Keep America Beautiful, Inc.

Financial Statements as of and for the
Years Ended December 31, 2012 and 2011, and
Independent Auditors' Report

KEEP AMERICA BEAUTIFUL, INC.

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Deloitte & Touche LLP
Stamford Harbor Park
333 Ludlow Street
Stamford, CT 06902-6982
USA

Tel: +1 203 708 4000
Fax: +1 203 705 5455
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Keep America Beautiful, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, cash flows, and functional expenses 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.

Auditors' 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 Organization'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 Organization'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 America Beautiful, Inc. as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

June 11, 2013

KEEP AMERICA BEAUTIFUL, INC.

STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
CASH AND CASH EQUIVALENTS	$2,202,874	$3,397,143
INVESTMENTS (Note 10)	5,687,796	4,719,879
CONTRIBUTIONS AND OTHER RECEIVABLES (Note 5)	220,500	570,803
PREPAID EXPENSES AND OTHER ASSETS	330,942	136,858
FIXED ASSETS — Net of accumulated depreciation (Note 6)	93,652	112,688
TOTAL	$8,535,764	$8,937,371
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 798,240	$ 681,382
Deferred income grants (Note 8)	334,541	500,000
Deferred compensation (Note 9)	35,000	35,000
Total liabilities	1,167,781	1,216,382
NET ASSETS:		
Unrestricted	3,571,666	3,325,724
Temporarily restricted (Note 11)	3,796,317	4,395,265
Total net assets	7,367,983	7,720,989
TOTAL	$8,535,764	$8,937,371

See notes to financial statements.

KEEP AMERICA BEAUTIFUL, INC.

STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
UNRESTRICTED REVENUES AND SUPPORT:		
Contributions and grants	$ 4,418,024	$ 5,019,539
Benefit dinner — net of expenses of $173,529 and $183,805 in 2012 and 2011, respectively	540,806	108,695
Fees (Note 3)	345,945	219,200
Publication sales	14,894	15,450
Royalties	14,226	25,467
Investment income	68,066	122,217
Unrealized gain (loss) on investments	213,941	(131,020)
National and other conferences	-	311,751
In-kind support	-	135,556
Other income	30,432	15,862
Net assets released from restrictions (Note 12)	3,519,236	2,967,780
Total unrestricted revenues and support	9,165,570	8,810,497
EXPENSES:		
Program services:		
Communication and public education	286,105	458,787
Program and field training services	6,600,221	6,488,129
Total program services	6,886,326	6,946,916
Supporting services:		
Management and general	1,404,374	1,457,588
Fundraising	628,928	500,906
Total supporting services	2,033,302	1,958,494
Total expenses	8,919,628	8,905,410
EXCESS (DEFICIT) OF TOTAL UNRESTRICTED REVENUES AND SUPPORT OVER TOTAL EXPENSES	245,942	(94,913)
UNRESTRICTED NET ASSETS — Beginning of year	3,325,724	3,420,637
UNRESTRICTED NET ASSETS — End of year	$ 3,571,666	$ 3,325,724
GIFTS AND GRANTS RESTRICTED FOR FUTURE PERIODS	$ 2,920,288	$ 2,626,741
NET ASSETS RELEASED FROM RESTRICTIONS (Note 12)	(3,519,236)	(2,967,780)
DECREASE IN RESTRICTED NET ASSETS	(598,948)	(341,039)
RESTRICTED NET ASSETS — Beginning of year	4,395,265	4,736,304
RESTRICTED NET ASSETS — End of year	$ 3,796,317	$ 4,395,265
DECREASE IN TOTAL NET ASSETS	$ (353,006)	$ (435,952)

See notes to financial statements.

