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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Oklahoma City Beautiful, Inc.

We have audited the accompanying financial statements of Oklahoma City Beautiful, Inc. and its subsidiary, Oklahoma City Beautiful LS, LLC (the "Organization"), (a nonprofit organization) which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements 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 Oklahoma City Beautiful, Inc. and its subsidiary, Oklahoma City Beautiful LS, LLC, as of December 31, 2012 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Bell & Rhodes, P.C.

September 16, 2013

OKC Beautiful Inc. and Subsidiary
Consolidated Statement of Financial Position
December 31, 2012

Assets

Current Assets

Cash	\$ 148,600
Pledges receivable (net of allowance of \$(15,045))	29,991
Certificates of deposit	270,017
Prepaid expenses	3,538
Employee receivable	<u>36</u>
Total current assets	452,182

Fixed Assets

Furniture	5,712
Office equipment	7,178
Computer equipment	14,531
Leasehold improvements	<u>11,409</u>
Total fixed assets	38,830
Less: accumulated depreciation	<u>(29,821)</u>
Net fixed assets	9,009

Other Assets

Certificates of deposit	89,030
Endowed funds held by Oklahoma City Community Foundation	<u>26,010</u>
Total assets	<u>\$ 576,231</u>

Net Assets

Unrestricted	380,585
Temporarily restricted	169,636
Permanently restricted	<u>26,010</u>
Total net assets	<u>\$ 576,231</u>

OKC Beautiful Inc. and Subsidiary
Consolidated Statement of Activities
For the Year Ended
December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating Revenues and Other Support				
Contributions and grants	\$ 335,375	\$ 163,126	\$ -	\$ 498,501
	+			
Special events	158,870	-	-	158,870
Less: Direct costs	<u>(58,596)</u>	<u>-</u>	<u>-</u>	<u>(58,596)</u>
Net revenue from special events	100,274	-	-	100,274
Distribution from OKC Community Foundation	13,907	-	-	13,907
Interest income	2,047	-	-	2,047
Rental income	5,472	-	-	5,472
Net assets released from restrictions	<u>154,930</u>	<u>(154,930)</u>	<u>-</u>	<u>-</u>
Total operating revenues and other support	612,005	8,196	-	620,201
Operating Expenses				
Program expenses	611,410	-	-	611,410
Management and general	26,406	-	-	26,406
Fundraising	<u>36,818</u>	<u>-</u>	<u>-</u>	<u>36,818</u>
Total operating expenses	<u>674,634</u>	<u>-</u>	<u>-</u>	<u>674,634</u>
Changes in net assets from operations	<u>(62,629)</u>	8,196	-	<u>(54,433)</u>
Change in endowed funds held by Oklahoma City Community Foundation	<u>-</u>	<u>-</u>	<u>(1,146)</u>	<u>(1,146)</u>
Net change in net assets	<u>(62,629)</u>	8,196	<u>(1,146)</u>	<u>(55,579)</u>
Net assets beginning of year	443,214	161,440	27,156	631,810
Net assets end of year	<u>\$ 380,585</u>	<u>\$ 169,636</u>	<u>\$ 26,010</u>	<u>\$ 576,231</u>

OKC Beautiful Inc. and Subsidiary
Consolidated Statement of Cash Flows
For the Year Ended
December 31, 2012

Cash Flows from Operating Activities

Change in net assets from operations	\$ (54,433)
Adjustments to reconcile change in net assets to net cash provided by (applied to) operating activities	
Depreciation	2,092
Increase in allowance for doubtful accounts	4,719
Decrease in pledges receivable	12,640
Decrease in interest receivable	1,091
Increase in prepaid expenses	(305)
Decrease in employee receivables	534
Decrease in accounts payable	(130)
Net cash applied to operating activities	<u>(33,792)</u>

Cash Flows from Investing Activities

Reinvestment of interest earned on certificates of deposit	(2,221)
Purchase of fixed assets	(3,584)
Net cash applied to investing activities	<u>(5,805)</u>
Decrease in cash	(39,597)
Cash balance beginning of year	188,197
Cash balance end of year	<u>\$ 148,600</u>

OKC Beautiful Inc. and Subsidiary
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2012

