



FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012



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 statement of financial position as of December 31, 2013, and the related statements of activities and changes in net assets, 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 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, 2013 and the changes in net assets, functional expenses, and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Adjustments to Prior Period Financial Statements

The financial statements of Keep Indianapolis Beautiful, Inc. as of December 31, 2012, were audited by other auditors whose report dated April 23, 2013, expressed an unmodified opinion on those statements. As discussed in Note 14 to the financial statements, the Organization has adjusted its 2012 financial statement to retrospectively apply the correction of an error. The other auditors reported on the financial statement before the retrospective adjustment.

As part of our audit of the 2013 financial statements, we also audited the adjustments to the 2011, financial statements to retrospectively apply the correction of an error as described in Note 14. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to Keep Indianapolis Beautiful, Inc.'s 2011 financial statement other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2011 financial statements as a whole.

A leading CPA Group

April 17, 2014

KEEP INDIANAPOLIS BEAUTIFUL, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2013 AND 2012

	<u>ASSETS</u>	
	<u>2013</u>	<u>2012</u>
Assets:		
Cash and cash equivalents	\$ 1,377,993	\$ 1,575,086
Accounts receivable	242,918	208,237
Pledges receivable	282,244	328,955
Prepaid expenses and other assets	14,144	33,485
Property and equipment, net	2,793,328	2,786,340
Endowment investments	<u>39,363</u>	<u>34,881</u>
Total assets	<u>\$ 4,749,990</u>	<u>\$ 4,966,984</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Long-term debt	\$ 985,444	\$ 1,005,398
Accounts payable	42,423	39,492
Accrued expenses and other liabilities	<u>40,645</u>	<u>49,013</u>
Total liabilities	<u>1,068,512</u>	<u>1,093,903</u>
Net Assets:		
Unrestricted net assets	2,461,268	2,433,553
Temporarily restricted net assets	1,190,291	1,409,609
Permanently restricted net assets	<u>29,919</u>	<u>29,919</u>
Total net assets	<u>3,681,478</u>	<u>3,873,081</u>
Total liabilities and net assets	<u>\$ 4,749,990</u>	<u>\$ 4,966,984</u>

See accompanying Notes to Financial Statements.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Changes in Unrestricted Net Assets		
Public Support and Revenues:		
Contributions	\$ 878,026	\$ 578,574
In-kind contributions - program supplies	383,113	708,853
Total public support and revenues	<u>1,261,139</u>	<u>1,287,427</u>
Program Revenues:		
Contract revenue	1,025,726	910,613
Fees for services	13,609	29,850
Total program revenues	<u>1,039,335</u>	<u>940,463</u>
Other Revenues:		
Interest and investment income	7,271	9,514
Other income, net	46,077	8,481
Total other revenue	<u>53,348</u>	<u>17,995</u>
Net Assets Released from Restrictions	<u>1,572,516</u>	<u>1,611,786</u>
Total unrestricted support and revenues	<u>3,926,338</u>	<u>3,857,671</u>
Expenses:		
Program services:		
Beautification and Placemaking	1,759,927	1,537,583
Community Forestry	808,702	1,018,185
Youth Programming	541,971	541,904
Total program services	<u>3,110,600</u>	<u>3,097,672</u>
Supporting services:		
Management and general	502,522	468,888
Fundraising	285,501	249,098
Total operating expenses	<u>3,898,623</u>	<u>3,815,658</u>
Increase in unrestricted net assets	<u>27,715</u>	<u>42,013</u>
Changes in Temporarily Restricted Net Assets		
Contributions	1,353,198	1,379,720
Net assets released from restrictions	<u>(1,572,516)</u>	<u>(1,611,786)</u>
Decrease in temporarily restricted net assets	<u>(219,318)</u>	<u>(232,066)</u>
Total decrease in net assets	<u>(191,603)</u>	<u>(190,053)</u>
Net Assets, Beginning of Year, As Reported	3,873,081	4,039,614
Prior Period Adjustment (Note 14)	<u>-0-</u>	<u>23,520</u>
Net Assets, Beginning of Year, As Restated	<u>3,873,081</u>	<u>4,063,134</u>
Net Assets, End of Year	<u>\$ 3,681,478</u>	<u>\$ 3,873,081</u>

See accompanying Notes to Financial Statements.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2013 (WITH COMPARATIVE TOTALS FOR 2012)

