



FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017



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, 2018 and 2017, 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, 2018 and 2017 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

July 29, 2019

KEEP INDIANAPOLIS BEAUTIFUL, INC.

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 1,381,385	\$ 992,774
Investments	249,103	159,662
Accounts receivable	143,849	224,762
Pledges receivable	127,849	73,261
Grants receivable	177,500	125,000
Prepaid expenses and other assets	<u>2,500</u>	<u>2,434</u>
Total current assets	2,082,186	1,577,893
Pledges Receivable	304,000	72,000
Grants Receivable	-0-	125,000
Property and Equipment, Net	3,008,058	3,105,378
Endowment Investments	<u>60,717</u>	<u>58,530</u>
Total assets	<u>\$ 5,454,961</u>	<u>\$ 4,938,801</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Current maturities of long-term debt	\$ 72,058	\$ 58,327
Accounts payable	84,425	73,372
Accrued expenses and other liabilities	<u>69,519</u>	<u>81,036</u>
Total current liabilities	226,002	212,735
Long-Term Debt, Net of Unamortized Debt Fees of \$8,399 and \$-0-	<u>595,638</u>	<u>676,091</u>
Total liabilities	<u>821,640</u>	<u>888,826</u>
Net Assets:		
Without donor restrictions	2,975,394	2,995,773
With donor restrictions	<u>1,657,927</u>	<u>1,054,202</u>
Total net assets	<u>4,633,321</u>	<u>4,049,975</u>
Total liabilities and net assets	<u>\$ 5,454,961</u>	<u>\$ 4,938,801</u>

See accompanying Notes to Financial Statements.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Changes in Net Assets Without Donor Restrictions		
Public Support and Revenues:		
Contributions	\$ 1,637,646	\$ 1,457,810
In-kind contributions - program supplies	40,839	74,807
Total public support and revenues	<u>1,678,485</u>	<u>1,532,617</u>
Program Revenues:		
Contract revenue	1,849,461	1,810,394
Fees for services	15,429	15,651
Total program revenues	<u>1,864,890</u>	<u>1,826,045</u>
Other Revenues:		
Interest and investment income (loss), net	(21,261)	17,847
Other income, net	40,702	52,123
Total other revenues	<u>19,441</u>	<u>69,970</u>
Net Assets Released from Donor Restrictions	<u>881,982</u>	<u>541,706</u>
Total support and revenues without donor restrictions	<u>4,444,798</u>	<u>3,970,338</u>
Expenses:		
Program services:		
Beautification	1,397,083	1,201,967
Trees and Native Habitats	1,196,482	1,048,071
Engaging Communities	767,931	693,707
Total program services	<u>3,361,496</u>	<u>2,943,745</u>
Supporting services:		
Management and general	660,251	581,015
Fundraising	443,430	410,292
Total operating expenses	<u>4,465,177</u>	<u>3,935,052</u>
Increase (decrease) in net assets without donor restrictions	<u>(20,379)</u>	<u>35,286</u>
Changes in Net Assets With Donor Restrictions		
Contributions	1,488,276	1,010,000
Interest and investment income (loss), net	(2,569)	6,479
Net assets released from donor restrictions	(881,982)	(541,706)
Increase in net assets with donor restrictions	<u>603,725</u>	<u>474,773</u>
Total increase in net assets	583,346	510,059
Net Assets, Beginning of Year	<u>4,049,975</u>	<u>3,539,916</u>
Net Assets, End of Year	<u>\$ 4,633,321</u>	<u>\$ 4,049,975</u>

See accompanying Notes to Financial Statements.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2018 (WITH COMPARATIVE TOTALS FOR 2017)

