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Keep Austin Beautiful, Inc.

Report of Independent Auditor and Financial
Statements

July 31, 2017 and 2016

PMB Helin Donovan

KEEP AUSTIN BEAUTIFUL
INDEX

Report of Independent Auditor	1
Statements of Financial Position July 31, 2017 and 2016	2
Statements of Activities, Years Ended July 31, 2017 and 2016	3-4
Statements of Functional Expenses, Years Ended July 31, 2017 and 2016	5-6
Statements of Cash Flows, Years Ended July 31, 2017 and 2016	7
Notes to the Financial Statements	8-13

Report of Independent Auditor

To the Board of Directors of
Keep Austin Beautiful, Inc.

We have audited the accompanying financial statements of Keep Austin Beautiful, Inc. (the "Organization"), which comprise the statements of financial position as of July 31, 2017 and 2016, and the related statements of activities, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Keep Austin Beautiful, Inc. as of July 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PMB HELIN DONOVAN, LLP

PMB Helin Donovan, LLP

February 28, 2018
Austin, Texas

KEEP AUSTIN BEAUTIFUL
 Statements of Financial Position
 For the Years ended July 31, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 353,839	\$ 268,365
Accounts receivable, net	131,288	105,225
Prepaid expenses and other assets	13,082	2,000
Property and equipment	10,624	7,827
Total assets	\$ 508,833	\$ 383,417
Liabilities and Net Assets		
Accounts payable and accrued expenses	\$ 9,261	\$ 14,948
Accrued vacation	17,524	17,721
	26,785	32,669
Net assets		
Unrestricted	123,946	77,061
Temporarily restricted	358,102	273,687
Permanently restricted	-	-
	482,048	350,748
Total liabilities and net assets	\$ 508,833	\$ 383,417

See accompanying notes and report of independent auditor.

KEEP AUSTIN BEAUTIFUL
Statement of Activities
For the Year ended July 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Contributions	\$ 838,487	\$ -	\$ -	\$ 838,487
Grants	-	114,297	-	114,297
In-kind donations	181,668	-	-	181,668
Miscellaneous revenue	618	-	-	618
Net assets released from restrictions	29,882	(29,882)	-	-
Total revenues and support	<u>1,050,655</u>	<u>84,415</u>	<u>-</u>	<u>1,135,070</u>
Expenses and losses				
Program services	<u>778,264</u>	<u>-</u>	<u>-</u>	<u>778,264</u>
Total program services	<u>778,264</u>	<u>-</u>	<u>-</u>	<u>778,264</u>
Supporting services				
General and administrative	137,949	-	-	137,949
Fundraising	<u>87,557</u>	<u>-</u>	<u>-</u>	<u>87,557</u>
Total supporting services	<u>225,506</u>	<u>-</u>	<u>-</u>	<u>225,506</u>
Total expenses and losses	<u>1,003,770</u>	<u>-</u>	<u>-</u>	<u>1,003,770</u>
Change in net assets	46,885	84,415	-	131,300
Net assets at beginning of year	<u>77,061</u>	<u>273,687</u>	<u>-</u>	<u>350,748</u>
Net assets at end of year	<u>\$ 123,946</u>	<u>\$ 358,102</u>	<u>\$ -</u>	<u>\$ 482,048</u>

See accompanying notes and report of independent auditor.

KEEP AUSTIN BEAUTIFUL
Statement of Activities
For the Year ended July 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Contributions	\$ 606,799	\$ -	\$ -	\$ 606,799
Grants	-	169,218	-	169,218
In-kind donations	215,160	-	-	215,160
Miscellaneous revenue	3,113	-	-	3,113
Net assets released from restrictions	38,766	(38,766)	-	-
Total revenues and support	<u>863,838</u>	<u>130,452</u>	<u>-</u>	<u>994,290</u>
Expenses and losses				
Program services	785,525	-	-	785,525
Total program services	<u>785,525</u>	<u>-</u>	<u>-</u>	<u>785,525</u>
Supporting services				
General and administrative	166,176	-	-	166,176
Fundraising	83,397	-	-	83,397
Total supporting services	<u>249,573</u>	<u>-</u>	<u>-</u>	<u>249,573</u>
Total expenses and losses	<u>1,035,098</u>	<u>-</u>	<u>-</u>	<u>1,035,098</u>
Change in net assets	(171,260)	130,452	-	(40,808)
Net assets at beginning of year	248,321	143,235	-	391,556
Net assets at end of year	<u>\$ 77,061</u>	<u>\$ 273,687</u>	<u>\$ -</u>	<u>\$ 350,748</u>

See accompanying notes and report of independent auditor.