	Program Services			Management and General	Fundraising	2013 Total	2012 Total
	Beautification and Placemaking	Community Forestry	Youth Programming				
Labor and Benefits:							
Salaries	\$ 273,735	\$ 188,783	\$ 252,449	\$ 235,978	\$ 160,465	\$ 1,111,410	\$ 1,114,464
Employee benefits	34,066	23,495	10,573	29,366	19,971	117,471	119,646
Payroll taxes and expense	21,384	14,748	21,951	18,435	12,535	89,053	90,734
Total labor and benefits	329,185	227,026	284,973	283,779	192,971	1,317,934	1,324,844
Other Expenses:							
Program supplies	843,965	376,949	107,203	13,988	8,648	1,350,753	881,612
In-kind contributions - program supplies	199,134	92,812	2,050	64,902	21,271	380,169	708,853
Advertising	2,172	728	486	543	243	4,172	4,844
Building repairs and maintenance	2,393	2,393	1,596	798	798	7,978	5,960
Depreciation	39,711	39,711	26,475	13,237	13,237	132,371	145,846
Dues and subscriptions	-0-	1,025	195	2,491	390	4,101	5,129
Insurance	7,938	7,366	4,636	7,199	3,111	30,250	34,750
Interest expense	17,063	17,063	11,375	5,687	5,687	56,875	67,591
Meals	8,437	1,945	-0-	6,254	22,449	39,085	37,698
Miscellaneous	11	15	15	136	43	220	1,004
Office expenses	4,951	4,757	3,171	1,586	1,704	16,169	17,183
Postage	572	572	381	191	1,597	3,313	4,008
Printing	922	-0-	-0-	3,736	6,255	10,913	19,624
Seminars	1,271	6,337	1,903	7,971	304	17,786	9,017
Telephone	6,400	4,414	1,986	5,517	3,752	22,069	20,406
Travel	5,006	5,193	955	38	174	11,366	9,910
Utilities	6,506	6,506	4,337	2,168	2,168	21,685	19,683
Vehicle repairs and maintenance	5,244	5,244	2,621	-0-	-0-	13,109	11,823
Contract labor	100	-0-	-0-	406	100	606	33,104
Outside services	278,946	8,646	87,613	81,895	599	457,699	452,769
Total expenses	<u>\$ 1,759,927</u>	<u>\$ 808,702</u>	<u>\$ 541,971</u>	<u>\$ 502,522</u>	<u>\$ 285,501</u>	<u>\$ 3,898,623</u>	<u>\$ 3,815,658</u>

See accompanying Notes to Financial Statements.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2012

	Program Services					2012 Total
	Beautification and Placemaking	Community Forestry	Youth Programming	Management and General	Fundraising	
Labor and Benefits:						
Salaries	\$ 245,075	\$ 199,691	\$ 297,546	\$ 217,845	\$ 154,307	\$ 1,114,464
Employee benefits	32,305	26,322	11,965	28,714	20,340	119,646
Payroll taxes and expense	19,492	15,882	25,761	17,326	12,273	90,734
Total labor and benefits	296,872	241,895	335,272	263,885	186,920	1,324,844
Other Expenses:						
Program supplies	488,011	266,534	110,116	14,797	2,154	881,612
In-kind contributions - program supplies	263,397	374,390	1,212	69,854	-0-	708,853
Advertising	3,161	722	481	239	241	4,844
Building repairs and maintenance	1,788	1,788	1,192	596	596	5,960
Depreciation	43,754	43,754	29,169	14,584	14,585	145,846
Dues and subscriptions	80	1,180	575	2,969	325	5,129
Insurance	9,062	8,579	5,269	8,047	3,793	34,750
Interest expense	20,277	20,277	13,518	6,760	6,759	67,591
Meals	6,804	1,674	13,099	5,362	10,759	37,698
Miscellaneous	1	25	-0-	978	-0-	1,004
Office expenses	5,116	5,116	3,411	1,705	1,835	17,183
Postage	789	649	433	216	1,921	4,008
Printing	3,901	963	-0-	1,729	13,031	19,624
Seminars	170	5,505	25	2,744	573	9,017
Telephone	5,510	4,489	2,041	4,897	3,469	20,406
Travel	2,615	4,550	2,905	(229)	69	9,910
Utilities	5,905	5,905	3,937	1,968	1,968	19,683
Vehicle repairs and maintenance	4,729	4,729	2,365	-0-	-0-	11,823
Contract labor	32,854	-0-	-0-	150	100	33,104
Outside services	342,787	25,461	16,884	67,637	-0-	452,769
Total expenses	<u>\$ 1,537,583</u>	<u>\$ 1,018,185</u>	<u>\$ 541,904</u>	<u>\$ 468,888</u>	<u>\$ 249,098</u>	<u>\$ 3,815,658</u>

