



FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016



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, 2017 and 2016, 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, 2017 and 2016 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

May 16, 2018

KEEP INDIANAPOLIS BEAUTIFUL, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2017 AND 2016

<u>ASSETS</u>		
	<u>2017</u>	<u>2016</u>
Current Assets:		
Cash and cash equivalents	\$ 992,774	\$ 862,991
Investments	159,662	140,782
Accounts receivable	224,762	179,718
Pledges receivable	73,261	62,000
Grant receivable	125,000	-0-
Prepaid expenses and other assets	2,434	1,645
Total current assets	1,577,893	1,247,136
Pledges Receivable	72,000	46,000
Grant Receivable	125,000	-0-
Property and Equipment, Net	3,105,378	3,138,542
Endowment Investments	58,530	52,051
Total assets	\$ 4,938,801	\$ 4,483,729
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Current maturities of long-term debt	\$ 58,327	\$ 71,834
Accounts payable	73,372	92,798
Accrued expenses and other liabilities	81,036	45,039
Total current liabilities	212,735	209,671
Long-Term Debt	676,091	734,142
Total liabilities	888,826	943,813
Net Assets:		
Unrestricted net assets	2,995,773	2,960,487
Temporarily restricted net assets	1,014,283	539,510
Permanently restricted net assets	39,919	39,919
Total net assets	4,049,975	3,539,916
Total liabilities and net assets	\$ 4,938,801	\$ 4,483,729

See accompanying Notes to Financial Statements.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Changes in Unrestricted Net Assets		
Public Support and Revenues:		
Contributions	\$ 1,457,810	\$ 1,090,395
In-kind contributions - program supplies	<u>74,807</u>	<u>208,768</u>
Total public support and revenues	<u>1,532,617</u>	<u>1,299,163</u>
Program Revenues:		
Contract revenue	1,810,394	1,429,411
Fees for services	<u>15,651</u>	<u>18,188</u>
Total program revenues	<u>1,826,045</u>	<u>1,447,599</u>
Other Revenues:		
Interest and investment income, net	17,847	9,995
Other income, net	<u>52,123</u>	<u>39,544</u>
Total other revenues	<u>69,970</u>	<u>49,539</u>
Net Assets Released from Restrictions	<u>541,706</u>	<u>812,646</u>
Total unrestricted support and revenues	<u>3,970,338</u>	<u>3,608,947</u>
Expenses:		
Program services:		
Beautification and Placemaking	1,201,967	1,235,079
Community Forestry	1,048,071	529,384
Youth Programming	<u>693,707</u>	<u>782,433</u>
Total program services	2,943,745	2,546,896
Supporting services:		
Management and general	581,015	572,196
Fundraising	<u>410,292</u>	<u>406,288</u>
Total operating expenses	<u>3,935,052</u>	<u>3,525,380</u>
Increase in unrestricted net assets	<u>35,286</u>	<u>83,567</u>
Changes in Temporarily Restricted Net Assets		
Contributions	1,010,000	664,798
Interest and investment income, net	6,479	1,652
Net assets released from restrictions	<u>(541,706)</u>	<u>(812,646)</u>
Increase (decrease) in temporarily restricted net assets	<u>474,773</u>	<u>(146,196)</u>
Changes in Permanently Restricted Net Assets		
Contributions	<u>-0-</u>	<u>10,000</u>
Total increase (decrease) in net assets	510,059	(52,629)
Net Assets, Beginning of Year	<u>3,539,916</u>	<u>3,592,545</u>
Net Assets, End of Year	<u>\$ 4,049,975</u>	<u>\$ 3,539,916</u>

See accompanying Notes to Financial Statements.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2017 (WITH COMPARATIVE TOTALS FOR 2016)

