Keep America Beautiful, Inc.

Financial Statements as of and for the Years Ended December 31, 2011 and 2010, and Independent Auditors' Report

KEEP AMERICA BEAUTIFUL, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Keep America Beautiful, Inc.:

We have audited the accompanying statements of financial position of Keep America Beautiful, Inc. (the "Organization") as of December 31, 2011 and 2010, and the related statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Organization's management. 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. Our audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Keep America Beautiful, Inc. as of December 31, 2011 and 2010, and the results of its activities, its cash flows, and its functional expenses for the years then ended in conformity with accounting principles generally accepted in the United States of America

Deloitte & Touche LLP

May 2, 2012

KEEP AMERICA BEAUTIFUL, INC.

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
CASH AND CASH EQUIVALENTS	$ 3,397,143	$ 1,464,998
INVESTMENTS (Note 10)	4,719,879	7,565,564
CONTRIBUTIONS AND OTHER RECEIVABLES (Note 5)	570,803	604,097
PREPAID EXPENSES AND OTHER ASSETS	136,858	168,754
FIXED ASSETS — Net of accumulated depreciation (Note 6)	112,688	99,853
TOTAL	$ 8,937,371	$ 9,903,266
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 681,382	$ 961,325
Deferred income grants (Note 8)	500,000	750,000
Deferred compensation (Note 9)	35,000	35,000
Total liabilities	1,216,382	1,746,325
NET ASSETS:		
Unrestricted	3,325,724	3,420,637
Temporarily restricted (Note 11)	4,395,265	4,736,304
Total net assets	7,720,989	8,156,941
TOTAL	$ 8,937,371	$ 9,903,266

See notes to financial statements.

KEEP AMERICA BEAUTIFUL, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
UNRESTRICTED REVENUES AND SUPPORT:		
Contributions and grants	$ 5,019,539	$ 5,685,760
Benefit dinner — net of expenses of $183,805 and $226,882 in 2011 and 2010, respectively	108,695	200,818
Fees (Note 3)	219,200	214,150
Publication sales	15,450	13,599
Royalties	25,467	17,539
Investment income	122,217	109,396
Unrealized (loss) gain on investments	(131,020)	188,880
National and other conferences	311,751	306,796
In-kind support	135,556	433,303
Other income	15,862	13,419
Net assets released from restrictions (Note 12)	2,967,780	2,150,304
Total unrestricted revenues and support	8,810,497	9,333,964
EXPENSES:		
Program services:		
Communication and public education	458,787	513,746
Program and field training services	6,488,129	6,856,470
Total program services	6,946,916	7,370,216
Supporting services:		
Management and general	1,457,588	1,385,477
Fundraising	500,906	426,187
Total supporting services	1,958,494	1,811,664
Total expenses	8,905,410	9,181,880
(DEFICIT) EXCESS OF TOTAL UNRESTRICTED REVENUES AND SUPPORT OVER TOTAL EXPENSES	(94,913)	152,084
UNRESTRICTED NET ASSETS — Beginning of year	3,420,637	3,268,553
UNRESTRICTED NET ASSETS — End of year	$ 3,325,724	$ 3,420,637
GIFTS AND GRANTS RESTRICTED FOR FUTURE PERIODS	$ 2,626,741	$ 2,501,958
NET ASSETS RELEASED FROM RESTRICTIONS (Note 12)	(2,967,780)	(2,150,304)
(DECREASE) INCREASE IN RESTRICTED NET ASSETS	(341,039)	351,654
RESTRICTED NET ASSETS — Beginning of year	4,736,304	4,384,650
RESTRICTED NET ASSETS — End of year	$ 4,395,265	$ 4,736,304
(DECREASE) INCREASE IN TOTAL NET ASSETS	$ (435,952)	$ 503,738

See notes to financial statements.

