Keep Austin Beautiful, Inc.

Report of Independent Auditor and
Financial Statements

July 31, 2018 and 2017

KEEP AUSTIN BEAUTIFUL, INC.
INDEX

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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, 2018 and 2017, and the related statements of activities, statement of 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, 2018 and 2017, 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

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January 28, 2019
Austin, Texas

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KEEP AUSTIN BEAUTIFUL, INC.

Statements of Financial Position

July 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 728,969	$ 353,839
Accounts receivable, net	60,802	131,288
Prepaid expenses and other assets	9,896	13,082
Property and equipment	5,249	10,624
Total assets	$ 804,916	$ 508,833
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 8,434	$ 9,261
Accrued vacation	15,281	17,524
	23,715	26,785
Net assets		
Unrestricted	203,136	123,946
Temporarily restricted	578,065	358,102
Permanently restricted	-	-
	781,201	482,048
	$ 804,916	$ 508,833

See accompanying notes and report of independent auditor.

KEEP AUSTIN BEAUTIFUL, INC.
Statement of Activities
Year Ended July 31, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Contributions	$ 828,148	$ 285,000	$ -	$ 1,113,148
Grants	-	30,902	-	30,902
In-kind donations	108,930	-	-	108,930
Miscellaneous revenue	1,451	-	-	1,451
Net assets released from restrictions	95,939	(95,939)	-	-
Total revenues and support	1,034,468	219,963	-	1,254,431
Expenses and losses				
Program services	716,779	-	-	716,779
Total program services	716,779	-	-	716,779
Supporting services				
General and administrative	125,408	-	-	125,408
Fundraising	113,091	-	-	113,091
Total supporting services	238,499	-	-	238,499
Total expenses	955,278	-	-	955,278
Change in net assets	79,190	219,963	-	299,153
Net assets at beginning of year	123,946	358,102	-	482,048
Net assets at end of year	$ 203,136	$ 578,065	$ -	$ 781,201

See accompanying notes and report of independent auditor.

KEEP AUSTIN BEAUTIFUL, INC.

Statement of Activities

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	1,050,655	84,415	-	1,135,070
Expenses and losses				
Program services	778,264	-	-	778,264
Total program services	778,264	-	-	778,264
Supporting services				
General and administrative	137,949	-	-	137,949
Fundraising	87,557	-	-	87,557
Total supporting services	225,506	-	-	225,506
Total expenses	1,003,770	-	-	1,003,770
Change in net assets	46,885	84,415	-	131,300
Net assets at beginning of year	77,061	273,687	-	350,748
Net assets at end of year	$ 123,946	$ 358,102	$ -	$ 482,048

KEEP AUSTIN BEAUTIFUL, INC.

Statement of Functional Expenses

Year Ended July 31, 2018

	Program Services	General and Administrative	Fundraising	Total
Salaries, benefits and payroll taxes	$ 480,739	$ 84,651	$ 68,944	$ 634,334
In-kind expense	68,338	5,000	35,592	108,930
Direct program cost	54,805	-	-	54,805
Rent	32,859	5,552	4,272	42,683
Depreciation expense	5,375	-	-	5,375
Professional fees	21,684	15,306	-	36,990
Utilities	2,598	-	-	2,598
Public relations and marketing	4,212	-	2,132	6,344
Transportation	9,816	-	-	9,816
Insurance	1,927	862	-	2,789
Other miscellaneous expense	34,426	14,037	2,151	50,614
	$ 716,779	$ 125,408	$ 113,091	$ 955,278

See accompanying notes and report of independent auditor.

KEEP AUSTIN BEAUTIFUL, INC.

Statement of Functional Expenses

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
	$ 778,264	$ 137,949	$ 87,557	$ 1,003,770

See accompanying notes and report of independent auditor.

KEEP AUSTIN BEAUTIFUL, INC.

Statements of Cash Flows

Years Ended July 31, 2018 and 2017

Cash flows from operating activities		**2018**		**2017**
Change in net assets	$	299,153	$	131,300
Adjustments to reconcile changes in net assets to net cash provided by operating activities:				
Depreciation on property and equipment		5,375		5,155
Changes in assets and liabilities:				
Accounts receivable and unbilled revenue		70,486		(26,063)
Prepaid assets		3,186		(11,082)
Accounts payable and accrued expenses		(827)		(5,687)
Other liabilities		(2,243)		(197)
Net cash provided by operating activities		375,130		93,426
Cash flows from investing activities				
Purchases of property and equipment		-		(7,952)
Net cash used in investing activities		-		(7,952)
Cash flows from financing activities		-		-
Net increase in cash and cash equivalents		375,130		85,474
Cash and cash equivalents at beginning of year		353,839		268,365
Cash and cash equivalents at end of year	$	728,969	$	353,839

See accompanying notes and report of independent auditor.

(1) ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Keep Austin Beautiful, Inc. (the "Organization" or "Keep Austin Beautiful") 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, Texas 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.

(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, 2018 and 2017.

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 an original 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.

(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, 2018 and 2017. 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 the 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, 2018 and 2017. 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 Organization, and has concluded that as of July 31, 2018 and 2017, 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 $6,344 and $6,661 in advertising expense for the years ended July 31, 2018 and 2017, respectively.