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries, payroll taxes and benefits	\$ 178,369	\$ -	\$ -	\$ 178,369
Landscape expenses:	226,648	-	-	226,648
Treescapes	45,755	-	-	45,755
Litter Blitz	8,905	-	-	8,905
Adopt-A-Park	10,000	-	-	10,000
Littering is wrong	22,653	-	-	22,653
Youth expenses	21,444	-	-	21,444
Wildflower	3,336	-	-	3,336
Teen board	4,398	-	-	4,398
Dreamscape	8,153	-	-	8,153
America recycles	85	-	-	85
Mayor's Golf Tournament	-	-	4,830	4,830
40th Anniversary	-	-	8,459	8,459
Annual Celebration	-	-	6,614	6,614
Casino Florale	-	-	1,768	1,768
Bad debt expense	-	6,668	-	6,668
Miscellaneous fundraising expenses	-	-	6,908	6,908
Newsletter	6,986	611	1,135	8,732
Occupancy expenses	23,584	2,064	3,831	29,479
Marketing	18,595	-	-	18,595
Telephone	1,581	138	257	1,976
Insurance	3,425	300	556	4,281
Contract labor	8,340	-	-	8,340
Office supplies/education materials	5,767	505	937	7,209
Copier rental, computer consulting and maintenance	5,148	451	836	6,435
Annual audit	-	5,800	-	5,800
Benches expense	2,000	-	-	2,000
Meetings and mileage	3,192	3,192	-	6,384
Depreciation	1,674	146	272	2,092
Dues and subscriptions	-	3,879	-	3,879
Board development	230	230	230	690
Postage	1,142	100	185	1,427
Miscellaneous	-	2,322	-	2,322
	<u>\$ 611,410</u>	<u>\$ 26,406</u>	<u>\$ 36,818</u>	<u>\$ 674,634</u>

Oklahoma City Beautiful Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2012

A. Nature of Activities

General: Oklahoma City Beautiful, Inc. (“OKCB”) is an Oklahoma non-profit, 501(c) (3) organization supported primarily by private donations. OKCB was incorporated in March 1971 to improve and enhance the image of Oklahoma City. With donated funds and volunteers, OKCB programs concentrate on clean-up and litter abatement; wildflowers and landscaping; community standards through awards and ordinance development; youth education and involvement; improvements of various city trails and public education.

Subsidiary: On December 18, 2001, OKCB’s Executive Committee approved and financed the set-up of Oklahoma City Beautiful LS, LLC (“LLC”). LLC’s purpose is to undertake landscaping projects and was set up to protect OKCB from loss of assets due to lawsuits regarding landscaping projects.

OKCB and LLC will collectively be referred to as the Organization.

B. Significant Accounting Policies

Principles of Consolidation: The consolidated financial statements of OKCB include the accounts of OKCB and LLC. All material intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts 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 estimates.

Net Assets

Oklahoma City Beautiful reports net assets and changes in net assets in three classes that are based on the existence or absence of restrictions on use that are placed by its donors.

Unrestricted Net Assets

Unrestricted Net Assets are resources available to support operations. The only limits on the use of unrestricted net assets are the broad limits resulting for the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

Oklahoma City Beautiful, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2012

B. Significant Accounting Policies-continued

Net Assets-continued

Temporarily Restricted Net Assets

Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. OKCB's unspent contributions are classified in this class if the donor limited their use

Permanently Restricted Net Assets

Permanently restricted net assets are resources whose use by OKCB is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. The portion of the organization's donor-restricted endowment funds that must be maintained in perpetuity are classified in this net asset class.

All revenues and net gains are reported as increases in unrestricted net assets in the statement of activities unless the use of the related resources is subject to temporary or permanent donor restrictions. All expenses and net losses other than losses on endowment investments reduce temporarily restricted net assets to the extent that net gains of the fund from prior years are unspent and classified there; remaining losses are classified as decreases in unrestricted net assets.

Cash Equivalents

Cash equivalents are short term, interest bearing, highly liquid investments with original maturities of three months or less, unless the investments are held for meeting restrictions of a capital or endowment nature. There were no cash equivalents at December 31, 2012.

Promises to Give

Contributions are recognized when the donor makes a promise to give to OKCB that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. All pledges receivable recorded at December 31, 2012, are expected to be received in one to five years.

Oklahoma City Beautiful provides for an allowance for uncollectible contributions related to its capital campaign based on 7.5% of pledges received. This estimate is then adjusted based on specific identification of uncollectible pledges.

Oklahoma City Beautiful, Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2012

B. Significant Accounting Policies-continued

Certificates of Deposit: Certificates of deposit are recorded at cost which approximates fair value.

Property and Equipment: It is OKCB's policy to capitalize property and equipment costing more than \$500, lesser amounts are expensed. Additions to property and equipment are recorded at cost or donated value and are depreciated over their estimated useful lives ranging from five to fifteen years. The cost and related accumulated depreciation of assets sold, retired or otherwise disposed of are removed from the assets and any gains or losses thereon are reflected in earnings.

In-Kind Donations: Advertising, merchandise, independent accounting and other professional services are donated to OKCB. These in-kind donations of goods and services are recorded as both contribution revenue and operating expense in the accompanying statements. In-kind donations for the year ended December 31, 2012, totaled approximately \$9,100.

Many other individuals, including the Board of Directors, donate their time to Oklahoma City Beautiful. Because these services do not require specialized skill and/or training, their value is not included in the financial statements.

Functional Allocation of Expenses: Costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Costs are allocated between program services, management and general, and fund raising based on evaluations of the related activities. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Organization.

Income Taxes: OKCB is a not-for-profit organization that is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation. Accordingly, no provision for income taxes has been included in the accompanying financial statements.