KEEP AMERICA BEAUTIFUL, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) increase in net assets	$ (435,952)	$ 503,738
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Depreciation expense	41,951	28,604
Donated fixed assets	(23,958)	-
Write-off of contributions and other receivables	-	25,250
Realized loss on investments	142,351	71,625
Unrealized loss (gain) on investments	131,020	(188,880)
Decrease (increase) in contributions and other receivables	33,294	(146,738)
Decrease (increase) in prepaid expenses and other assets	31,896	(2,684)
(Decrease) increase in accounts payable and accrued expenses	(279,943)	229,404
Decrease in deferred income grants	(250,000)	(250,000)
Net cash (used in) provided by operating activities	(609,341)	270,319
CASH FLOWS FROM INVESTING ACTIVITY:		
Purchases of securities	(9,719,330)	(6,359,238)
Proceeds from sales of securities	12,291,644	6,677,410
Purchases of fixed assets	(30,828)	(39,751)
Net cash provided by investing activities	2,541,486	278,421
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,932,145	548,740
CASH AND CASH EQUIVALENTS — Beginning of year	1,464,998	916,258
CASH AND CASH EQUIVALENTS — End of year	$ 3,397,143	$ 1,464,998
NON-CASH OPERATING AND INVESTING ACTIVITIES:		
Change in accrued purchases of fixed assets	$ -	$ (10,259)
Donated fixed assets included as in-kind support	$ 23,958	$ -

See notes to financial statements.

KEEP AMERICA BEAUTIFUL, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Communications and Public Education	Program and Field Training Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
SALARIES	$154,372	$ 405,021	$ 559,393	$ 759,502	$322,017	$ 1,081,519	$ 1,640,912
PAYROLL TAXES	11,500	20,390	31,890	89,291	13,269	102,560	134,450
EMPLOYEE BENEFITS	41,993	70,484	112,477	174,840	57,483	232,323	344,800
RENT AND SERVICES	27,301	209,712	237,013	57,361	34,368	91,729	328,742
STATIONERY AND SUPPLIES	2,133	5,181	7,314	9,506	3,009	12,515	19,829
POSTAGE	5,911	6,153	12,064	5,864	3,478	9,342	21,406
TELEPHONE	3,841	12,445	16,286	11,684	4,942	16,626	32,912
COMPUTER SYSTEMS	23,591	14,004	37,595	28,617	11,101	39,718	77,313
DUES AND SUBSCRIPTIONS	163	884	1,047	6,308	4,938	11,246	12,293
COMMUNICATIONS	66,756	-	66,756	-	3,507	3,507	70,263
EQUIPMENT LEASES	3,177	7,440	10,617	6,611	3,974	10,585	21,202
MEETINGS AND CONFERENCES	-	-	-	36,952	240	37,192	37,192
AFFILIATE CERTIFICATION	-	24,761	24,761	-	-	-	24,761
TRAVEL	14,823	56,044	70,867	63,566	17,304	80,870	151,737
PROFESSIONAL FEES	3,552	8,205	11,757	97,912	4,188	102,100	113,857
CONSULTANTS	31,904	6,766	38,670	50,439	8,256	58,695	97,365
PROGRAMS	3,359	5,318,375	5,321,734	875	390	1,265	5,322,999
PRINTING	58,239	532	58,771	-	-	-	58,771
NATIONAL CONFERENCE	-	175,906	175,906	-	-	-	175,906
MISCELLANEOUS	2,754	6,950	9,704	51,173	4,274	55,447	65,151
IN-KIND EXPENSES	-	111,598	111,598	-	-	-	111,598
DEPRECIATION	3,418	27,278	30,696	7,087	4,168	11,255	41,951
Subtotal	$458,787	$ 6,488,129	$ 6,946,916	$ 1,457,588	$500,906	$ 1,958,494	8,905,410
BENEFIT DINNER EXPENSES							183,805
TOTAL							$ 9,089,215

See notes to financial statements.

