931	\$ 147,164	\$ 360,273	\$ 316,969	\$ 192,446	\$ 1,367,783	\$ 1,313,904
Employee benefits	47,142	19,769	16,727	42,580	25,852	152,070	143,409
Payroll taxes and expense	27,306	11,451	31,666	24,665	14,974	110,062	103,937
Total labor and benefits	425,379	178,384	408,666	384,214	233,272	1,629,915	1,561,250
Other Expenses:							
Program supplies	327,675	232,455	128,547	15,898	10,406	714,981	892,421
In-kind contributions - program supplies	162,552	6,107	15,400	874	23,835	208,768	292,545
Advertising	1,784	730	730	943	243	4,430	1,200
Building repairs and maintenance	3,500	3,375	3,375	1,124	1,125	12,499	10,133
Depreciation	49,748	47,971	47,971	15,991	15,990	177,671	164,283
Dues and subscriptions	140	550	180	2,381	660	3,911	4,986
Insurance	7,721	6,303	6,167	8,486	2,958	31,635	27,758
Interest expense	12,787	12,330	12,330	4,112	4,109	45,668	48,113
Meals	9,923	2,081	326	6,781	20,130	39,241	27,523
Miscellaneous	215	17,545	-0-	890	250	18,900	1,134
Office expenses	4,178	4,029	4,029	1,344	1,343	14,923	15,234
Postage	706	680	680	227	2,331	4,624	4,535
Printing	911	-0-	45	1,859	12,851	15,666	15,920
Seminars	1,770	1,879	629	30,620	2,888	37,786	35,576
Loss on disposal of assets	-0-	-0-	-0-	973	-0-	973	1,197
Telephone	6,228	2,612	2,210	5,625	3,415	20,090	19,008
Travel	2,539	1,468	112	(176)	174	4,117	6,868
Utilities	6,924	6,677	6,677	2,226	2,226	24,730	23,183
Vehicle repairs and maintenance	4,208	4,208	2,103	-0-	-0-	10,519	8,207
Outside services	206,191	-0-	142,256	87,804	68,082	504,333	515,379
Total expenses	<u>\$ 1,235,079</u>	<u>\$ 529,384</u>	<u>\$ 782,433</u>	<u>\$ 572,196</u>	<u>\$ 406,288</u>	<u>\$ 3,525,380</u>	<u>\$ 3,676,453</u>

See accompanying Notes to Financial Statements.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2015

	Program Services			Management and General	Fundraising	2015 Total
	Beautification and Placemaking	Community Forestry	Youth Programming			
Labor and Benefits:						
Salaries	\$ 304,285	\$ 163,010	\$ 357,581	\$ 271,682	\$ 217,346	\$ 1,313,904
Employee benefits	40,155	21,512	17,209	35,851	28,682	143,409
Payroll taxes and expense	23,321	12,493	30,643	20,822	16,658	103,937
Total labor and benefits	367,761	197,015	405,433	328,355	262,686	1,561,250
Other Expenses:						
Program supplies	370,563	371,999	128,915	10,526	10,418	892,421
In-kind contributions - program supplies	231,185	4,514	2,495	24,611	29,740	292,545
Advertising	336	324	324	108	108	1,200
Building repairs and maintenance	2,837	2,736	2,736	912	912	10,133
Depreciation	45,999	44,356	44,356	14,787	14,785	164,283
Dues and subscriptions	420	170	-0-	4,066	330	4,986
Insurance	7,320	6,182	5,962	5,137	3,157	27,758
Interest expense	13,472	12,991	12,991	4,330	4,329	48,113
Meals	9,702	2,567	131	5,457	9,666	27,523
Miscellaneous	11	-0-	-0-	1,119	4	1,134
Office expenses	4,249	4,097	4,097	1,364	1,427	15,234
Postage	710	685	685	228	2,227	4,535
Printing	776	-0-	-0-	3,153	11,991	15,920
Seminars	5,342	6,589	1,230	20,655	1,760	35,576
Loss on disposal of assets	-0-	-0-	-0-	1,197	-0-	1,197
Telephone	5,322	2,851	2,281	4,752	3,802	19,008
Travel	4,089	2,576	198	(114)	119	6,868
Utilities	6,491	6,259	6,259	2,089	2,085	23,183
Vehicle repairs and maintenance	3,283	3,283	1,641	-0-	-0-	8,207
Outside services	284,744	22,161	115,768	77,898	14,808	515,379
Total expenses	<u>\$ 1,364,612</u>	<u>\$ 691,355</u>	<u>\$ 735,502</u>	<u>\$ 510,630</u>	<u>\$ 374,354</u>	<u>\$ 3,676,453</u>