	Program Services					2017 Total	2016 Total
	Beautification and Placemaking	Community Forestry	Youth Programming	Management and General	Fundraising		
Labor and Benefits:							
Salaries	\$ 340,290	\$ 299,455	\$ 411,905	\$ 299,455	\$ 231,397	\$ 1,582,502	\$ 1,367,783
Employee benefits	40,520	35,656	22,691	35,656	27,553	162,076	152,070
Payroll taxes and expense	26,331	23,171	35,214	23,171	17,905	125,792	110,062
Total labor and benefits	407,141	358,282	469,810	358,282	276,855	1,870,370	1,629,915
Other Expenses:							
Program supplies	285,889	430,267	117,185	7,150	3,502	843,993	714,981
Outside services	321,443	114,707	325	119,495	39,550	595,520	504,333
Depreciation	57,121	55,081	55,081	18,360	18,360	204,003	177,671
In-kind contributions - program supplies	60,421	825	6,519	4,847	2,195	74,807	208,768
Interest expense	13,045	12,579	12,579	2,621	2,621	43,445	45,668
Meals	9,672	3,278	190	6,785	23,292	43,217	39,241
Insurance	9,902	9,225	7,994	7,898	4,562	39,581	31,635
Telephone	7,176	6,314	4,018	6,315	4,879	28,702	20,090
Rent	-0-	26,156	-0-	-0-	-0-	26,156	-0-
Utilities	6,856	7,385	6,611	2,205	2,204	25,261	24,730
Seminars	3,041	5,118	1,573	10,478	4,375	24,585	37,786
Contract labor	2,500	-0-	-0-	16,271	1,700	20,471	17,795
Office expenses	5,264	6,732	4,918	1,597	1,685	20,196	14,923
Printing	349	165	145	1,816	16,979	19,454	15,666
Vehicle repairs and maintenance	4,864	4,864	2,433	-0-	-0-	12,161	10,519
Building repairs and maintenance	3,135	3,023	3,023	1,007	1,008	11,196	12,499
Loss on disposal of assets	-0-	-0-	-0-	10,814	-0-	10,814	973
Postage	699	674	674	224	5,745	8,016	4,624
Travel	1,829	2,676	269	23	343	5,140	4,117
Dues and subscriptions	415	559	-0-	3,213	330	4,517	3,911
Advertising	963	161	360	1,126	54	2,664	4,430
Miscellaneous	242	-0-	-0-	488	53	783	1,105
Total expenses	<u>\$ 1,201,967</u>	<u>\$ 1,048,071</u>	<u>\$ 693,707</u>	<u>\$ 581,015</u>	<u>\$ 410,292</u>	<u>\$ 3,935,052</u>	<u>\$ 3,525,380</u>

See accompanying Notes to Financial Statements.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2016

	Program Services			Management and General	Fundraising	Total
	Beautification and Placemaking	Community Forestry	Youth Programming			
Labor and Benefits:						
Salaries	\$ 350,931	\$ 147,164	\$ 360,273	\$ 316,969	\$ 192,446	\$ 1,367,783
Employee benefits	47,142	19,769	16,727	42,580	25,852	152,070
Payroll taxes and expense	<u>27,306</u>	<u>11,451</u>	<u>31,666</u>	<u>24,665</u>	<u>14,974</u>	<u>110,062</u>
Total labor and benefits	425,379	178,384	408,666	384,214	233,272	1,629,915
Other Expenses:						
Program supplies	327,675	232,455	128,547	15,898	10,406	714,981
Outside services	206,191	-0-	142,256	87,804	68,082	504,333
Depreciation	49,748	47,971	47,971	15,991	15,990	177,671
In-kind contributions - program supplies	162,552	6,107	15,400	874	23,835	208,768
Interest expense	12,787	12,330	12,330	4,112	4,109	45,668
Meals	9,923	2,081	326	6,781	20,130	39,241
Insurance	7,721	6,303	6,167	8,486	2,958	31,635
Telephone	6,228	2,612	2,210	5,625	3,415	20,090
Utilities	6,924	6,677	6,677	2,226	2,226	24,730
Seminars	1,770	1,879	629	30,620	2,888	37,786
Contract labor	-0-	17,545	-0-	-0-	250	17,795
Office expenses	4,178	4,029	4,029	1,344	1,343	14,923
Printing	911	-0-	45	1,859	12,851	15,666
Vehicle repairs and maintenance	4,208	4,208	2,103	-0-	-0-	10,519
Building repairs and maintenance	3,500	3,375	3,375	1,124	1,125	12,499
Loss on disposal of assets	-0-	-0-	-0-	973	-0-	973
Postage	706	680	680	227	2,331	4,624
Travel	2,539	1,468	112	(176)	174	4,117
Dues and subscriptions	140	550	180	2,381	660	3,911
Advertising	1,784	730	730	943	243	4,430
Miscellaneous	<u>215</u>	<u>-0-</u>	<u>-0-</u>	<u>890</u>	<u>-0-</u>	<u>1,105</u>
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>