KEEP AMERICA BEAUTIFUL, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010

	Communications and Public Education	Program and Field Training Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
SALARIES	$208,687	$ 702,026	$ 910,713	$ 605,979	$268,169	$ 874,148	$ 1,784,861
PAYROLL TAXES	15,717	36,487	52,204	59,936	20,675	80,611	132,815
EMPLOYEE BENEFITS	55,134	103,598	158,732	183,959	34,395	218,354	377,086
RENT AND SERVICES	24,620	195,378	219,998	50,315	34,054	84,369	304,367
STATIONERY AND SUPPLIES	4,325	10,706	15,031	11,155	4,449	15,604	30,635
POSTAGE	8,771	7,140	15,911	5,446	3,886	9,332	25,243
TELEPHONE	6,266	14,356	20,622	8,782	7,887	16,669	37,291
COMPUTER SYSTEMS	12,136	3,983	16,119	20,061	2,816	22,877	38,996
DUES AND SUBSCRIPTIONS	10	217	227	4,334	5,058	9,392	9,619
COMMUNICATIONS	61,839	371	62,210	-	750	750	62,960
EQUIPMENT LEASES	4,605	6,804	11,409	6,000	4,648	10,648	22,057
MEETINGS AND CONFERENCES	-	-	-	51,755	3,850	55,605	55,605
AFFILIATE CERTIFICATION	-	27,334	27,334	-	-	-	27,334
TRAVEL	14,538	46,900	61,438	84,254	23,124	107,378	168,816
PROFESSIONAL FEES	-	-	-	99,200	-	99,200	99,200
CONSULTANTS	31,502	6,232	37,734	68,851	2,695	71,546	109,280
PROGRAMS	-	5,037,128	5,037,128	15,001	-	15,001	5,052,129
PRINTING	65,020	-	65,020	272	-	272	65,292
NATIONAL CONFERENCE	-	210,430	210,430	-	-	-	210,430
MISCELLANEOUS	576	22,540	23,116	81,573	1,268	82,841	105,957
IN-KIND EXPENSES	-	424,840	424,840	-	8,463	8,463	433,303
DEPRECIATION	-	-	-	28,604	-	28,604	28,604
Subtotal	$513,746	$ 6,856,470	$ 7,370,216	$ 1,385,477	$426,187	$ 1,811,664	9,181,880
BENEFIT DINNER EXPENSES							226,882
TOTAL							$ 9,408,762

See notes to financial statements.

1. ORGANIZATION AND PURPOSE

Keep America Beautiful, Inc. (the "Organization" or KAB) is a nonprofit organization whose network of local, statewide, and international affiliate programs educates individuals about litter prevention and ways to reduce, reuse, recycle, and properly manage waste materials. KAB's mission is to engage individuals in taking greater responsibility for improving their community environments. Through partnerships and strategic alliances with citizens, businesses, and government, KAB programs involve millions of volunteers annually to clean up, beautify, and improve their neighborhoods, thereby creating healthier, safer, and more livable community environments.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The financial statements of KAB have been prepared on the accrual basis of accounting in accordance with the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the "Codification"), which is the source of authoritative accounting principles in the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). Net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of KAB and changes therein are classified and reported as follows:

Unrestricted Net Assets — Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets — Net assets subject to donor-imposed stipulations that will be met either by actions of KAB and/or the passage of time.

KAB reports gifts of cash and other assets as temporarily restricted revenue if they are 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 statements of activities as net assets released from restrictions. Gifts received with donor restrictions that are spent in the year received in accordance with those restrictions are reflected as unrestricted contributions.

Functional Allocation of Expenses — KAB allocates its expenses on a functional basis among its various program and supporting services. Expenses that are common to several functions are allocated by various statistical bases. KAB's program services are described as follows:

Communication and Public Education — This program increases KAB's recognition and visibility as a national organization which advances its educational purposes by creating greater public awareness of its mission goals and objectives. It also provides information and materials designed to encourage and guide more positive individual behaviors toward community environments.