See accompanying Notes to Financial Statements.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities:		
Decrease in net assets	\$ (52,629)	\$ (55,850)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	177,671	164,283
Loss on disposal of asset	973	1,197
Net realized and unrealized (gains) losses on investments	(8,588)	21,754
Changes in operating assets and liabilities:		
Accounts receivable	84,004	(41,904)
Pledges receivable	80,237	(155,593)
Prepaid expenses and other assets	58,010	(25,386)
Accounts payable and accrued expenses	10,999	60,412
Net cash provided by (used in) operating activities	<u>350,677</u>	<u>(31,087)</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(124,963)	(163,877)
Proceeds received from sale of investments	39,427	647
Purchase of investments	<u>(54,064)</u>	<u>(150,470)</u>
Net cash used in investing activities	<u>(139,600)</u>	<u>(313,700)</u>
Cash Flows from Financing Activities:		
Principal payments on long-term debt	<u>(85,589)</u>	<u>(99,452)</u>
Net increase (decrease) in cash and cash equivalents	125,488	(444,239)
Cash and Cash Equivalents, Beginning of Year	<u>737,503</u>	<u>1,181,742</u>
Cash and Cash Equivalents, End of Year	<u>\$ 862,991</u>	<u>\$ 737,503</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ 45,668</u>	<u>\$ 48,113</u>
Non-Cash Investing and Financing Activities		
Equipment purchased under capital lease	<u>\$ 41,935</u>	<u>\$ 34,597</u>

See accompanying Notes to Financial Statements.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

1. SIGNIFICANT ACCOUNTING POLICIES

Keep Indianapolis Beautiful, Inc. (“KIB”) is a not-for-profit organization located in Indianapolis, Indiana (the “City”). KIB, founded in 1976, engages diverse communities to create vibrant public places, helping people and nature thrive. KIB receives contributions from foundations, corporations and the general public for beautification and placemaking, community forestry and youth programming. KIB also contracts with the City and other local entities on community improvement and green infrastructure projects.

The significant accounting policies followed by KIB in the preparation of its financial statements are summarized below:

Basis of Presentation

Net assets, support, revenue and expenses are classified based on the existence or absence of donor-imposed restrictions. Unrestricted assets are net assets not subject to donor-imposed restrictions and are, therefore, available to support the general operations of KIB. Temporarily restricted net assets are net assets subject to donor-imposed restrictions related to specific projects or the passage of time or the occurrence of certain events. Permanently restricted net assets are those net assets held in perpetuity. The net income from these investments and all non-restricted contributions are available for release to the unrestricted fund.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the reported amounts in the financial statements and notes to the financial statements. Actual results could differ from those estimates. Significant estimates made in preparation of KIB’s financial statements include collectability of accounts receivable and pledges receivable, useful lives of property and equipment, and the classification of functional expenses.

Cash and Cash Equivalents

Cash and cash equivalents represent amounts held in checking, savings and money market accounts measured by a Level 1 input in accordance with U.S. GAAP. All liquid investments with original maturity dates of three months or less are classified as cash equivalents.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Revenue Recognition and Accounts Receivable and Pledges Receivable

Support and program revenues are reported as increases in unrestricted, temporarily restricted or permanently restricted net assets based upon donor-imposed restrictions, if any. KIB records donor-restricted contributions whose restrictions are met in the same reporting period as unrestricted support and program revenue. Pledges and contributions are recognized when donors make an unconditional promise to give to KIB either in writing or verbally. Revenues are reported as either temporarily or permanently restricted revenues if the donor stipulates specific limitations as to the use of the gift, pledge or contributions, including passage of time or other terms limiting its uses. When a donor restriction expires, temporarily restricted net assets are released and transferred to unrestricted net assets. Permanently restricted net assets are maintained in perpetuity in accordance with state law and donor intentions.