KEEP AUSTIN BEAUTIFUL
Statement of Functional Expenses
For the Year ended July 31, 2017

	Program Services	General and Administrative	Fundraising	Total
Salaries, benefits and payroll taxes	\$ 493,753	\$ 82,944	\$ 65,820	\$ 642,517
In-kind expense	144,022	15,500	12,206	171,728
Direct program cost	57,621	-	-	57,621
Rent	32,520	5,493	4,227	42,240
Depreciation expense	5,155	-	-	5,155
Professional fees	6,154	21,323	-	27,477
Utilities	2,838	-	-	2,838
Public relations and marketing	2,865	1,931	1,865	6,661
Transportation	8,947	-	-	8,947
Insurance	2,387	160	-	2,547
Other miscellaneous expense	22,002	10,598	3,439	36,039
	<u>\$ 778,264</u>	<u>\$ 137,949</u>	<u>\$ 87,557</u>	<u>\$ 1,003,770</u>

See accompanying notes and report of independent auditor.

KEEP AUSTIN BEAUTIFUL
Statement of Functional Expenses
For the Year ended July 31, 2016

	Program Services	General and Administrative	Fundraising	Total
Salaries, benefits and payroll taxes	\$ 457,134	\$ 97,350	\$ 59,358	\$ 613,842
In-kind expense	185,024	10,009	20,127	215,160
Direct program cost	48,643	-	-	48,643
Rent	32,164	4,185	-	36,349
Depreciation expense	4,316	-	-	4,316
Professional fees	5,000	13,305	-	18,305
Utilities	2,196	439	293	2,928
Public relations and marketing	11,946	1,020	1,150	14,116
Transportation	7,377	-	-	7,377
Insurance	1,349	958	-	2,307
Loss on disposal of property and equipment	-	24,629	-	24,629
Other miscellaneous expense	30,376	14,281	2,469	47,126
	<u>\$ 785,525</u>	<u>\$ 166,176</u>	<u>\$ 83,397</u>	<u>\$ 1,035,098</u>

See accompanying notes and report of independent auditor.

KEEP AUSTIN BEAUTIFUL
 Statements of Cash Flows
 For the Years ended July 31, 2017 and 2016

Cash flows from operating activities	<u>2017</u>	<u>2016</u>
Change in net assets	\$ 131,300	\$ (40,808)
Adjustments to reconcile changes in net assets to net cash (used in) provided by operating activities:		
Depreciation on property and equipment	5,155	4,316
Loss on disposal of property and equipment	-	24,629
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable and unbilled revenue	(26,063)	(13,863)
(Increase) decrease in prepaid assets	(11,082)	-
(Decrease) increase in accounts payable and accrued expenses	(5,687)	8,499
(Decrease) increase in other liabilities	(197)	(8,190)
Net cash (used in) provided by operating activities	<u>93,426</u>	<u>(25,417)</u>
 Cash flows from investing activities		
Purchases of property and equipment	<u>(7,952)</u>	<u>-</u>
Net cash used in investing activities	<u>(7,952)</u>	<u>-</u>
 Cash flows from financing activities	<u>-</u>	<u>-</u>
 Net increase (decrease) in cash and cash equivalents	85,474	(25,417)
Cash and cash equivalents at beginning of year	268,365	293,782
Cash and cash equivalents at end of year	<u>\$ 353,839</u>	<u>\$ 268,365</u>

See accompanying notes and report of independent auditor.

KEEP AUSTIN BEAUTIFUL, INC.