Program and Field Training Services — These core program activities support the national effort to enlist and train new state and local affiliate organizations to participate in KAB mission-related community improvement activities. The program develops materials, methods, and tools that enable affiliates and individual citizens to implement sustainable community improvement projects.

Programs — Activities pertaining to the use of restricted gifts, the Great American Cleanup (GAC) and America Recycles Day (ARD) are reflected in the statements of functional expenses in the line item programs.

Cash Equivalents — For purposes of reporting cash flows, cash equivalents are defined as money market funds, overnight deposits, treasury bills and other instruments with original term to maturity of less than three months at the date of purchase. Cash equivalents are carried at fair value.

Pledges — Pledges are recorded at the net present value, determined using a discount rate commensurate with the rate on U.S. Treasury bills whose maturities correspond to the maturities of the pledges, as receivables in the year made. Restricted pledges are reported as additions to the appropriate restricted net assets. GAC and ARD sponsorship pledges are considered contingent promises to give that are contingent on the Organization holding the GAC or ARD event and, therefore, the promise to give is recognized when the event is held, regardless of when the pledge is made. During 2011, the President made a $25,000 temporarily restricted pledge for the McKenna Internship Fund that was received during the year.

The Organization considers any individual donor that contributes more than 10% of total revenue to be significant. The Organization received 45% of the gifts and grants restricted for future periods from two donors in 2011. The Organization received 43% of the gifts and grants restricted for future periods from two donors in 2010.

Fixed Assets — Fixed assets purchased are stated at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the assets with a range of three to ten years.

Use of Estimates — The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates.

In-Kind Support — KAB recognizes noncash gifts to the Organization as income at fair value in the period in which they are received. The Organization also records an offsetting expense at the same time to record the use of the gift. During 2011 and 2010, the Organization received $135,556 and $433,303, respectively, of in-kind support. During 2011, the Organization received software at a discount from a vendor, and recognized $23,958 as in-kind revenue and a corresponding increase to fixed assets. During 2010, the President donated certain noncash gifts to the Organization with a fair value of $8,463, which is recognized as in-kind support and expense in the statement of activities.

Investments — In accordance with GAAP, KAB values its investments based on a fair value hierarchy. Fair value is the amount 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 (i.e., the exit price). See Note 10, *Investments*, for further discussion relating to the Organization's investments.

Investments are reflected on the statements of financial position at fair value with changes in unrealized gains and losses resulting from changes in fair value reflected in the statements of activities as unrealized (loss) gain on investments.

Investments in equity securities, government and agency bonds and mutual funds which are publicly traded investments are reported at the market closing price. These investment transactions are recorded on a trade-date basis.

Dividend income and expense are recorded on the ex-dividend date, net of applicable withholding taxes.

Realized gains and losses on investment transactions are determined on the specific-identification basis and are recorded as investment income in the statements of activities.

Market and Credit Risk — In the normal course of business, the Organization encounters market and credit risk concentrations. Market risk reflects changes in the value of investments due to changes in interest rates, credit spreads or other market factors. Credit risk includes the risk of default on the Organization's investments, where the counterparty is unable or unwilling to make required or expected payments.

Income Taxes — The Organization follows the FASB's guidance on uncertain tax positions that may require financial statement recognition. The Organization analyzed its tax filing positions in all jurisdictions required to file tax returns, as well as open tax years in these jurisdictions. Based on this review, no reserves for uncertain tax positions were required to have been recorded in accordance with GAAP in either 2011 or 2010. In addition, the Organization determined that it did not need to record any tax-related interest or penalties in either year. KAB will continue to review the relevant authoritative guidance as such relates to its financial statements and conclusions reached regarding uncertain tax positions, which may be subject to review and adjustment at a later date based on ongoing analyses of tax laws, regulations, and interpretations thereof. To the extent that the assessment of the conclusions reached regarding uncertain tax positions changes, such change in estimate will be recorded in the period in which such determination is made.