	Program Services					2018 Total	2017 Total
	Beautification	Trees and Native Habitats	Engaging Communities	Management and General	Fundraising		
Labor and Benefits:							
Salaries	\$ 365,300	\$ 321,464	\$ 473,609	\$ 321,463	\$ 248,403	\$ 1,730,239	\$ 1,582,502
Employee benefits	42,068	37,019	23,557	37,019	28,608	168,271	162,076
Payroll taxes and expense	<u>27,835</u>	<u>24,495</u>	<u>36,796</u>	<u>24,496</u>	<u>18,925</u>	<u>132,547</u>	<u>125,792</u>
Total labor and benefits	435,203	382,978	533,962	382,978	295,936	2,031,057	1,870,370
Other Expenses:							
Program supplies	309,745	466,169	126,963	8,101	3,795	914,773	843,993
Outside services	485,877	173,360	450	180,652	59,767	900,106	595,520
Depreciation	62,030	59,815	59,815	19,938	19,939	221,537	204,003
In-kind contributions - program supplies	32,985	450	3,559	2,646	1,199	40,839	74,807
Interest expense	10,133	9,772	9,772	3,259	3,255	36,191	43,445
Meals	5,269	1,786	104	3,696	12,688	23,543	43,217
Insurance	9,613	8,459	5,383	8,459	6,538	38,452	39,581
Telephone	7,808	6,871	4,372	6,871	5,308	31,230	28,702
Rent	-0-	52,312	-0-	-0-	-0-	52,312	26,156
Utilities	8,995	9,688	8,673	2,891	2,892	33,139	25,261
Seminars	2,672	4,497	1,382	9,204	3,845	21,600	24,585
Contract labor	2,160	-0-	-0-	14,527	1,469	18,156	20,471
Office expenses	4,206	5,379	3,929	1,278	1,347	16,139	20,196
Printing	400	189	166	2,081	19,473	22,309	19,454
Vehicle repairs and maintenance	5,390	5,390	2,694	-0-	-0-	13,474	12,161
Building repairs and maintenance	3,019	2,911	2,911	969	971	10,781	11,196
Loss on disposal of assets	-0-	-0-	-0-	188	-0-	188	10,814
Postage	440	424	424	141	3,642	5,071	8,016
Travel	2,863	4,189	421	36	537	8,046	5,140
Dues and subscriptions	387	521	-0-	2,994	307	4,209	4,517
Advertising	7,888	1,322	2,951	9,210	440	21,811	2,664
Miscellaneous	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>132</u>	<u>82</u>	<u>214</u>	<u>783</u>
Total expenses	<u>\$ 1,397,083</u>	<u>\$ 1,196,482</u>	<u>\$ 767,931</u>	<u>\$ 660,251</u>	<u>\$ 443,430</u>	<u>\$ 4,465,177</u>	<u>\$ 3,935,052</u>

See accompanying Notes to Financial Statements.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2017

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

See accompanying Notes to Financial Statements.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ 583,346	\$ 510,059
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	221,537	204,003
Loss on disposal of asset	188	10,814
Donated investments	(4,756)	(2,405)
Net realized and unrealized (gains) losses on investments	32,322	(16,816)
Amortization of debt fees included in interest	600	-0-
Changes in operating assets and liabilities:		
Accounts receivable	80,913	(45,044)
Pledges receivable	(286,588)	(37,261)
Grants receivable	72,500	(250,000)
Prepaid expenses and other assets	(66)	(789)
Accounts payable	11,053	(19,426)
Accrued expenses and other liabilities	(11,517)	35,997
Net cash provided by operating activities	699,532	389,132
Cash Flows from Investing Activities:		
Purchase of property and equipment	(124,405)	(129,969)
Proceeds received from sale of investments	2,647	2,319
Purchase of investments	(121,841)	(8,457)
Net cash used in investing activities	(243,599)	(136,107)
Cash Flows from Financing Activities:		
Principal payments on long-term debt	(58,323)	(123,242)
Debt fees	(8,999)	-0-
Net cash used in financing activities	(67,322)	(123,242)
Net increase in cash and cash equivalents	388,611	129,783
Cash and Cash Equivalents, Beginning of Year	992,774	862,991
Cash and Cash Equivalents, End of Year	\$ 1,381,385	\$ 992,774
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	\$ 35,591	\$ 43,445
Non-Cash Investing and Financing Activities		
Equipment purchased under capital lease	\$ -0-	\$ 51,684