Notes to the Financial Statements

July 31, 2017 and 2016

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Keep Austin Beautiful, Inc. (the "Organization") is a 501(c) (3) non-profit organization governed by a volunteer board of directors, was established in 1985 by the Greater Austin Chamber of Commerce to preserve Austin's quality of life. Keep Austin Beautiful's core purpose is to inspire and educate individuals and our community towards greater environmental stewardship. The programs of Keep Austin Beautiful target all businesses and citizens in the greater Austin area through activities that center on environmental education, water quality, non-point source pollution, littering, recycling and beautification. The primary goal of Keep Austin Beautiful is to clean, beautify and protect the Austin environment through physical improvements and hands-on education:

Clean - removing litter from neighborhoods, creeks, and public spaces in collaboration with the community while raising awareness about the impact of litter.

Beautify - building vibrant sustainable communities by empowering neighbors to beautify and restore public spaces.

Recycle - cultivating waste reduction practices within the citizenry in order to divert waste from landfills and transition to a zero-waste culture.

Educate - leading presentations, service-learning projects, and awareness campaigns to nurture environmental consciousness.

Recognize - honoring the most outstanding environmental efforts of individuals, schools, and organizations.

The Keep Austin Beautiful board and staff develop and implement projects and programs in the areas of cleanup, beautification, habitat and creek restoration, and education. Major activities sponsored or supported through the efforts of Keep Austin Beautiful in past years have included the following:

- Environmental Education - providing environmental presentations and activities to students K-12 through Clean Creek Campus, Generation Zero, Green Teens, Patch Pals, and Activity Kits.
- Awards - recognizing positive behavior in all segments of the community
- Keep Austin Beautiful Day - providing opportunities for grassroots involvement in county-wide cleanups on the second Saturday of April for the Great American Cleanup
- Community Cleanups – identifying areas of need, providing cleanup supplies, coordinating trash collection, and recruiting volunteers to provide cleanups year-round
- Adopt a Creek & Adopt a Street - providing the community with an opportunity to take ownership of local creeks and roadways, and help keep them clean.

Summary of Significant Accounting Policies

- (a) **Basis of Presentation** - The Organization's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (GAAP). Under GAAP net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Expenses are classified as unrestricted.

KEEP AUSTIN BEAUTIFUL, INC.

Notes to the Financial Statements

July 31, 2017 and 2016

(Continued)

- (b) Net Asset Classification-** In accordance with GAAP, the Organization classifies its net assets into three categories as follows:

Permanently Restricted - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. The Organization does not have any permanently restricted net assets as of July 31, 2017 and 2016.

Temporarily Restricted - Net assets the use of which is subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time. Temporarily restricted net assets include the portion of donor-restricted endowment funds that have not been appropriated for expenditure by the Organization.

Unrestricted - Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be used for any purpose or designated for specific purposes by action of the Board of Directors.

- (c) Cash and Cash Equivalents** - Cash and cash equivalents consist of cash in checking accounts and interest bearing savings accounts. The Organization considers all highly liquid investments with a purchased maturity of three months or less, purchased for use primarily in operations, to be cash equivalents.
- (d) Contributions and Grants-** Sources of support for the Organization's services are contributions from the community, city and county contracts, grants from organizations and businesses, and program service fees.

Contributions received (including unconditional promises to give) are recorded as unrestricted, temporarily restricted, or permanently restricted support in the period received depending on the existence and/or nature of any donor restrictions. Contributions received which are part of the Organization's ongoing major or central activities are recognized as revenue, while contributions which are peripheral or incidental are recognized as gains. Conditional promises to give (grants) are recognized as the conditions upon which they depend are substantially met. Promises to give are recognized as revenue only if sufficient evidence exists in the form of verifiable documentation that a promise was made and received.

The Organization reports contributions as restricted support if the support is received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Support that is not restricted by the donor is reported as an increase in unrestricted net assets in the reporting period in which the support is recognized. Donated assets are recorded at their estimated fair market values at the date of receipt.