Recent Accounting Pronouncements — In January 2010, the FASB issued new guidance applicable to disclosures about fair value measurements. This guidance requires additional disclosures about transfers into and out of Levels I and II and separate disclosures about purchases, sales, issuances, and settlements relating to Level III measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. This update was effective for the Organization's 2010 financial statements, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level III fair value measurements, which is effective for the Organization in 2011. The adoption of this guidance did not have a material impact on the Organization's financial statements.

In May 2011, the FASB issued updated guidance relating to fair value measurements and disclosure requirements. The guidance clarifies how to measure fair value and the level of information to be provided for Level III fair value measurements and the measurement's sensitivity to changes in unobservable inputs, use of a nonfinancial asset in a way that differs from that asset's highest and best use and the categorization by level of the fair value hierarchy for items that are not measured at fair value in the balance sheet but for which the fair value will be disclosed. This guidance is to be applied prospectively and is effective for the Organization's 2012 financial statements. The adoption of this guidance is not expected to have a material impact on the Organization's financial statements.

3. FEES

To establish a new KAB affiliate, KAB trains local organizational teams, distributes KAB system programs, pre-certification and certification manuals, and visits the communities during the first year of a program implementation. For these items and services KAB charges the joining affiliate a certification fee based on its population. Certification fees were $28,725 and $42,100 in 2011 and 2010, respectively. Once an affiliate is certified, KAB monitors and counsels the affiliate, provides it with various program materials, and sponsors national and regional training conferences for which KAB charges the certified affiliate an annual program service fee also based on population. Program service fees were $105,000 and $108,600 in 2011 and 2010, respectively. Program administrative fees were $71,000 and $63,450 in 2011 and 2010, respectively. In addition, the Organization received $14,475 of state recycling organization fees during 2011

4. CASH AND CASH EQUIVALENTS

KAB considers any investment with an original maturity of less than three months at the date of purchase to be cash and cash equivalents. The cash and cash equivalents balance as of December 31, 2011 and 2010, are made up of the following:

	2011	2010
Checking accounts	$ 1,372,053	$ 646,824
Money market fund — Sustainability fund (Note 10)	186,837	158,823
Money market fund	1,838,253	659,351
Total	$ 3,397,143	$ 1,464,998

5. CONTRIBUTIONS AND OTHER RECEIVABLES

Receivables of $570,803 and $604,097 at December 31, 2011 and 2010, respectively, are due within the year.

6. FIXED ASSETS

Fixed assets at December 31, 2011 and 2010, consist of the following:

	2011	2010
Furniture, fixtures, and equipment	$ 298,953	$ 244,167
Less accumulated depreciation	(186,265)	(144,314)
Fixed assets — net of accumulated depreciation	$ 112,688	$ 99,853

7. LEASE COMMITMENT

During 2009, KAB amended its previous lease agreement and entered into a 10-year lease for new space in the same building for their Stamford, Connecticut headquarters. The amended lease is effective through 2019. Rent expense related to this lease was $233,700 for each of the years ended December 31, 2011 and 2010. The rent agreement provides for reduced rent in the early years and an escalation in the later years. The Organization in accordance with GAAP recognizes the rent expense on a straight-line basis. Therefore, the Organization has accrued a deferred rent liability of $27,675 and $18,450 at December 31, 2011 and 2010, respectively, which is included in accounts payable and accrued expenses in the statements of financial position.

As part of the amendment of the lease agreement, KAB paid $125,000 as an additional rental payment. This amount was paid during 2009, and is being amortized over the 10-year life of the lease. The unamortized balance of $93,750 and $106,250 is included in prepaid expenses and other assets at December 31, 2011 and 2010, respectively.