See accompanying Notes to Financial Statements.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	\$ 510,059	\$ (52,629)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	204,003	177,671
Loss on disposal of asset	10,814	973
Donated investments	(2,405)	(50,384)
Net realized and unrealized gains on investments	(16,816)	(8,597)
Changes in operating assets and liabilities:		
Accounts receivable	(45,044)	84,004
Pledges receivable	(37,261)	80,237
Grant receivable	(250,000)	-0-
Prepaid expenses and other assets	(789)	58,010
Accounts payable and accrued expenses	16,571	10,999
Net cash provided by operating activities	<u>389,132</u>	<u>300,284</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(129,969)	(124,963)
Proceeds received from sale of investments	2,319	39,428
Purchase of investments	(8,457)	(3,672)
Net cash used in investing activities	<u>(136,107)</u>	<u>(89,207)</u>
Cash Flows from Financing Activities:		
Principal payments on long-term debt	<u>(123,242)</u>	<u>(85,589)</u>
Net increase in cash and cash equivalents	129,783	125,488
Cash and Cash Equivalents, Beginning of Year	<u>862,991</u>	<u>737,503</u>
Cash and Cash Equivalents, End of Year	<u>\$ 992,774</u>	<u>\$ 862,991</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ 43,445</u>	<u>\$ 45,668</u>
Non-Cash Investing and Financing Activities		
Equipment purchased under capital lease	<u>\$ 51,684</u>	<u>\$ 41,935</u>

See accompanying Notes to Financial Statements.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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, pledges receivable and grant 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. 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, 2017 AND 2016

Revenue Recognition and Accounts Receivable, Pledges Receivable and Grant 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, 2017 and 2016.

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 \$74,807 and \$208,768 for the years ended December 31, 2017 and 2016, 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, 2017 AND 2016

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, 2017, 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, 2014.

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 and financial performance 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.

Reclassification

Certain amounts from 2016 have been reclassified herein to conform to the 2017 presentation.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Subsequent Events

Subsequent events have been evaluated through May 16, 2018, which is the date the financial statements were available for issuance (Note 17).

2. PLEDGES AND GRANT 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>2017</u>	<u>2016</u>
Less than one year	\$ 198,261	\$ 62,000
One to five years	<u>197,000</u>	<u>46,000</u>
	<u>\$ 395,261</u>	<u>\$ 108,000</u>

3. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2017 and 2016 include the following:

	<u>2017</u>	<u>2016</u>
Land	\$ 390,735	\$ 390,735
Building and building improvements	3,076,741	3,056,299
Office furniture and equipment	449,541	394,290
Vehicles and trailers	<u>516,558</u>	<u>446,644</u>
	4,433,575	4,287,968
Less accumulated depreciation	<u>1,328,197</u>	<u>1,149,426</u>
	<u>\$ 3,105,378</u>	<u>\$ 3,138,542</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. KIB was entitled to annual draws as calculated by CICF. 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, 2017 AND 2016