Contributed goods and services are reported at fair value as in-kind support if the goods and services are needed in conducting the programs. Contributed services are reported as in-kind support if the services either (a) create or enhance a non-financial asset, (b) require specialized skills, are provided by those possessing those skills, and would otherwise need to be purchased if they were not donated. The value of the contributed goods and services reported is considered an accounting estimate. These contributed goods and services are expensed as utilized and are included in in-kind expenses on the accompanying statements of activities and of functional expenses. In addition, a number of volunteers have donated time to the Organization's program and support services. These contributions in-kind are not reflected in the financial statements since these services do not meet the criteria for recognition.

KEEP AUSTIN BEAUTIFUL, INC.

Notes to the Financial Statements

July 31, 2017 and 2016

(Continued)

(e) **Accounts Receivable** - Accounts receivable are stated net of an allowance for doubtful accounts. Program service fees included in receivables are individually analyzed for purposes of determining collectability at year end and the Organization had no allowance for the years ended July 31, 2017 and 2016. The Organization evaluates the collectability of its pledges and adequacy of its allowance for doubtful accounts on a periodic basis. The evaluation includes historical loss experience, length of time the pledges are past due and adverse situations that may affect the donor's ability to honor its pledge. The Organization records and adjusts its allowance for bad debt balance as necessary.

(f) **Property and Equipment** - Purchased property and equipment assets are carried at cost. Donated property and equipment assets are recorded at market value at date of donation. The Organization capitalizes all expenditures for property and equipment assets in excess of \$500. Property and equipment are depreciated using the straight-line method over the useful lives of the assets as follows:

Computers	3 years
Leasehold improvements	Shorter of the lease term or 7 years
Vehicles	5 years
Furniture and equipment	15 years

(g) **Income Taxes** - The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except with respect to any unrelated business income. The Organization had no unrelated business income during the years ended July 31, 2017 and 2016. GAAP requires management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by Internal Revenue Service. Management has analyzed the tax positions taken by the plan, and has concluded that as of July 31, 2017 and 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Organization is generally no longer subject to tax examinations relating to US federal tax returns for years prior to the past three years.

(h) **Advertising Expenses** - The Organization expenses advertising costs as incurred. The Organization incurred \$9,772 and \$17,693 in advertising expense for the years ended July 31, 2017 and 2016, respectively. These amounts are reflected in public relations and marketing and other miscellaneous expense on the statement of functional expenses.

(i) **Use of Estimates** - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include allowances for uncollectable accounts receivable and the functional allocation of expenses between program services, general and administrative, and fundraising. Actual results could differ from those estimated.

(j) **Functional Expenses** - The expense information contained in the statements of activities is presented on a functional basis. Accordingly, certain expenses are allocated between functional categories based on management's estimates.

KEEP AUSTIN BEAUTIFUL, INC.

Notes to the Financial Statements

July 31, 2017 and 2016

(Continued)

- (k) Concentration of Credit Risk** - The Organization maintains cash balances at federally insured financial institution. At various times during the years ended July 31, 2017 and 2016, balances in these accounts may have exceeded Federal Deposit Insurance Corporation (FDIC) insured limits. The Organization has not experienced and does not anticipate any credit losses on these deposits.
- (l) Subsequent Events** - The Organization evaluates events that occur subsequent to the statement of financial position date, but before financial statements are issued, for possible adjustment to such financial statements or other disclosure. This evaluation generally occurs through the date at which the Organization's financial statements are issued. For the financial statements as of and for the year ending July 31, 2017, this date was February 28, 2018.
- (m) Recently Issued Accounting Pronouncement** - In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. This ASU requires a lessee to recognize on its balance sheet a right-of-use asset and a lease liability under most operating leases. This ASU is effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The Organization has elected not to early adopt this ASU as of July 31, 2017.

Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The standard is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application of the standard is permitted. The Organization has elected not to early adopt this ASU as of July 31, 2017.