During 2010, KAB entered into a sublease agreement for office space in Washington, DC, for a second office. The lease is effective through 2015. Rent expense related to this lease was $64,793 and $32,397 for the years ended December 31, 2011 and 2010, respectively. The rent agreement provides for reduced rent in the early years and an escalation in the later years. The Organization in accordance with GAAP recognizes the rent expense on a straight-line basis. Therefore, the Organization has accrued a deferred rent liability of $13,673 and $11,826 at December 31, 2011 and 2010, respectively, which is included in accounts payable and accrued expenses in the statements of financial position.

The projected minimum rental commitment under the Organization's two leases as of December 31, 2011, is as follows:

Years Ending December 31	
2012	$ 293,014
2013	298,708
2014	304,506
2015	272,872
2016	239,850
Thereafter through 2019	611,925
Total	$ 2,020,875

KAB leases three copy machines and a postage meter under separate operating lease agreements. The minimum commitments under these leases are as follows:

Years Ending December 31	
2012	$ 29,925
2013	27,165
2014	20,318
2015	13,158
2016	8,736
Total	$ 99,302

8. DEFERRED INCOME GRANTS

During 2009, KAB received a $1,000,000 contribution earmarked specifically and conditionally upon the GAC program to be held during future periods. If the program is not held, the funds must be returned to the donor. During 2011 and 2010, $250,000 of the $1,000,000 deferred income was recognized as a contribution when the GAC program, was held in each year. The remaining deferred income of $500,000 as of December 31, 2011, has been designated for the GAC programs occurring in the following years: $250,000 (2012) and $250,000 (2013).

9. EMPLOYEE BENEFIT PLANS

Defined Contribution Plan — A qualified 403(b) defined contribution pension plan was adopted for all employees on April 30, 2001. Participants may make voluntary contributions to the plan, not to exceed the limitations prescribed by the Internal Revenue Code. Under the plan, the Organization makes semimonthly elections to match a portion of employees' contribution up to 5%. The Organization's contribution to the plan was $78,401 and $108,205 for the years ended December 31, 2011 and 2010, respectively.

Deferred Compensation Plan — During 2008, the Board established an agreement with the President that the Organization will compensate the President $35,000 each year in lieu of a deferred compensation plan. As of December 31, 2011 and 2010, the Organization had accrued $35,000 within deferred compensation in the statements of financial position in connection with this arrangement. The deferred compensation was paid in March 2012 and 2011, respectively.

10. INVESTMENTS

As of December 31, 2011, the Organization's total investments of $4,719,879 consist of $2,005,955 in the KAB Sustainability Fund (the "Fund"), and $2,713,924 in other investment holdings. As of December 31, 2010, the Organization's total investments of $7,565,564 consisted of $2,061,638 in the KAB Sustainability Fund and $5,503,926 in other investment holdings.

KAB Sustainability Fund — In 2006, KAB's Board established a quasi endowment to be known as the Fund. The purpose of the Fund is to help ensure the long-term continuity of KAB and its future ability to carry out its charitable mission. The Fund is administered by the executive committee of the Board in accordance with policies adopted by the Board. As the Fund is Board designated, the amounts are included in unrestricted net assets. All interest and dividend earnings are reinvested into the Fund as they are earned.

At December 31, 2011 and 2010, the Fund consists of the following:

	2011	2010
Cash and cash equivalents	$ 186,837	$ 158,823
Investments at market value	2,005,955	2,061,638
Total	$2,192,792	$2,220,461

Investments within the Fund are made up of the following:

Type	2011 Fair Value	Cost	Unrealized Gain
Exchange-traded equities	$ 1,138,089	$ 961,891	$ 176,198
Fixed-income mutual funds	445,897	450,089	(4,192)
Exchange-traded funds	421,969	426,787	(4,818)
Total	$ 2,005,955	$ 1,838,767	$ 167,188