See accompanying Notes to Financial Statements.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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. Through partnerships and strategic alliances with citizens, businesses, and government, each year KIB supports over 800 community projects with nearly 20,000 volunteers to clean up, beautify, and improve their neighborhoods, thereby creating healthier, safer, and more livable community environments. Projects include planting trees and native landscapes, creating community spaces, picking up litter, and engaging students of all ages in nature.

The local affiliates are separate nonprofit entities and/or agencies of local governments that are not controlled by KIB, and therefore, their financial position, changes in net assets, and cash flows are not included in the accompanying financial statements.

The core program activities support KIB mission-related community improvement projects. Descriptions of the program activities goals are as follows:

Programs

Beautification including programs such as Adopt-A-Block, the Great Indy Cleanup, and Indy Art and Seek. These programs encourage neighborhood volunteers to participate in community activities by picking up litter, developing pocket parks, conducting community tree plantings, and creating vibrant greenspace projects throughout the city. Additionally, KIB has been charged with the task to create more than 100 new “art interventions” for both residents and visitors to enjoy and inspire neighborhood residents.

Trees and Native Habitats including Community Forestry, IPL Greenspace, and the Youth Tree Team programs. The goals of these programs are to increase Marion County's tree cover by planting 100,000 large trees and to transform vacant lots and underused spaces into natural, beautiful, and functional pocket parks and greenspaces. These programs are partially supported by the teens and young adults of the City by gainfully employing them over seven weeks in the summer to plant over 3,500 trees.

Engaging Communities programs include GreenKids and Pollinator Count. These programs encourage kids and youth to spend more time in nature, which helps prevent obesity, reduce stress, and build self-esteem, but also help restore focus in the classroom and improve cognitive functions, social skills, leadership, and collaboration.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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

Change in Accounting Principle

During 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-14, *Not-For-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-For-Profit Entities*. The update addresses the financial reporting complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment returns for not-for-profit organizations. As required by the update, KIB retrospectively adopted the standard during 2018 and has conformed to the new presentation in the financial statements for all periods presented herein.

Basis of Presentation

Net assets, revenue, support, and expenses are classified based on the existence or absence of donor-imposed restrictions. Net assets without donor restrictions are available to support the general operations of KIB. Net assets with donor restrictions are net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

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 fair value of investments, accounts receivable, pledges receivable and grants 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 and money market accounts. All liquid investments with original maturity dates of three months or less are classified as cash equivalents.

Investments

Investments in marketable securities are reported at their fair values in the Statements of Financial Position. Unrealized gains and losses are included in the changes in net assets. Gains and losses are considered with or without restriction depending on whether external restrictions were imposed on the gains and losses at the time of the initial investment.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Revenue Recognition and Accounts Receivable, Pledges Receivable and Grants Receivable

Pledges and contributions are recognized when the donor makes an unconditional promise to give to KIB either in writing or verbally. Revenues are reported as without donor restrictions or as with donor restrictions. All contributions are considered to be available without restrictions unless the donor stipulates specific limitations as to the use of the gift, pledge or contribution, including passage of time or other terms limiting its uses. Donor-imposed restrictions are released from restriction and transferred to net assets without donor restrictions in the reporting period the restriction is satisfied or expires. KIB reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions are met in the same reporting period in which the support and program revenue is recognized.

Contract revenues relate to fee-for-service arrangements. Under these contracts, KIB receives fees based on specific services rendered. Contract services are recognized on a monthly basis as services are performed over the course of the period specified in the contract. Contract revenues billed in advance are recorded as deferred revenue and recognized as support and revenue over the life of the contract on a straight-line basis or based on actual usage. Deferred revenue of \$25,520 and \$51,040 was recorded in accrued expenses and other liabilities as of December 31, 2018 and 2017, respectively in the Statements of Financial Position.