(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. Actual results could differ from those estimated. Significant estimates include determining the remaining useful lives of long-lived assets, allowances for doubtful receivables, and the allocation of functional expenses.

(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. The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. These expenses include salaries and wages, depreciation, office and supplies, and insurance expenses which are allocated based upon staff time devoted. Occupancy costs are allocated by square footage to educational, development, and general and administrative services.

(k) **Concentration of Credit Risk -** The Organization maintains cash balances at federally insured financial institution. At various times during the years ended July 31, 2018 and July 31, 2017, 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, 2018, this date was January 28, 2019.

(m) **Recently Issued Accounting Pronouncement -** In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities, which decreases the number of net asset classes from three to two. The new classes will be net assets with donor restrictions and net assets without donor restrictions. The standard also:

- Requires reporting of the underwater amounts of donor-restricted endowment funds in net assets with donor restrictions and enhances disclosures about underwater endowments.
- Continues to allow preparers to choose between the direct method and indirect method for presenting operating cash flows, eliminating the requirement for those who use the direct method to perform a reconciliation with the indirect method.
- Requires a not-for-profit to disclose qualitative information on how it manages its liquid available resources and liquidity risks. Quantitative information that communicates the availability of a not-for-profit's financial assets at the balance sheet date to meet cash needs for general expenditures within one year is required to be presented on the face of the financial statement and/or in the notes.
- Requires reporting of expenses by function and nature as well as an analysis of expenses by both function and nature.
- Requires investment income to be reported net of external and direct internal expenses.
- Requires in-service approach to release of restrictions on gifts of capital assets.

The standard will take effect for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. The Organization elected not to early adopt this ASU as of July 31, 2018. The adoption of this ASU will have no effect on the financial position or results of the operations of the Organization.

In February 2016, the FASB issued 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. For private companies, the ASU is effective for annual and interim periods beginning after December 15, 2019. Early adoption is permitted. The Organization is currently evaluating the effects that the adoption of ASU 2016-02 will have on its financial position, results of operations, or cash flows.

In May 2014, the FASB issued 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 Organization 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, 2018 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 July 31, 2020 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.

(2) CASH AND CASH EQUIVALENTS

The composition of the Organization's cash and cash equivalents at July 31, 2018 and 2017 was as follows:

		2018		2017
Cash and demand deposits	$	125,200	$	198,316
Money market account		603,769		-
Business savings account		-		155,023
Total cash and cash equivalents	$	728,969	$	353,839

(3) PROPERTY AND EQUIPMENT

Property and equipment as of July 31, 2018 and 2017 consisted of:

		2018		2017
Computers	$	7,953	$	7,953
Vehicles		13,600		13,600
Gross property and equipment		21,553		21,553
Accumulated depreciation		(16,304)		(10,929)
Total property and equipment	$	5,249	$	10,624

Depreciation expense totaled $5,375 and $5,155 for the years ended July 31, 2018 and 2017 respectively.

(4) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at July 31, 2018 and 2017:

		2018		2017
Green Teens Grant	$	274,305	$	353,692
Pemberton Contract		18,760		4,410
Beautify Austin		285,000		-
Total temporarily restricted net assets	$	578,065	$	358,102

Net assets released from temporary restrictions due to the satisfaction of requirements consisted of the following at July 31, 2018 and 2017:

		2018		2017
Green Teens Grant	$	92,189	$	29,882
Pemberton Contract		3,750		-
Total temporarily restricted net assets	$	95,939	$	29,882

(5) COMMITMENTS AND CONTINGENCIES

At July 31, 2018 and 2017, 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.

(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, 2018 and 2017 totaled $42,683 and $42,240, respectively. The future minimum payments for the next five years ending July 31st as follows:

2019	$	42,683
2020		7,114
Total	$	49,797

(7) RELATED PARTIES

During the years ended July 31, 2018 and 2017, the Organization received contributions of approximately $7,000 and $4,700, respectively, from various members of the board of directors. Additionally, organizations affiliated with certain members of the Board of Directors contributed amounts totaling $105,741 and $67,096 for the years ended July 31, 2018 and 2017, respectively. These amounts represent actual cash contributions received 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, 2018 and 2017 are as follows:

	2018	2017
Grantor A	34%	41%
Grantor B	14%	17%
Grantor C	20%	*

*Not a significant source of revenue during the prior fiscal year.

The concentration in accounts receivable as of July 31, 2018 and July 31, 2017 was as follows:

	2018	2017
Grantor A	58%	87%
Grantor D	21%	*

*Not a significant source of accounts receivable during the prior fiscal year.

(9) RETIREMENT PLAN

In 2015, the Organization established the 403(b) Plan ("The Plan"). The Plan was established under Internal Revenue Code Section 403(b). The Plan provides for elective salary deferrals for employees, with annual employer matching contributions up to 3% of annual salary per employee. All full-time employees working more than 30 hours per week are eligible for participation on the 91st date of their employment. Retirement plan contribution expense was $11,778 and $7,984 for the years ended June 30, 2018 and 2017, respectively.