The Organization's Forms 990 Return of Organization Exempt from Income Tax for the years ending December 31, 2010, 2011 and 2012 are subject to examination by the Internal Revenue Service, generally three years after they were filed.

C. Fair Value Measurements

The Foundation reports its fair value measures using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

Oklahoma City Beautiful Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2012

C. Fair Value Measurements-continued

Level 1. Quoted prices for identical assets or liabilities in active markets to which the organization has access at the measurement date.

Level 2. Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include

- a. quoted prices for similar assets or liabilities in active markets;
- b. quoted prices for identical or similar assets in markets that are not active
- c. observable inputs other than quoted prices for the assets or liability (for example, interest rates and yield curves); and
- d. inputs derived principally from, or corroborated by, observable market data by correlation or other means

Level 3. Unobservable inputs for the asset or liability. Unobservable inputs should be used to measure the fair value to the extent that observable inputs are not available.

D. Investments

Investments consist of the following at December 31, 2012:

Short term investments:

Certificates of deposit	\$ 270,017	\$ -	\$ 270,017

Long term investments:

Certificates of deposit	\$ 89,030		\$ 89,030
Oklahoma City Community Foundation	26,010	-	26,010
	\$ 115,040	\$ -	\$ 115,040

Oklahoma City Beautiful Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2012

E. Restrictions on Net Assets

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

2013 Operations (from Capital Campaign)	\$ 94,331
2013 Youth Awareness	24,484
2013 Adopt-A-Park	10,000
2012 Annual Celebration	5,000
Pledges receivable	29,311
Landscape program	5,500
Wildflower	1,010
	<u>\$ 169,636</u>

F. Community Foundation Assets

In 1971, 1993, and 1996, three separate designated funds (collectively “the designated funds”) were established at the Oklahoma City Community Foundation (“OCCF”). A portion of the designated funds was raised by OKCB for the purpose of being transferred to OCCF. OCCF is a not-for-profit entity that pools and invests charitable donations for the benefit of local not-for-profit entities.

OKC Beautiful follows FASB ASC 958 which provides that the value of reciprocal transfers to organizations raising or holding contributions for others, such as community foundations, be recognized as assets in the financial statements of the transferor. The statement also provides that the value of assets contributed by others to organizations such as community foundations for a specified beneficiary specifically not be recorded by the named beneficiary if the community foundation retains variance power.

The market value of assets held by others for the benefit of the OKCB but which have not been recorded by the Organization totaled approximately \$311,000 at June 30, 2012. Included in this balance is approximately \$65,000 that is reflected on OCCF’s financials as a reciprocal transfer. However, they do not qualify under FASB ASC 958 for recognition on OKCB’s balance sheet because OKCB merely acted as an agent during a fundraising campaign to facilitate the transfers to OCCF.

Annual distributions from income are made to OKCB based on OCCF’s spending policy, which is currently five percent of the average market value over the previous eight quarters of all assets held for the benefit of OKCB.

Oklahoma City Beautiful Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2012

G. Concentrations

Oklahoma City Beautiful limits its programs and services to the City and people of Oklahoma City. Contributions to OKCB are almost exclusively from individuals, businesses, and foundations in Oklahoma City. As a result, support of OKCB is highly dependent upon the general economic conditions in the area. The risk of near term severe impact on the operations and mission of OKC Beautiful due to these contributions is limited by the diversity of the donor base.

H. Operating Leases

Oklahoma City Beautiful leases its office space and copier under agreements classified as operating leases.

The office building is leased under a fifteen year lease beginning January 1, 2005. The annual rent as established in the lease is \$26,000. However, the landlord reduced the rent in exchange for recognized contribution credit to OKCB in the amount of \$7,800 for the first five years, \$5,200 for years six through ten and \$2,600 for years eleven through fifteen. Rent expense under this lease in 2012 was approximately \$21,000.

Oklahoma City Beautiful has sub-leased an office to an organization for \$400 per month. The lease runs through March 31, 2013. In March of 2013, the lease was renewed, at rate of \$456 per month for one year through March 2014.

The Organization is leasing a copier under a five year operating lease that expires in December 2013. The monthly lease amount is \$397 plus sales tax. OKCB is also responsible for the property tax and the maintenance related to the copier. Total lease expense for the copier in 2012 was approximately \$5,700.

The Organization's minimum lease commitments for the next five years are shown below:

December 31, 2013	\$ 25,720
December 31, 2014	\$ 20,800
December 31, 2015	\$ 23,400
December 31, 2016	\$ 23,400

Amounts to be received for the next five years under the sub-lease are shown below:

December 31, 2013	\$ 5,472
December 31, 2014	\$ 1,368

Oklahoma City Beautiful Inc. and Subsidiary
Notes to Consolidated Financial Statements
December 31, 2012

I. Evaluation of Subsequent Events

Oklahoma City Beautiful has evaluated subsequent events through September 16, 2013, the date which the financial statements were available to be issued.