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, 2018 and 2017.

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 \$40,839 and \$74,807 for the years ended December 31, 2018 and 2017, 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.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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.

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, 2018, 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, 2015.

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.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Subsequent Events

Subsequent events have been evaluated through July 29, 2019, which is the date the financial statements were available for issuance.

2. LIQUIDITY AND AVAILABILITY

At December 31, 2018 and 2017, financial assets available for future general expenditures within one year from the Statements of Financial Position comprise the following:

	<u>2018</u>	<u>2017</u>
Financial assets:		
Cash and cash equivalents	\$ 1,381,385	\$ 992,774
Investments	249,103	159,662
Accounts receivable	143,849	224,762
Pledges receivable	431,849	145,261
Grants receivable	177,500	250,000
Endowment investments	60,717	58,530
	<u>2,444,403</u>	<u>1,830,989</u>
Less amounts not available to be used for general expenditures within one year:		
Donor restricted funds	<u>(1,657,927)</u>	<u>(1,054,202)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 786,476</u>	<u>\$ 776,787</u>

KIB is partially supported by contributions with donor restrictions. Donor restrictions require resources to be used in a particular manner or in a future period. KIB must maintain sufficient resources to meet those responsibilities to its donors. Financial assets may not be available for general expenditure within one year. As part of KIB's liquidity management, its practice is to structure financial assets to be available for its general expenditures, liabilities, and other obligations as they come due.

Investment income from the donor restricted endowment is classified within donor restricted net assets until appropriated for expenditure in a manner consistent with the standard of prudence prescribed by the Uniform Prudent Management of Institutional Funds Act ("UPMIFA").

KIB maintains adequate liquid assets to fund near-term operating needs and maintains sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. In the event of an unanticipated liquidity need, KIB has available borrowings of \$250,000 on the line of credit (Note 9).

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

3. PLEDGES AND GRANTS 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 future years are recorded at their net present value.

	<u>2018</u>	<u>2017</u>
Less than one year	\$ 305,349	\$ 198,261
One to five years	<u>304,000</u>	<u>197,000</u>
	<u>\$ 609,349</u>	<u>\$ 395,261</u>

4. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2018 and 2017 include the following:

	<u>2018</u>	<u>2017</u>
Land	\$ 425,685	\$ 390,735
Building and building improvements	3,091,473	3,076,741
Office furniture and equipment	469,772	449,541
Vehicles and trailers	<u>560,247</u>	<u>516,558</u>
	4,547,177	4,433,575
Less accumulated depreciation	<u>1,539,119</u>	<u>1,328,197</u>
	<u>\$ 3,008,058</u>	<u>\$ 3,105,378</u>

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.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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, 2018 include the following:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments	\$ 139,254	\$ 109,849	\$ -0-	\$ 249,103
Endowment investments	<u>-0-</u>	<u>-0-</u>	<u>60,717</u>	<u>60,717</u>
	<u>\$ 139,254</u>	<u>\$ 109,849</u>	<u>\$ 60,717</u>	<u>\$ 309,820</u>

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>

Investments reported as Level 3 assets represent KIB's pro rata interest in the CICF administered 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.