KEEP AMERICA BEAUTIFUL, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Decrease in net assets	$ (353,006)	$ (435,952)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation expense	49,820	41,951
Donated fixed assets	-	(23,958)
Donated securities	(4,942)	-
Write-off of contributions and other receivables	50,000	-
Realized loss on investments	193,833	142,351
Unrealized (gain) loss on investments	(213,941)	131,020
Decrease in contributions and other receivables	300,303	33,294
(Increase) decrease in prepaid expenses and other assets	(194,084)	31,896
Increase (decrease) in accounts payable and accrued expenses	20,908	(279,943)
Decrease in deferred income grants	(165,459)	(250,000)
Net cash used in operating activities	(316,568)	(609,341)
CASH FLOWS FROM INVESTING ACTIVITY:		
Purchases of securities	(6,298,545)	(9,719,330)
Proceeds from sales of securities	5,451,628	12,291,644
Purchases of fixed assets	(30,784)	(30,828)
Net cash (used in) provided by investing activities	(877,701)	2,541,486
NET (DECREASE) INCREASE IN CASH AND EQUIVALENTS	(1,194,269)	1,932,145
CASH AND CASH EQUIVALENTS — Beginning of year	3,397,143	1,464,998
CASH AND CASH EQUIVALENTS — End of year	$ 2,202,874	$ 3,397,143
NON-CASH OPERATING AND INVESTING ACTIVITIES:		
Donated fixed assets included as in-kind support	$ -	$ 23,958
Payable for unsettled trade activity	$ 95,950	$ -

See notes to financial statements.

KEEP AMERICA BEAUTIFUL, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	Communications and Public Education	Program and Field Training Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries	$ 92,432	$ 327,460	$ 419,892	$ 773,244	$ 387,973	$ 1,161,217	$ 1,581,109
Payroll taxes	6,806	21,593	28,399	60,804	21,573	82,377	110,776
Employee benefits	21,529	67,090	88,619	150,064	66,571	216,635	305,254
Rent and services	14,362	224,569	238,931	48,831	48,707	97,538	336,469
Stationery and supplies	1,164	4,368	5,532	8,222	3,923	12,145	17,677
Postage	978	3,723	4,701	3,853	3,606	7,459	12,160
Telephone	2,300	10,546	12,846	10,374	7,857	18,231	31,077
Computer systems	20,807	10,497	31,304	11,037	14,529	25,566	56,870
Dues and subscriptions	1,809	155	1,964	6,689	5,355	12,044	14,008
Communications	29,409	10,887	40,296	3,441	6,600	10,041	50,337
Equipment leases	1,387	4,489	5,876	4,485	4,707	9,192	15,068
Meetings and conferences	49	-	49	52,913	3,503	56,416	56,465
Affiliate certification	-	25,273	25,273	-	-	-	25,273
Travel	15,399	35,574	50,973	64,128	20,684	84,812	135,785
Professional fees	1,148	3,775	4,923	73,573	4,015	77,588	82,511
Consultants	35,632	10,622	46,254	10,886	11,403	22,289	68,543
Programs	370	5,772,129	5,772,499	3,322	3,810	7,132	5,779,631
Printing	35,816	24,384	60,200	230	-	230	60,430
Miscellaneous	2,617	9,177	11,794	111,547	7,024	118,571	130,365
Depreciation	2,091	33,910	36,001	6,731	7,088	13,819	49,820
Subtotal	$ 286,105	$ 6,600,221	$ 6,886,326	$ 1,404,374	$ 628,928	$ 2,033,302	8,919,628
Benefit dinner expenses							173,529
Total							$ 9,093,157

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.

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 41% and 45% of the gifts and grants restricted for future periods from two donors during the years ended December 31, 2012 and 2011, respectively. The Organization received 11% of the unrestricted revenues and support from a single donor during 2012. There were no significant concentrations with regard to unrestricted revenues and support during 2011.

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, the Organization received $135,556 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. No in-kind support was recognized during 2012.

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. Management values the investments with the assistance of an investment advisor based on quoted market prices and/or broker quotes. Debt and equity securities that are not publicly traded or whose market prices are not readily available are valued at fair value utilizing recognized pricing services.

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 gain (loss) 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 2012 or 2011. 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 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 was applied prospectively and was effective for the Organization’s 2012 financial statements. The adoption of this guidance did not 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 $26,000 and $28,725 for the years ended December 31, 2012 and 2011, 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 $120,315 and $105,000 for the years ended December 31, 2012 and 2011, respectively. Program administrative fees were $183,000 and $71,000 for the years ended December 31, 2012 and 2011, respectively. In addition, the Organization received $16,630 and $14,475 of state recycling organization fees for the years ended December 31, 2012 and 2011.