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) 2014-09, *Revenue Recognition (Topic 606)*. This ASU provides a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The revenue standard contains principles that an entity will apply to determine the measurement of revenue and the timing of revenue recognition. The new standard, as initially released, would be effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 and early adoption would not be permitted. In July 2015, the FASB deferred the effective date of the new revenue standard by one year resulting in the new revenue standard being effective for fiscal years and interim periods beginning after December 15, 2017 and allowing entities to adopt one year earlier if they so elect. The new standard allows for two alternative implementation methods: the use of either (1) full retrospective application to each prior reporting period presented or (2) modified retrospective application in which the cumulative effect of initially applying the revenue standard is recognized as an adjustment to the opening balance of retained earnings in the period of adoption. The Organization plans to adopt the new standard for the fiscal year ending September 30, 2019 but has not yet determined the method by which the standard will be adopted. The Organization is currently evaluating the impact of the standard on its financial statements.

- (n) Reclassifications of Prior Year Presentations**- Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

KEEP AUSTIN BEAUTIFUL, INC.

Notes to the Financial Statements

July 31, 2017 and 2016

(Continued)

(2) CASH AND CASH EQUIVALENTS

The composition of the Organization's cash and cash equivalents at July 31, 2017 and 2016 was as follows:

	2017	2016
Cash and demand deposits	\$ 198,816	\$ 113,960
Business savings account	155,023	154,405
Total cash and cash equivalents	\$ <u>353,839</u>	\$ <u>268,365</u>

(3) PROPERTY AND EQUIPMENT

Property and equipment as of July 31, 2017 and 2016 consisted of:

	2017	2016
Computers	\$ 7,952	\$ -
Vehicles	13,601	13,601
	21,553	13,601
Accumulated depreciation	(10,929)	(5,774)
Total property and equipment	\$ <u>10,624</u>	\$ <u>7,827</u>

Depreciation expense totaled \$5,155 and \$4,316 for the years ended July 31, 2017 and 2016 respectively. The Organization recorded a loss on disposal of property and equipment totaling \$24,629 during the year ended July 31, 2016.

(4) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at July 31, 2017 and 2016:

	2017	2016
Green Teens Grant	\$ 353,692	\$ 259,765
Pemberton Contract	4,410	13,922
Total temporarily restricted	\$ <u>358,102</u>	\$ <u>273,687</u>

Net assets released from temporary restrictions due to the satisfaction of requirements consisted of the following at July 31, 2017 and 2016:

	2017	2016
Program use restrictions	\$ 29,882	\$ 38,766
Total temporarily restricted	\$ <u>29,882</u>	\$ <u>38,766</u>

(5) COMMITMENTS AND CONTINGENCIES

At July 31, 2017 and 2016, there were no significant outstanding legal actions or claims against the Organization. The Organization is subject to various claims and liabilities in the ordinary course of business. The Organization maintains various forms of insurance that the Organization's management believes are adequate to reduce the exposure to such risks to an acceptable level.

KEEP AUSTIN BEAUTIFUL, INC.

Notes to the Financial Statements

July 31, 2017 and 2016

(Continued)

(6) LEASE COMMITMENTS

The Organization entered into a non-cancellable office space lease that expires in October 2019. Rent expense for the years ended July 31, 2017 and 2016 totaled \$42,240 and \$36,349, respectively. The future minimum payments for the next five years ending July 31:

2018	\$	42,683
2019		<u>42,683</u>
Total	\$	<u>85,366</u>

(7) RELATED PARTIES

During the years ended July 31, 2017 and 2016, the Organization received contributions of approximately \$4,407 and \$4,700, respectively, from various members of the board of directors. These amounts represent cash contributions and are included in contributions in the accompanying statements of financial activities.

(8) CONCENTRATIONS

A significant portion of the Organization's revenue consists of contributions from the community, city and county contracts, and grants from organizations and businesses. Reductions in the amount of support received under these sources could have a significant impact on the Organization's ability to continue as a going concern.

The concentrations in total revenues and support for the years ended July 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Grantor A	41%	37%
Grantor B	17%	14%

The concentration in accounts receivable as of July 31, 2017 and 2016 was as follows:

	<u>2017</u>	<u>2016</u>
Grantor A	87%	86%