Accounts receivable are reported at the amount invoiced, net of an allowance for doubtful accounts. KIB, on a periodic basis, evaluates its accounts receivable and establishes an allowance for doubtful accounts based on past write-offs, collections, and current credit conditions. There was no allowance for doubtful accounts as of December 31, 2016 and 2015.

Property and Equipment and Depreciation

Purchased property and equipment are recorded at cost. Items donated are recorded at fair market value on the date of donation. Costs of improvements are capitalized and costs of repairs and maintenance are expensed as incurred. Depreciation is recorded over the estimated useful lives of the assets utilizing the straight-line method. The lives of these assets range from 3 to 40 years.

Donated Services and Supplies

Companies and volunteers donated significant supplies and assets for program activities at an estimated fair value of \$208,768 and \$292,545 for the years ended December 31, 2016 and 2015, respectively, as reflected in the accompanying financial statements as in-kind contributions. Additionally, volunteers donate a significant amount of time to KIB's programs at an undetermined fair value. These services are not reflected in the financial statements in accordance with U.S. GAAP.

Functional Expenses

Expenses are functionally classified as Program Services, Management and General, and Fundraising. Classifications are based on actual direct expenditures and cost allocations determined by estimates of time spent by KIB personnel. KIB's occupancy related expenses are allocated to program areas based on square footage of KIB's office building.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Income Taxes

KIB is exempt from Federal and state income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding state law. Accordingly, no provision has been made for Federal or state income taxes.

Management of KIB evaluates all significant tax positions to ensure compliance with the exempt purpose of the Organization as required by U.S. GAAP, including consideration of any unrelated business income tax. As of December 31, 2016, Management does not believe KIB has taken any tax positions that are not in compliance with the exempt purpose of the Organization. KIB's Federal and state tax returns remain open and subject to examination beginning with the calendar tax year ended December 31, 2013.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which establishes a comprehensive revenue recognition standard for virtually all industries in U.S. GAAP, including those that previously followed industry-specific guidance. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date for one year. This ASU will be effective for KIB for the year ended December 31, 2019. KIB is currently evaluating the effect the provisions of ASU 2014-09 will have on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. A lessee will recognize lease assets and liabilities on the statement of financial position for all leasing arrangements with terms longer than twelve (12) months. Lessor accounting remains largely consistent with existing U.S. GAAP. The new guidance takes effect for calendar period beginning after January 1, 2020 for all non-public entities. KIB does not anticipate that the adoption of this update will have a material effect on the financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958), Presentation of Financial Statements of Not-for-Profit Entities*, which significantly changes the existing presentation requirements for financial statements of not-for-profit entities. ASU 2016-14 is intended to improve the current requirements for net asset classification as well as the information presented in the financial statements and notes to the financial statements regarding liquidity, financial performance, and cash flows for not-for-profits. The ASU will be effective for KIB for the year ended December 31, 2018. The standard is to be applied on a retrospective basis. KIB is in the process of evaluating the impact this guidance will have on its financial statements.

Subsequent Events

Subsequent events have been evaluated through April 3, 2017, which is the date the financial statements were available for issuance.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

2. PLEDGES RECEIVABLE

KIB has recognized all material conditional and unconditional promises to give from granting authorities as contributions revenue. Conditional and unconditional promises to give that are expected to be collected in futures years are recorded at their net present value.