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, 2017 include the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ 159,662	\$ -0-	\$ -0-	\$ 159,662
Endowment investments	<u>-0-</u>	<u>-0-</u>	<u>58,530</u>	<u>58,530</u>
	<u>\$ 159,662</u>	<u>\$ -0-</u>	<u>\$ 58,530</u>	<u>\$ 218,192</u>

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>

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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 for assets measured at fair value by Level 3 inputs were \$6,479 and \$1,652 for the years ended December 31, 2017 and 2016, 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, 2017 and 2016 include the following:

	2017		2016	
	Cost	Market	Cost	Market
Equities	\$ 163,459	\$ 159,662	\$ 154,462	\$ 140,782
CICF/Endowment	47,134	58,530	45,209	52,051
	<u>\$ 210,593</u>	<u>\$ 218,192</u>	<u>\$ 199,671</u>	<u>\$ 192,833</u>

Interest and investment income (loss) and its classification in the Statements of Activities and Changes in Net Assets for the years ended December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Endowment investment return:		
Interest and dividend income	\$ 472	\$ 367
Net realized gains	2,400	898
Net unrealized gains	4,554	1,009
Administrative expenses	(947)	(622)
	<u>6,479</u>	<u>1,652</u>
Investment return:		
Interest and dividend income	7,985	3,305
Net realized losses	(21)	(540)
Net unrealized gains	9,883	7,230
	<u>17,847</u>	<u>9,995</u>
	<u>\$ 24,326</u>	<u>\$ 11,647</u>

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

7. ENDOWMENT FUNDS

KIB's donor-designated endowment was 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, 2017 and 2016.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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, 2017 and 2016, 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, 2015	\$ -0-	\$ 10,480	\$ 29,919	\$ 40,399
Additions to endowment	-0-	-0-	10,000	10,000
Investment return:				
Net appreciation, realized and unrealized	-0-	1,652	-0-	1,652
Endowment fund December 31, 2016	-0-	12,132	39,919	52,051
Investment return:				
Net appreciation, realized and unrealized	-0-	6,479	-0-	6,479
Endowment fund December 31, 2017	<u>\$ -0-</u>	<u>\$ 18,611</u>	<u>\$ 39,919</u>	<u>\$ 58,530</u>

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

8. LINE OF CREDIT

KIB has \$250,000 of available borrowings under a line of credit with a bank until May 2019, at which time it is subject to renewal. Borrowings under the facility bear interest at the bank's prime lending rate (4.50% at December 31, 2017). The line of credit is secured by substantially all assets of KIB, including a mortgage on the facility. There were no borrowings on the line of credit at December 31, 2017 and 2016, respectively.

9. LONG-TERM DEBT

Long-term debt at December 31, 2017 and 2016 includes the following:

	<u>2017</u>	<u>2016</u>
Note payable to bank payable in monthly installments of \$5,834 including interest computed at 6.5% (refinanced in 2018, see Note 17).	\$ 483,641	\$ 555,129
Note payable to bank payable in monthly installments of \$1,141 plus interest computed at the bank's prime lending rate of 4.50% at December 31, 2017 (refinanced in 2018, see Note 17).	172,334	186,030
Equipment under capital leases; bearing interest ranging from 0.0% to 4.0%, payable in monthly installments aggregating \$2,257 including interest expiring at various dates through March 2022, secured by the related assets (Note 10).	<u>78,443</u>	<u>64,817</u>
Less current maturities	734,418 <u>58,327</u>	805,976 <u>71,834</u>
	<u>\$ 676,091</u>	<u>\$ 734,142</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, 2017 AND 2016

Annual maturities of long-term debt at December 31, 2017 are as follows:

<u>December 31,</u>	
2018	\$ 58,327
2019	72,058
2020	74,910
2021	71,305
2022	64,655
Thereafter	<u>393,163</u>
	<u>\$ 734,418</u>

10. LEASING ARRANGEMENT

Capital Leases

KIB leases equipment under the terms of various capital leases. Equipment under capital leases amounted to \$136,768 and \$121,130 less accumulated depreciation of \$42,393 and \$44,310 at December 31, 2017 and 2016, respectively.