See accompanying Notes to Financial Statements.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash Flows from Operating Activities:		
Decrease in net assets	\$ (191,603)	\$ (190,053)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	132,371	145,846
Net realized and unrealized gains on investments	(4,562)	(5,317)
Changes in operating assets and liabilities:		
Accounts receivable	(34,681)	(101,790)
Pledges receivable	46,711	238,557
Prepaid expenses and other assets	19,341	(32,135)
Accounts payable and accrued expenses	<u>(5,437)</u>	<u>35,497</u>
Net cash provided by (used in) operating activities	<u>(37,860)</u>	<u>90,605</u>
Cash Flows from Investing Activities:		
Purchase of property and equipment	(103,313)	(15,977)
Proceeds received from sale of investments	538	105,208
Purchase of investments	<u>(458)</u>	<u>(455)</u>
Net cash provided by (used in) investing activities	<u>(103,233)</u>	<u>88,776</u>
Cash Flows from Financing Activities:		
Principal payments on long-term debt	<u>(56,000)</u>	<u>(158,395)</u>
Net increase (decrease) in cash and cash equivalents	(197,093)	20,986
Cash and Cash Equivalents, Beginning of Year	<u>1,575,086</u>	<u>1,554,100</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,377,993</u>	<u>\$ 1,575,086</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ 56,875</u>	<u>\$ 67,591</u>
Non-Cash Investing and Financing Activities		
Office equipment purchased under capital lease	<u>\$ 36,046</u>	<u>\$ -0-</u>

See accompanying Notes to Financial Statements.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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 place making, community forestry and youth programming. KIB also contracts with the City on community improvement 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 collectibility 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. 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, 2013 AND 2012

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. 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, 2013 and 2012.

Property, 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 for program activities at an estimated fair value of \$380,169 and \$708,853 for the years ended December 31, 2013 and 2012, 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 generally accepted accounting principles.

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, 2013 AND 2012

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 exempt purpose of the organization as required by GAAP, including consideration of any unrelated business income tax. As of December 31, 2013, 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, 2010.

Reclassification

Certain amounts from the 2012 statement of financial position, statement of activities and changes in net assets, statement of functional expenses and statement of cash flows have been reclassified herein to conform to the 2013 presentation.

Subsequent Events

Subsequent events have been evaluated through April 17, 2014, which is the date the financial statements were available for issuance.

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>2013</u>	<u>2012</u>
Less than one year	\$ 74,000	\$ 114,689
One to five years	<u>247,978</u>	<u>254,000</u>
	321,978	368,689
Less discounts to net present value	<u>39,734</u>	<u>39,734</u>
	<u>\$ 282,244</u>	<u>\$ 328,955</u>

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

3. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2013 and 2012 include the following:

	<u>2013</u>	<u>2012</u>
Land	\$ 269,253	\$ 269,253
Building and building improvements	2,719,709	2,673,555
Office furniture and equipment	311,447	225,408
Landscape equipment	83,199	83,199
Vehicles	<u>149,609</u>	<u>149,609</u>
	3,533,217	3,401,024
Less accumulated depreciation	<u>739,889</u>	<u>614,684</u>
	<u>\$ 2,793,328</u>	<u>\$ 2,786,340</u>

4. BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

KIB is 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 maintains variance power. Accordingly, the pass-through fund has not been recorded in the financial statements presented herein. KIB is entitled to annual draws as calculated by CICF. KIB has contributed \$1,350 to the pass-through fund which is included in "prepaid expenses and other assets" in the statement of financial position. The pass-through fund balance as of December 31, 2013 and 2012 was \$20,952 and \$21,420, respectively. There were no draws on the pass-through fund during the years ended December 31, 2013 and 2012.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

5. FAIR VALUE MEASUREMENTS AND INVESTMENTS

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.

KIB has endowment investments held at CICF (Level 3) having a fair value of \$39,363 and \$34,881 at December 31, 2013 and 2012, respectively. Net realized and unrealized gains and investment income for assets measured at fair value by Level 3 inputs were \$4,482 and \$3,309 for the years ended December 31, 2013 and 2012, respectively.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

Interest and investment income and its classification in the Statements of Activities and Changes in Net Assets for the years ended December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Endowment investment return:		
Interest and dividend income	\$ 458	\$ 455
Net realized gains	1,545	538
Net unrealized gains	3,017	2,804
Administrative expenses	<u>(538)</u>	<u>(488)</u>
	4,482	3,309
Unrestricted interest and dividend income	<u>2,789</u>	<u>6,205</u>
	<u>\$ 7,271</u>	<u>\$ 9,514</u>

6. 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.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

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, 2013 and 2012.