	<u>2016</u>	<u>2015</u>
Less than one year	\$ 62,000	\$ 112,237
One to five years	<u>46,000</u>	<u>76,000</u>
	<u>\$ 108,000</u>	<u>\$ 188,237</u>

3. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2016 and 2015 include the following:

	<u>2016</u>	<u>2015</u>
Land	\$ 390,735	\$ 390,735
Building and building improvements	3,053,804	3,037,920
Office furniture and equipment	344,290	314,702
Landscape equipment	143,849	143,849
Vehicles	<u>355,290</u>	<u>259,069</u>
	4,287,968	4,146,275
Less accumulated depreciation	<u>1,149,426</u>	<u>995,987</u>
	<u>\$ 3,138,542</u>	<u>\$ 3,150,288</u>

4. BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

KIB was the beneficiary of a pass-through fund held by Central Indiana Community Foundation ("CICF"). Funds were donated directly to CICF to create the pass-through fund and CICF maintained variance power. Accordingly, the pass-through fund had not been recorded in the financial statements presented herein. KIB was entitled to annual draws as calculated by CICF. KIB had contributed \$1,350 to the pass-through fund which was included in "prepaid expenses and other assets" in the statement of financial position for the year ended December 31, 2015. There was a draw of \$20,263 on the pass-through fund during the year ended December 31, 2016, at which time the account was closed.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

5. FAIR VALUE MEASUREMENTS

U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP also establishes a fair value hierarchy, which requires KIB to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following three levels are defined by U.S. GAAP as a means of measuring fair value:

Level 1

Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2

Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3

Unobservable inputs reflecting the entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Assets measured at fair value at December 31, 2016 include the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ 140,782	\$ -0-	\$ -0-	\$ 140,782
Endowment investments	<u>-0-</u>	<u>-0-</u>	<u>52,051</u>	<u>52,051</u>
	<u>\$ 140,782</u>	<u>\$ -0-</u>	<u>\$ 52,051</u>	<u>\$ 192,833</u>

Assets measured at fair value at December 31, 2015 include the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ 129,209	\$ -0-	\$ -0-	\$ 129,209
Endowment investments	<u>-0-</u>	<u>-0-</u>	<u>40,399</u>	<u>40,399</u>
	<u>\$ 129,209</u>	<u>\$ -0-</u>	<u>\$ 40,399</u>	<u>\$ 169,608</u>

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Investments reported as Level 3 assets represent KIB's pro rata interest in the CICF pooled investment funds, which are valued at fair value as reported by CICF and substantially all of which are valued on a market-to-market basis. The net gains (losses) for assets measured at fair value by Level 3 inputs were \$1,652 and (\$1,140) for the years ended December 31, 2016 and 2015, respectively. KIB also received an additional \$10,000 in Endowment funds to be held by CICF during the year ended December 31, 2016.

6. INVESTMENTS

Investments at December 31, 2016 and 2015 include the following:

	2016		2015	
	Cost	Market	Cost	Market
Equities	\$ 154,462	\$ 140,782	\$ 150,119	\$ 129,209
CICF/Endowment	45,209	52,051	34,566	40,399
	\$ 199,671	\$ 192,833	\$ 184,685	\$ 169,608

Interest and investment income (loss) and its classification in the Statements of Activities and Changes in Net Assets for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Endowment investment return:		
Interest and dividend income	\$ 367	\$ 356
Net realized gains	898	1,297
Net unrealized gain (loss)	1,009	(2,146)
Administrative expenses	(622)	(647)
	1,652	(1,140)
Investment return:		
Interest and dividend income	3,305	17,737
Net realized loss	(540)	-0-
Net unrealized gain (loss)	7,230	(20,905)
	9,995	(3,168)
	\$ 11,647	\$ (4,308)

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

7. ENDOWMENT FUNDS

KIB's donor-designated endowment consists of one fund established to support the activities of KIB. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of KIB has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, KIB classifies as permanently restricted net assets: (a) the original value of gifts donated to the permanent endowment; and (b) the original value of subsequent gifts to the permanent endowment.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by KIB in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, KIB considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of KIB and the donor-restricted endowment fund;
- General economic conditions;
- The possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments;
- Other resources of KIB;
- The investment policies of KIB.