4. CASH AND CASH EQUIVALENTS

KAB considers any investment with an original maturity of three months or less at the date of purchase to be cash and cash equivalents. The cash and cash equivalents balance as of December 31, 2012 and 2011 are made up of the following:

	2012	2011
Checking accounts	$1,056,746	$1,372,053
Money market fund — sustainability fund (Note 10)	158,187	186,837
Money market fund	987,941	1,838,253
Total	$2,202,874	$3,397,143

5. CONTRIBUTIONS AND OTHER RECEIVABLES

Receivables of $220,500 and $570,803 at December 31, 2012 and 2011, respectively, are due within the year. During the years ended December 31, 2012 and 2011, the Organization recorded $50,000 and $0, respectively, of bad debt expense which is included in miscellaneous expense on the statements of functional expenses.

6. FIXED ASSETS

Fixed assets at December 31, 2012 and 2011, consist of the following:

	2012	2011
Furniture, fixtures, and equipment	$ 329,737	$ 298,953
Less accumulated depreciation	(236,085)	(186,265)
Fixed assets — net of accumulated depreciation	$ 93,652	$ 112,688

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, 2012 and 2011. 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 $33,825 and $27,675 at December 31, 2012 and 2011, 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 $81,250 and $93,750 is included in prepaid expenses and other assets at December 31, 2012 and 2011, 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 for each of the years ended December 31, 2012 and 2011. 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 $13,002 and $13,673 at December 31, 2012 and 2011, 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, 2012, is as follows:

Years Ending December 31	
2013	$ 298,708
2014	304,506
2015	272,872
2016	239,850
2017	242,925
Thereafter through 2019	369,000
Total	$ 1,727,861

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	
2013	$ 28,908
2014	28,908
2015	26,697
2016	20,519
2017	5,514
Total	$ 110,546

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 2012 and 2011, respectively, $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 $250,000 as of December 31, 2012, has been designated for the GAC program occurring in 2013.

During 2012, KAB received registration fees of $84,541 for the National Conference which was held in January, 2013. As of December 31, 2012, the fees were recorded as deferred income on the statements of financial position, as the fee was contingent on the occurrence of the National Conference.

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 $96,152 and $78,401 for the years ended December 31, 2012 and 2011, 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, 2012 and 2011, 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 February 2013 and March 2012, respectively.

10. INVESTMENTS

As of December 31, 2012, the Organization's total investments of $5,687,796 consist of $2,290,268 in the KAB Sustainability Fund (the "Fund"), and $3,397,528 in other investment holdings. As of December 31, 2011, the Organization's total investments of $4,719,879 consist of $2,005,955 in the Fund, and $2,713,924 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, 2012 and 2011, the Fund consists of the following:

	2012	2011
Cash and cash equivalents	$ 158,187	$ 186,837
Investments at fair value	2,290,268	2,005,955
Total	$ 2,448,455	$ 2,192,792

Investments within the Fund are made up of the following:

Type	2012 Fair Value	Cost	Unrealized Gain
Exchange-traded equities	$ 1,316,324	$ 1,010,912	$ 305,412
Fixed-income mutual funds	491,807	473,168	18,639
Exchange-traded mutual funds	482,137	436,263	45,874
Total	$ 2,290,268	$ 1,920,343	$ 369,925

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 mutual funds	421,969	426,787	(4,818)
Total	$2,005,955	$1,838,767	$167,188

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	2012 Fair Value	Cost	Unrealized Loss
Municipal bonds	$3,397,528	$3,399,544	$ (2,016)
Total	$3,397,528	$3,399,544	$ (2,016)

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)

During 2012 and 2011, realized losses of $193,833 and $142,351, 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, 2012 and 2011, included in miscellaneous expense in the statements of functional expenses is $31,144 and $29,813, 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, 2012 and 2011 are as follows:

Type	**Total**	**Level I**	**Level II**	**Level III**
Exchange-traded equities	$1,316,324	$1,316,324	$ -	$ -
Fixed-income mutual funds	491,807	491,807	-	-
Exchange-traded mutual funds	482,137	482,137	-	-
Municipal bonds	3,397,528	-	3,397,528	-
Total as of December 31, 2012	$5,687,796	$2,290,268	$3,397,528	$ -

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	$ -

The municipal bonds that are Level II investments are valued through a pricing service based on broker quotes whose valuation models is generally based on yields, maturity dates and volatility.