KIB received \$4,756 of assets measured using Level 1 inputs and transferred them into assets measured using Level 3 inputs during the year ending December 31, 2018.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

6. INVESTMENTS

Investments at December 31, 2018 and 2017 include the following:

	2018		2017	
	Cost	Market	Cost	Market
Equities	\$ 164,945	\$ 136,595	\$ 163,459	\$ 159,662
Bonds	109,917	109,849	-0-	-0-
Exchange Traded Funds	2,947	2,659	-0-	-0-
CICF/Endowment	51,904	60,717	47,134	58,530
	\$ 329,713	\$ 309,820	\$ 210,593	\$ 218,192

Interest and investment income (loss) and its classification in the Statements of Activities and Changes in Net Assets for the years ended December 31, 2018 and 2017 are as follows:

	2018	2017
Endowment investment return:		
Interest and dividend income	\$ 420	\$ 472
Net realized gains	569	2,400
Net unrealized gains (losses)	(2,583)	4,554
Administrative expenses	(975)	(947)
	(2,569)	6,479
Investment return:		
Interest and dividend income	10,719	7,985
Net realized losses	(5,399)	(21)
Net unrealized gains	(24,909)	9,883
Administrative expenses	(1,672)	-0-
	(21,261)	17,847
	\$ (23,830)	\$ 24,326

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.

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The Board of Directors of KIB has interpreted the 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 held in perpetuity (a) the original value of gifts donated to the endowment; and (b) the original value of subsequent gifts to the endowment.

The remaining portion of the donor-restricted endowment fund that is held in perpetuity is classified as net assets with donor restrictions 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; and
- The investment policies of KIB.

Funds with Deficiencies

From time to time, donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). KIB has interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required by law. In accordance with U.S. GAAP, deficiencies of this nature are reported in net assets with donor restrictions. There were no material deficiencies as of December 31, 2018 and 2017.

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, 2018 AND 2017

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, 2018 and 2017, KIB had the following endowment fund related activities:

	<u>2018</u>	<u>2017</u>
Historic gift value	\$ 39,919	\$ 39,919
Accumulated earnings	<u>18,611</u>	<u>12,132</u>
Endowment net assets, beginning of year	<u>58,530</u>	<u>52,051</u>
Additions to endowment	4,756	-0-
Realized gains	569	2,400
Unrealized gains (losses)	(2,583)	4,554
Investment fees, net of dividends and interest	<u>(555)</u>	<u>(475)</u>
Change in endowment net assets	<u>2,187</u>	<u>6,479</u>
Endowment net assets, end of year	<u>\$ 60,717</u>	<u>\$ 58,530</u>
Historic gift value	44,675	39,919
Accumulated earnings	<u>16,042</u>	<u>18,611</u>
Endowment net assets, end of year	<u>\$ 60,717</u>	<u>\$ 58,530</u>

8. DEBT FEES

During 2018, KIB incurred \$8,999 in debt fees related to the note payable to a bank (Note 10). In accordance with U.S. GAAP, KIB classifies debt issuance costs as a liability and is netted against the related debt for which the debt issuance costs were incurred. The amortization of the debt issuance cost is being amortized over the life of the loan and is classified as interest expense on the statement of activities and changes in net assets. Amortization expense was \$600 for the year ended December 31, 2018. At December 31, 2018, unamortized debt fees of \$8,399 are netted against long-term debt on the Statement of Financial Position.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

9. LINE OF CREDIT

KIB has \$250,000 of available borrowings under a line of credit with a bank until May 2020, at which time it is subject to renewal. Borrowings under the facility bear interest at the bank's prime lending rate (5.50% at December 31, 2018). The line of credit is secured by substantially all assets of KIB, including a note payable on the facility. There were no borrowings on the line of credit at December 31, 2018 and 2017, respectively.

10. LONG-TERM DEBT

Long-term debt at December 31, 2018 and 2017 includes the following:

	<u>2018</u>	<u>2017</u>
Note payable to bank payable in monthly installments of \$6,905 including interest computed at 4.862%.	\$ 623,127	\$ 655,975
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 11).	52,968	78,443
	<u>676,095</u>	<u>734,418</u>
Less current maturities	<u>72,058</u>	<u>58,327</u>
	604,037	676,091
Unamortized debt fees	<u>(8,399)</u>	<u>-0-</u>
	<u>\$ 595,638</u>	<u>\$ 676,091</u>

The note payable to bank are secured by and subject to substantially the same terms as the line of credit (Note 9).