Funds with Deficiencies

From time to time, the fair value of assets associated with donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires KIB to retain as a fund of perpetual duration. In accordance with U.S. GAAP, deficiencies of this nature are reported in temporarily restricted net assets. There were no material deficiencies as of December 31, 2016 and 2015.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Return Objectives and Risk Parameters

KIB has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to KIB while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that KIB must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce long-term appreciation of the principal and generate income while ensuring the safety of the principal at all times. KIB expects its endowment funds, over time, to provide a net real return (after fees and inflation) commensurate with the mix of the portfolio relative to market returns. Actual returns in any given year may vary from this expectation.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, KIB relies primarily on the investment strategy of CICF.

Spending Policy and How the Investment Objective Relates to Spending Policy

KIB's spending policy is not to exceed the suggested spendable amount for the following year provided by CICF. In establishing this policy, KIB considered its desire to be flexible in providing support to KIB while maintaining a balance in the investment account. Accordingly, over the long term, KIB expects the current spending policy to allow its endowment to grow. This is consistent with KIB's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional growth through new gifts and investment return.

For the years ending December 31, 2016 and 2015, KIB had the following endowment fund related activities:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment fund December 31, 2014	\$ -0-	\$ 11,620	\$ 29,919	\$ 41,539
Investment return:				
Net depreciation, realized and unrealized	<u>-0-</u>	<u>(1,140)</u>	<u>-0-</u>	<u>(1,140)</u>
Endowment fund December 31, 2015	-0-	10,480	29,919	40,399
Additions to endowment	-0-	-0-	10,000	10,000
Investment return:				
Net appreciation, realized and unrealized	<u>-0-</u>	<u>1,652</u>	<u>-0-</u>	<u>1,652</u>
Endowment fund December 31, 2016	<u>\$ -0-</u>	<u>\$ 12,132</u>	<u>\$ 39,919</u>	<u>\$ 52,051</u>

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

8. LINE OF CREDIT

KIB has \$250,000 of available borrowings under a line of credit with a bank until September 2017, at which time it is subject to renewal. Borrowings under the facility bear interest at the bank's prime lending rate, with a floor of 3.75%. The line of credit is secured by substantially all assets of KIB, including a mortgage on the facility. The credit agreement places restrictive covenants on KIB, which KIB was in compliance with at December 31, 2016. There were no borrowings on the line of credit at December 31, 2016 and 2015, respectively.

9. LONG-TERM DEBT

Long-term debt at December 31, 2016 and 2015 includes the following:

	<u>2016</u>	<u>2015</u>
Note payable to bank in monthly installments of \$5,834 including interest computed at 6.5% through March 2018.	\$ 555,129	\$ 587,281
Note payable to bank in monthly installments of \$1,141 plus interest computed at the bank's prime lending rate (3.75% at December 31, 2016) through March 2018.	186,030	199,725
Equipment under capital leases; bearing interest ranging from 0.0% to 4.0%, payable in monthly installments aggregating \$1,969 including interest expiring at various dates through February 2021, secured by the related assets (Note 10).	<u>64,817</u>	<u>62,624</u>
	<u>\$ 805,976</u>	<u>\$ 849,630</u>

The notes payable to bank are secured by and subject to substantially the same terms as the line of credit (Note 8).

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Annual maturities of long-term debt at December 31, 2016 are as follows:

<u>Year Ending December 31,</u>	
2017	\$ 71,834
2018	715,930
2019	8,500
2020	8,325
2021	<u>1,387</u>
	<u>\$ 805,976</u>

10. LEASING ARRANGEMENT

Capital Leases

KIB leases equipment under the terms of various capital leases. Equipment under capital leases amounted to \$121,130 and \$107,478 less accumulated depreciation of \$44,310 and \$32,082 at December 31, 2016 and 2015, respectively.