Future minimum lease payments due under the terms of the capital lease at December 31, 2017 are as follows:

	<u>Year Ending</u> <u>December 31,</u>	
	2018	\$ 27,079
	2019	19,922
	2020	19,747
	2021	12,809
	2022	<u>2,856</u>
Total minimum lease payments		82,413
Amount representing interest		<u>(3,970)</u>
Present value of net minimum lease payments (Note 9)		<u>\$ 78,443</u>

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

Operating Lease

KIB leases office space under the terms of an operating lease requiring monthly payments ranging from \$4,359 to \$4,490 through May 2020. For the year ended December 31, 2017, total rent expense was \$26,156.

Future minimum lease payments due under the terms of the capital lease at December 31, 2017 are as follows:

<u>Year Ending December 31,</u>	
2018	\$ 52,312
2019	53,097
2020	<u>17,960</u>
	<u>\$ 123,369</u>

Rental Income

KIB leases its facilities to a tenant under the terms of a long-term operating lease. Rental income received was \$34,992 for the years ended December 31, 2017 and 2016.

Future minimum rental income to be received under the terms of noncancelable operating leases at December 31, 2017 is as follows:

<u>Year Ending December 31,</u>	
2018	\$ 35,788
2019	36,838
2020	37,888
2021	38,938
2022	39,988
Thereafter	<u>10,060</u>
	<u>\$ 199,500</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 \$39,118 and \$31,566 for the years ended December 31, 2017 and 2016, respectively.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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. As of December 31, 2017, the Organization has earned \$268,750 and has a remaining balance of \$537,500 to be earned in future periods.

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. In 2017, the City exercised its option to extend the term of the agreement for one year through December 31, 2018. The contract provides \$1,000,000 annually to KIB for tree planting and maintenance services. The remaining optional one year renewal period through December 31, 2019 would provide up to an additional \$2,000,000. As of December 31, 2017, the Organization has earned \$3,105,528 and has a remaining balance of up to \$3,000,000 to be earned in future periods, if all options are exercised.

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, for tree planting and care, terminated December 31, 2017. KIB earned \$27,029 of these revenues prior to the agreement expired. A second statement of work for \$177,377, for green infrastructure maintenance, terminates December 31, 2019. A third statement of work for \$4,988,465, for tree planting and care, terminates December 31, 2027. As of December 31, 2017, the Organization has earned \$338,342 and has a remaining balance of \$4,827,500 to be earned in future periods from these agreements.

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.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

13. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
White River Habitat Restoration	\$ 418,772	\$ -0-
Time restricted for future operations	300,000	300,000
Pocket Park Sustainability fund	191,900	160,000
Technology upgrade	50,000	-0-
Greenspace and Pocket Park support	35,000	-0-
Endowment fund	18,611	12,132
Lilly Day of Service	-0-	42,642
Other grants	<u>-0-</u>	<u>24,736</u>
Total temporarily restricted net assets	<u>\$ 1,014,283</u>	<u>\$ 539,510</u>

14. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions, due to the satisfaction of donor-imposed restrictions, totaled \$541,706 and \$812,646 for the years ended December 31, 2017 and 2016, 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 and program supplies of \$26,634 and \$13,860 to two (2) companies for the years ended December 31, 2017 and 2016, respectively, where board members are employed.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017 AND 2016

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, Grant Receivable, and Support and Revenues

As of and for the year ended December 31, 2017, one (1) customer represented 83% of accounts receivable, four (4) donors represented 80% of pledges receivable, one (1) grantor represented 100% of grant receivable and three (3) customer/grantors represented 53% of 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.

17. SUBSEQUENT EVENTS

Effective May 4, 2018, KIB refinanced the existing line of credit (Note 8) and two notes payable to bank which had an aggregate balance of \$655,975 (Note 9) at December 31, 2017.