As discussed in Note 4, Cash and Cash Equivalents, KAB has $1,146,128 and $2,025,090 as of December 31, 2012 and 2011, 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, 2012 and 2011.

11. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2012 and 2011, temporarily restricted net assets are comprised of:

	2012	2011
Purpose restrictions:		
Ad Council Recycling Program	$1,078,650	$ 654,829
Cigarette Litter Prevention Program 2013	689,000	-
Litter Prevention Education	285,231	327,045
UPS	228,658	236,929
Litter Prevention and Recycling Campaign	194,195	1,233,576
Coca Cola/KAB Public Space Recycling Program	186,008	200,000
Alcoa/KAB Bin Grant Program	182,026	217,534
National Conference	165,000	-
State Fair	125,000	-
Coca Cola/KAB College Recycling Program	117,988	150,000
Littering is Wrong Too Campaign	72,652	303,497
Cigarette Litter Prevention Program 2012	72,545	300,000
Alcoa 2011 Grant Program	70,000	70,000
Curbside Value Partnership	65,000	65,000
Business Pledge	50,000	-
Recyclemania Cycle 2	31,295	95,294
Recyclemania	28,905	124,163
Capacity Building	25,334	90,132
Great American Cleanup	25,000	-
Pepsi Cola/KAB Bin Grant Program	22,794	70,915
McKenna Internship Fund	21,362	25,000
California Smokeless Tobacco	13,998	57,605
MillerCoors	10,000	50,000
Community Foundation for the National Capital Region	10,000	10,000
AF&PA Pilot Project — Paper Recycling	9,443	10,643
Sherwin Williams Graffiti Hurts	6,283	-
Pass-through Grants	5,000	-
California Affiliate Marketing	3,805	8,866
State Leaders Fund	842	842
Anheuser Busch/KAB Bin Grant Program	203	22,533
Hofmann Scholarship Fund	100	100
Cigarette Litter Prevention Program 2011	-	45,828
CURC Alcoa Grant 2012	-	20,000
Campaign 2000 — Capacity Building	-	4,934
	$3,796,317	$4,395,265

12. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets as of December 31, 2012 and 2011, were released from donor imposed restrictions by the incurrence of expenses in the following programs:

	2012	2011
Litter Prevention and Recycling Campaign	$1,039,381	$ 649,538
Cigarette Litter Prevention Program 2012	570,070	-
Littering is Wrong Too	280,845	188,863
Alcoa/KAB Bin Grant Program	210,508	7,191
UPS	208,271	136,294
Coca Cola/KAB Public Space Recycling Program	197,292	-
Recyclemania	195,258	67,920
Litter Prevention Education	185,564	22,450
Coca Cola/KAB College Recycling Program	173,712	-
Recyclemania Cycle 2	113,999	4,706
Capacity Building	64,798	49,868
Pepsi Cola/KAB Bin Program	48,121	418,425
Cigarette Litter Prevention Program 2011	45,751	624,249
California Smokeless Tobacco	43,607	19,465
MillerCoors	40,000	-
Sherwin Williams Graffiti Hurts	23,717	33,009
Anheuser-Busch/KAB Bin Program	22,330	177,307
CURC Alcoa Grant 2012	20,000	14,834
Ad Council Recycling Program	11,179	32,846
Community Foundation for the National Capital Region	10,000	-
California Affiliate Marketing	5,061	15,134
Campaign 2000 — Capacity Building	4,934	170
McKenna Internship Fund	3,638	-
AF&PA Pilot Project — Paper Recycling	1,200	10,724
Cigarette Litter Prevention Program 2010	-	198,847
Coca Cola/KAB Bin Grant Program	-	185,154
Curbside Value Partnership	-	99,826
Clean Sweep USA Marketing	-	6,960
Nestle	-	4,000
	$3,519,236	$2,967,780

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

Effective June 14, 2013, the KAB President will step down from his position and leave the Organization. The Chief Operating Officer will assume the President's responsibilities during the interim period until a replacement is identified.

Management has evaluated all subsequent events or transactions for potential recognition or disclosure through June 11, 2013, the date these financial statements were available to be issued. As a result of the Organization's evaluation, except as noted, there were no subsequent events noted that require adjustment to, or disclosure in, these financial statements.

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