Future minimum lease payments due under the terms of the capital lease at December 31, 2016 are as follows:

	<u>Year Ending December 31,</u>	
	2017	\$ 23,623
	2018	23,623
	2019	8,500
	2020	8,325
	2021	<u>1,387</u>
Total minimum lease payments		65,458
Amount representing interest		<u>(641)</u>
Present value of net minimum lease payments (Note 9)		<u>\$ 64,817</u>

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

Rental Income

KIB leases its facilities to a tenant under the terms of a long-term operating lease. Rental income received was \$34,992 and \$34,120 for the years ended December 31, 2016 and 2015, respectively.

Future minimum rental income to be received under the terms of noncancelable operating leases at December 31, 2016 is as follows:

<u>Year Ending</u> <u>December 31,</u>		
2017	\$	34,992
2018		<u>8,748</u>
	\$	<u>43,740</u>

11. RETIREMENT PLANS

KIB maintains a tax-deferred annuity plan qualified under section 403(b) of the Internal Revenue Code. The plan covers all employees of the Organization who meet the age and hour requirements. Employees may make contributions with an elective matching or discretionary contribution by KIB. An employee's contribution may not exceed the maximum amount allowed as determined by the Internal Revenue Code. KIB's plan expense was \$31,566 and \$29,467 for the years ended December 31, 2016 and 2015, respectively.

12. COMMITMENTS AND CONTINGENCIES

In 2016, KIB entered into a "basic services" professional service agreement with the City's Department of Public Works from January 1, 2017 through December 31, 2019. The contract will provide \$268,750 annually to KIB for clean-up and litter abatement programs, neighborhood beautification, youth involvement programs, and corporate days of service as cost-reimbursement received on a monthly basis.

In 2015, KIB entered into a tree planting and maintenance professional service agreement with the City's Department of Public Works from January 1, 2015 through December 31, 2017, with two optional one year renewal periods through December 31, 2019. The contract will provide \$1,000,000 annually to KIB for tree planting and maintenance services. In the two optional one year renewal periods, the contract will provide \$2,000,000 annually.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

In 2013, KIB entered into a Master Operations and Maintenance Agreement with Citizens Energy Group for tree planting and maintenance. The initial statement of work for \$34,280 terminates December 31, 2017. A second statement of work, for \$177,377, terminates December 31, 2019.

KIB entered into a promissory note with Southeast Neighborhood Development, Inc. ("SEND") for \$35,000, due on the sale or transfer of real estate located at KIB's offices in Indianapolis, Indiana. The contingent liability will be recognized as an expense at the time of the sale or transfer of the real estate.

13. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Eli Lilly and Company - Lilly Day of Service	\$ 42,642	\$ 148,090
Lilly Endowment grant	300,000	300,000
Pocket Park Sustainability fund	160,000	160,000
Other grants	24,736	67,136
Endowment fund	<u>12,132</u>	<u>10,480</u>
Total temporarily restricted net assets	<u>\$ 539,510</u>	<u>\$ 685,706</u>

14. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions, due to the satisfaction of donor-imposed restrictions, totaled \$812,646 and \$1,050,091 for the years ended December 31, 2016 and 2015, respectively. The assets were used for program expenses and operations as stipulated by the donors.

15. RELATED PARTY TRANSACTIONS

KIB paid architectural and expansion project expenses of \$13,860 to two (2) companies and \$26,536 to one (1) company for the years ended December 31, 2016 and 2015, respectively, where board members are employed.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016 AND 2015

16. CONCENTRATION OF CREDIT RISK

Cash and Cash Equivalents

KIB maintains its cash and cash equivalents in bank deposit accounts which, at times, may exceed federally insured limits. KIB has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts Receivable, Pledges Receivable and Support and Revenues

As of and for the year ended December 31, 2016, two (2) customers represented 74% of accounts receivable, three (3) donors represented 93% of pledges receivable and two (2) customer represented 49% of support and revenues.

As of and for the year ended December 31, 2015, two (2) customers represented 70% of accounts receivable, four (4) donors represented 96% of pledges receivable and one (1) customer represented 35% of support and revenues.