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.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

For the years ending December 31, 2013 and 2012, 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, 2011	\$ -0-	\$ 1,653	\$ 29,919	\$ 31,572
Investment return:				
Net appreciation, realized and unrealized	<u>-0-</u>	<u>3,309</u>	<u>-0-</u>	<u>3,309</u>
Endowment fund December 31, 2012	-0-	4,962	29,919	34,881
Investment return:				
Net appreciation, realized and unrealized	<u>-0-</u>	<u>4,482</u>	<u>-0-</u>	<u>4,482</u>
Endowment fund December 31, 2013	<u>\$ -0-</u>	<u>\$ 9,444</u>	<u>\$ 29,919</u>	<u>\$ 39,363</u>

7. LONG-TERM DEBT

Long-term debt at December 31, 2013 and 2012 includes the following:

	<u>2013</u>	<u>2012</u>
Note payable to bank; 6.5%, payable in monthly installments of \$5,834 including interest through March 2018.	\$ 719,521	\$ 741,320
Note payable to bank; 3.25%, payable in monthly installments of \$1,792 plus interest through July 2014.	229,877	251,377
Equipment under capital lease; bearing interest at 4.0%, payable in monthly installments of \$664 including interest through December 2018, secured by the related asset (Note 8).	<u>36,046</u>	<u>12,701</u>
	<u>\$ 985,444</u>	<u>\$ 1,005,398</u>

The notes payable to bank are secured by substantially all assets of KIB, including a mortgage on the facility, and the credit agreements place restrictive covenants on KIB.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

Annual maturities of long-term debt at December 31, 2013 are as follows:

Year Ending <u>December 31,</u>	
2014	\$ 262,333
2015	32,583
2016	34,584
2017	36,711
2018	<u>619,233</u>
	<u>\$ 985,444</u>

8. LEASING ARRANGEMENT

Capital Leases

KIB leases equipment under the terms of various capital leases. Equipment under capital leases amounted to \$36,046 and \$75,019 less accumulated depreciation of \$601 and \$62,767 at December 31, 2013 and 2012, respectively.

Future minimum lease payments due under the terms of the capital lease at December 31, 2013 are as follows:

Year Ending <u>December 31,</u>	
2014	\$ 7,966
2015	7,966
2016	7,966
2017	7,966
2018	<u>7,966</u>
Total minimum lease payments	39,830
Amount representing interest at 4%	<u>(3,784)</u>
Present value of net minimum lease payments (Note 7)	<u>\$ 36,046</u>

Rental Income

KIB leases its facilities to a tenant under the terms of a long-term operating lease which commenced in February 2013. Rental income received was \$24,912 for the year ended December 31, 2013.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

Future minimum rental income to be received under the terms of noncancelable operating leases at December 31, 2013 are as follows:

<u>Year Ending December 31,</u>	
2014	\$ 30,625
2015	34,125
2016	35,000
2017	35,000
2018	<u>8,750</u>
	<u>\$ 143,500</u>

9. 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 \$22,774 and \$22,128 for the years ended December 31, 2013 and 2012, respectively.

10. COMMITMENTS AND CONTINGENCIES

KIB enters into a professional service agreement annually with the City's Department of Public Works. In 2013 and 2012, the contracts provided \$268,750 each year to KIB for beautification, litter and recycling, and administration and awards as cost-reimbursement received on a monthly basis. The revenue may be allocated between the project areas determined by KIB.

KIB entered into professional service agreements with the City's Department of Public Works. In 2013 and 2012, the contracts provided \$1,225,000 and \$925,000, respectively, for tree planting and maintenance services. The 2013 and 2012 contracts will terminate on December 31, 2015 and December 31, 2014, respectively.

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, 2013 AND 2012

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Donor pledges	\$ 255,294	\$ 307,244
Lilly Endowment grant	276,923	276,923
Eli Lilly and Company - Lilly Day of Service	520,789	561,930
Reconnecting to Our Waterways	112,981	226,178
Other grants	<u>24,304</u>	<u>37,334</u>
Total temporarily restricted net assets	<u>\$ 1,190,291</u>	<u>\$ 1,409,609</u>

12. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions, due to the satisfaction of donor-imposed restrictions, totaled \$1,572,516 and \$1,611,786 for the years ended December 31, 2013 and 2012, respectively. The assets were used for program expenses and operations as stipulated by the donors.

13. 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 Revenue

As of and for the year ended December 31, 2013, one (1) customer represented 60% of accounts receivable.

As of and for the year ended December 31, 2013, one (1) donor represented 91% of pledges receivable.

As of and for the years ended December 31, 2013 and 2012, two (2) contributors represented 33% and 31%, respectively, of support and revenues.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013 AND 2012

14. PRIOR PERIOD ADJUSTMENT – CORRECTION OF ERROR

During the year ended December 31, 2013, KIB discovered they had variance power over amounts held in an endowment fund at CICF in prior years that was not previously reported. The correction of this error resulted in a restatement of net assets as follows:

Endowment	\$ 29,919
Amount previously recorded as unrestricted	(8,053)
Investment earnings	<u>1,654</u>
Prior period adjustment	<u>\$ 23,520</u>

15. SUBSEQUENT EVENTS

In February 2014, KIB entered into an agreement with a nursery for delivery of trees from spring 2014 through fall 2016. The agreement terms are for \$83,017 to be paid in three equal installments. KIB has the right to refuse delivery if the trees are not considered in compliance with the agreement's specifications.