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Annual maturities of long-term debt at December 31, 2018 are as follows:

Year Ending <u>December 31,</u>	
2019	\$ 72,058
2020	74,910
2021	71,305
2022	64,655
2023	64,935
Thereafter	<u>328,232</u>
	<u>\$ 676,095</u>

11. LEASING ARRANGEMENT

Capital Leases

KIB leases equipment under the terms of various capital leases (Note 10). Equipment under capital leases amounted to \$136,768 less accumulated depreciation of \$67,010 and \$42,393 at December 31, 2018 and 2017, respectively.

Future minimum lease payments due under the terms of the capital lease at December 31, 2018 are as follows:

Year Ending <u>December 31,</u>	
2019	\$ 19,922
2020	19,747
2021	12,809
2022	<u>2,856</u>
Total minimum lease payments	55,334
Amount representing interest	<u>(2,366)</u>
Present value of net minimum lease payments	<u>\$ 52,968</u>

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 years ended December 31, 2018 and 2017, total rent expense was \$52,312 and \$26,156, respectively.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Future minimum lease payments due under the terms of the operating lease at December 31, 2018 are as follows:

<u>Year Ending December 31,</u>	
2019	\$ 53,097
2020	17,960
	<u>\$ 71,057</u>

Rental Income

KIB leases its facilities to a tenant under the terms of a long-term operating lease. Rental income received was \$35,786 and \$34,992 for the years ended December 31, 2018 and 2017, respectively.

Future minimum rental income to be received under the terms of noncancelable operating leases at December 31, 2018 is as follows:

<u>Year Ending December 31,</u>	
2019	\$ 36,838
2020	37,888
2021	38,938
2022	39,988
2023	10,063
	<u>\$ 163,715</u>

12. 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 contributions were \$41,401 and \$39,118 for the years ended December 31, 2018 and 2017, respectively.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

13. 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, 2018, the Organization has earned \$537,500 and has a remaining balance of \$268,750 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 2018, the City exercised its option to extend the term of the agreement for one year through December 31, 2019. The contract provides \$1,000,000 annually to KIB for tree planting and maintenance services. As of December 31, 2018, the Organization has earned \$4,073,529 and has a remaining balance of up to \$1,000,000 to be earned in future periods.

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 expiring. 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, 2018, the Organization has earned \$818,019 and has a remaining balance of \$4,347,823 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, 2018 AND 2017

14. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Subject to expenditure for specified purpose:		
I-70 Project	\$ 521,735	\$ -0-
Indy Art and Seek	674,520	-0-
White River Habitat Restoration	235,692	418,772
Pocket Park Sustainability fund	77,700	191,900
Greenspace and Pocket Park support	62,500	35,000
Technology upgrade	25,063	50,000
	<u>1,597,210</u>	<u>695,672</u>
Subject to passage of time:		
Time restricted for future years	<u>-0-</u>	<u>300,000</u>
Endowment:		
Held in perpetuity	44,675	39,919
Endowment earnings	16,042	18,611
	<u>60,717</u>	<u>58,530</u>
 Total net assets with donor restrictions	 <u>\$ 1,657,927</u>	 <u>\$ 1,054,202</u>

Net assets released from donor restrictions, due to the satisfaction of donor-imposed restrictions, totaled \$881,982 and \$514,706 for the years ended December 31, 2018 and 2017, 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 \$9,635 and \$26,634 to two (2) companies for the years ended December 31, 2018 and 2017, respectively, where board members are employed.

KEEP INDIANAPOLIS BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

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, Grants Receivable, and Support and Revenues

As of and for the year ended December 31, 2018, three (3) customers represented 85% of accounts receivable, two (2) donors represented 72% of pledges receivable, four (4) grantors represented 100% of grants receivable and one (1) grantor represented 20% of 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 grants receivable and three (3) customer/grantors represented 53% of support and revenues.