Type	2010 Fair Value	Cost	Unrealized Gain
Exchange-traded equities	$ 1,037,375	$ 857,682	$ 179,693
Government agency bonds	104,364	100,000	4,364
Fixed-income mutual funds	430,416	428,030	2,386
Exchange-traded funds	489,483	377,925	111,558
Total	$ 2,061,638	$ 1,763,637	$ 298,001

The Organization has additional investments which are held in a separate account from the Fund, and are not restricted. The investments are made up of the following:

Type	2011 Fair Value	Cost	Unrealized Loss
Municipal bonds	$ 2,512,585	$ 2,527,628	$ (15,043)
Government agency bonds	201,339	199,516	1,823
Total	$ 2,713,924	$ 2,727,144	$ (13,220)

Type	2010 Fair Value	Cost	Unrealized Loss
Municipal bonds	$ 901,241	$ 883,539	$ 17,702
Fixed-income mutual funds	4,602,685	4,633,400	(30,715)
Total	$ 5,503,926	$ 5,516,939	$ (13,013)

During 2011 and 2010, realized losses of $142,351 and $71,625, respectively, were incurred as a result of sales of investments and are presented within investment income within the statements of activities.

For the years ended December 31, 2011 and 2010, included in miscellaneous expense in the Statements of functional expenses is $29,813 and $26,098, respectively, related to the management of the investment accounts, which reduced the balances of the accounts.

Fair Value Measurements — Accounting standards require enhanced disclosures about investments that are measured and reported at fair value. A hierarchal disclosure framework has been established, which prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level I — Quoted prices (unadjusted) are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include listed equities and listed mutual funds. The Organization does not adjust the quoted price for these investments, even in situations where KAB holds a large position and a sale could reasonably affect the quoted price.

Level II — Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate and municipal bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives where the fair value is based on observable inputs.

Level III — Pricing inputs are unobservable for the investment and includes situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include general and limited partnership interests in corporate private equity and real estate funds, mezzanine funds, funds of hedge funds, distressed debt and noninvestment-grade residual interests in securitizations and collateralized debt obligations where the fair value is based on observable inputs and unobservable inputs.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The levels in the fair value hierarchy that the Organization's investments fall into as of December 31, 2011 and 2010, are as follows:

Type	**Total**	**Level I**	**Level II**	**Level III**
Exchange-traded equities	$ 1,138,089	$ 1,138,089	$ -	$ -
Government agency bonds	201,339	201,339	-	-
Fixed-income mutual funds	445,897	445,897	-	-
Exchange-traded mutual funds	421,969	421,969	-	-
Municipal bonds	2,512,585	-	2,512,585	-
Total as of December 31, 2011	$ 4,719,879	$ 2,207,294	$ 2,512,585	$ -

Type	Total	Level I	Level II	Level III
Exchange-traded equities	$ 1,037,375	$ 1,037,375	$ -	$ -
Government agency bonds	104,364	104,364	-	-
Fixed-income funds	5,033,101	5,033,101	-	-
Exchange-traded mutual funds	489,483	489,483	-	-
Municipal bonds	901,241	875,856	25,385	-
Total as of December 31, 2010	$ 7,565,564	$ 7,540,179	$ 25,385	$ -

As discussed in Note 4, *Cash and Cash Equivalents*, KAB has $2,025,090 and $818,174 as of December 31, 2011 and 2010, respectively, in money market funds which are also considered to be Level I.

There were no transfers between Level I and II and the Organization held no Level III investments during each of the years ended December 31, 2011 and 2010.

11. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2011 and 2010, temporarily restricted net assets are comprised of:

	2011	2010
Purpose restrictions:		
Litter Prevention and Recycling Campaign	$ 1,233,576	$ 1,883,114
Ad Council Recycling Program	654,829	687,675
Litter Prevention Education	327,045	200,745
Littering is Wrong Too Campaign	303,497	197,360
Cigarette Litter Prevention Program 2012	300,000	-
UPS	236,929	182,222
Alcoa/KAB Bin Grant Program	217,534	9,725
Coca Cola/KAB Public Space Recycling Program	200,000	-
Coca Cola/KAB College Recycling Program	150,000	-
Recyclemania	124,163	16,709
Recyclemania Cycle 2	95,294	-
Capacity Building	90,132	140,000
Pepsi Cola/KAB Bin Grant Program	70,915	489,338
Alcoa 2011 Grant Program	70,000	-
Curbside Value Partnership	65,000	164,826
MillerCoors	50,000	50,000
Cigarette Litter Prevention Program 2011	45,828	-
California Smokeless Tobacco	57,605	77,070
McKenna Internship Fund	25,000	-
Anheuser Busch/KAB Bin Grant Program	22,533	199,840
CURC Alcoa Grant 2012	20,000	-
AF&PA Pilot Project — Paper Recycling	10,643	21,367
Community Foundation for the National Capital Region	10,000	-
California Affiliate Marketing	8,866	-
Campaign 2000 — Capacity Building	4,934	5,104
State Leaders Fund	842	725
Hofmann Scholarship Fund	100	100
Cigarette Litter Prevention Program 2010	-	198,927
Coca Cola/KAB Bin Grant Program	-	185,154
Clean Sweep USA Marketing	-	6,960
Nestle	-	4,000
Sherwin Williams Grafitti Hurts	-	509
CURC	-	14,834
	$ 4,395,265	$ 4,736,304

12. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets as of December 31, 2011 and 2010, were released from donor imposed restrictions by the incurrence of expenses in the following programs:

	2011	2010
Litter Prevention and Recycling Campaign	$ 649,538	$ 379,562
Cigarette Litter Prevention Program 2011	624,249	-
Pepsi Cola/KAB Bin Program	418,425	-
Cigarette Litter Prevention Program 2010	198,847	250,000
Littering is Wrong Too	188,863	-
Coca Cola/KAB Bin Grant Program	185,154	229,510
Anheuser-Busch/KAB Bin Program	177,307	-
UPS	136,294	163,655
Curbside Value Partnership	99,826	185,414
Recyclemania	67,920	-
Capacity Building	49,868	-
Sherwin Williams Graffiti Hurts	33,009	469
Ad Council Recycling Program	32,846	-
Litter Prevention Education	22,450	124,626
California Smokeless Tobacoo	19,465	-
California Affiliate Marketing	15,134	-
CURC	14,834	-
AF&PA Pilot Project — Paper Recycling	10,724	11,425
Alcoa/KAB Bin Grant Program	7,191	-
Clean Sweep USA Marketing	6,960	-
Recyclemania Cycle 2	4,706	-
Nestle	4,000	560
Campaign 2000 — Capacity Building	170	10,171
Waste Management Communities	-	83,116
Cigarette Litter Prevention Program 2006	-	229,954
Cigarette Litter Prevention Program 2008	-	30,199
Cigarette Litter Prevention Program 2009	-	323,713
BNSF	-	5,000
Litter Summit	-	122,930
	$2,967,780	$2,150,304

13. TAX-EXEMPT STATUS

KAB has received a favorable letter of determination from the Internal Revenue Service dated October 31, 1955, and is therefore tax-exempt under Section 501(c)(3) of the IRC of 1996 . In addition, based on a determination letter dated October 20, 1970, KAB has not been classified as a private foundation under Section 509(a) of the IRC. Since the date of these letters, no changes have occurred in the form, purpose or activities of KAB which would adversely affect its tax-exempt status or classification under the provisions of the IRC.

14. SUBSEQUENT EVENTS

Management has evaluated all subsequent events or transactions for potential recognition or disclosure through May 2, 2012, the date these financial statements were available to be issued. As a result of the Organization's evaluation, there were no subsequent events noted that require adjustment to, or disclosure in, these financial statements.