

Keep America Beautiful, Inc.

Financial Statements as of and for the
Years Ended December 31, 2013 and 2012, 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 financial statements of Keep America Beautiful, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2013 and 2012, 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 the Organization as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte + Touche LLP

June 6, 2014

KEEP AMERICA BEAUTIFUL, INC.

STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2013 AND 2012

	2013	2012
ASSETS		
CASH AND CASH EQUIVALENTS	\$2,982,674	\$2,202,874
INVESTMENTS (Note 10)	3,294,713	5,687,796
CONTRIBUTIONS AND OTHER RECEIVABLES (Note 5)	1,431,441	220,500
PREPAID EXPENSES AND OTHER ASSETS	261,884	330,942
FIXED ASSETS — Net of accumulated depreciation (Note 6)	<u>52,903</u>	<u>93,652</u>
TOTAL	<u><u>\$8,023,615</u></u>	<u><u>\$8,535,764</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 433,397	\$ 798,240
Deferred income grants (Note 8)	79,533	334,541
Deferred compensation (Note 9)	<u>14,583</u>	<u>35,000</u>
Total liabilities	<u>527,513</u>	<u>1,167,781</u>
NET ASSETS:		
Unrestricted	3,944,543	3,571,666
Temporarily restricted (Note 11)	<u>3,551,559</u>	<u>3,796,317</u>
Total net assets	<u>7,496,102</u>	<u>7,367,983</u>
TOTAL	<u><u>\$8,023,615</u></u>	<u><u>\$8,535,764</u></u>

See notes to financial statements.

KEEP AMERICA BEAUTIFUL, INC.

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
UNRESTRICTED REVENUES AND SUPPORT:		
Contributions and grants	\$ 4,156,575	\$ 4,418,024
Benefit dinner — net of expenses of \$231,580 and \$173,529 in 2013 and 2012, respectively	310,170	540,806
Fees (Note 3)	585,260	345,945
Publication sales	19,297	14,894
Royalties	7,114	14,226
Investment income	152,529	68,066
Unrealized gain on investments	285,093	213,941
National and other conferences	185,189	-
In-kind support	6,995	-
Other income	7,223	30,432
Net assets released from restrictions (Note 12)	<u>5,204,754</u>	<u>3,519,236</u>
Total unrestricted revenues and support	<u>10,920,199</u>	<u>9,165,570</u>
EXPENSES:		
Program services:		
Communication and public education	347,732	286,105
Program and field training services	<u>8,642,926</u>	<u>6,600,221</u>
Total program services	<u>8,990,658</u>	<u>6,886,326</u>
Supporting services:		
Management and general	969,882	1,404,374
Fundraising	<u>586,782</u>	<u>628,928</u>
Total supporting services	<u>1,556,664</u>	<u>2,033,302</u>
Total expenses	<u>10,547,322</u>	<u>8,919,628</u>
EXCESS OF TOTAL UNRESTRICTED REVENUES AND SUPPORT OVER TOTAL EXPENSES	372,877	245,942
UNRESTRICTED NET ASSETS — Beginning of year	<u>3,571,666</u>	<u>3,325,724</u>
UNRESTRICTED NET ASSETS — End of year	<u>\$ 3,944,543</u>	<u>\$ 3,571,666</u>
GIFTS AND GRANTS RESTRICTED FOR FUTURE PERIODS	\$ 4,959,996	\$ 2,920,288
NET ASSETS RELEASED FROM RESTRICTIONS (Note 12)	<u>(5,204,754)</u>	<u>(3,519,236)</u>
DECREASE IN RESTRICTED NET ASSETS	(244,758)	(598,948)
RESTRICTED NET ASSETS — Beginning of year	<u>3,796,317</u>	<u>4,395,265</u>
RESTRICTED NET ASSETS — End of year	<u>\$ 3,551,559</u>	<u>\$ 3,796,317</u>
INCREASE (DECREASE) IN TOTAL NET ASSETS	<u>\$ 128,119</u>	<u>\$ (353,006)</u>

See notes to financial statements.

KEEP AMERICA BEAUTIFUL, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 128,119	\$ (353,006)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation expense	52,829	49,820
Donated securities	(5,023)	(4,942)
Write-off of contributions and other receivables	-	50,000
Realized loss on investments	24,368	193,833
Unrealized gain on investments	(285,093)	(213,941)
(Increase) decrease in contributions and other receivables	(1,210,941)	300,303
Decrease (increase) in prepaid expenses and other assets	69,058	(194,084)
Increase (decrease) in accounts payable and accrued expenses	(364,843)	20,908
Decrease in deferred income grants	(255,008)	(165,459)
Decrease in deferred compensation	(20,417)	-
	<u>(1,866,951)</u>	<u>(316,568)</u>
Net cash used in operating activities		
CASH FLOWS FROM INVESTING ACTIVITY:		
Purchases of securities	(3,454,054)	(6,298,545)
Proceeds from sales of securities	6,112,885	5,451,628
Purchases of fixed assets	(12,080)	(30,784)
	<u>2,646,751</u>	<u>(877,701)</u>
Net cash provided by (used in) investing activities		
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	779,800	(1,194,269)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>2,202,874</u>	<u>3,397,143</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 2,982,674</u>	<u>\$ 2,202,874</u>
NONCASH OPERATING AND INVESTING ACTIVITIES —		
Payable for unsettled trade activity	<u>\$ -</u>	<u>\$ 95,950</u>

See notes to financial statements.

KEEP AMERICA BEAUTIFUL, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2013

	Communications and Public Education	Program and Field Training Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries	\$ 132,951	\$ 362,785	\$ 495,736	\$ 434,180	\$ 355,774	\$ 789,954	\$ 1,285,690
Payroll taxes	9,207	25,020	34,227	40,152	25,454	65,606	99,833
Employee benefits	38,993	87,420	126,413	110,881	62,131	173,012	299,425
Rent and services	25,542	217,401	242,943	46,153	40,054	86,207	329,150
Stationery and supplies	1,628	4,267	5,895	5,198	2,409	7,607	13,502
Postage	486	4,752	5,238	4,200	1,436	5,636	10,874
Telephone	3,253	10,956	14,209	7,532	5,119	12,651	26,860
Computer systems	14,654	11,683	26,337	14,175	8,359	22,534	48,871
Dues and subscriptions	4,686	14,523	19,209	14,317	6,013	20,330	39,539
Communications	28,620	35,318	63,938	500	5,716	6,216	70,154
Equipment leases	2,907	7,356	10,263	5,744	4,556	10,300	20,563
Meetings and conferences	231	1,588	1,819	36,929	3,927	40,856	42,675
Affiliate certification	-	49,262	49,262	-	-	-	49,262
Travel	6,073	40,271	46,344	49,835	32,055	81,890	128,234
Professional fees	7,469	15,133	22,602	17,418	11,727	29,145	51,747
Consultants	36,148	12,594	48,742	124,476	6,406	130,882	179,624
Programs	2,100	7,679,207	7,681,307	488	2,880	3,368	7,684,675
Printing	25,146	11,399	36,545	333	321	654	37,199
Miscellaneous	3,767	15,574	19,341	50,894	6,381	57,275	76,616
Depreciation	3,871	36,417	40,288	6,477	6,064	12,541	52,829
Subtotal	<u>\$ 347,732</u>	<u>\$ 8,642,926</u>	<u>\$ 8,990,658</u>	<u>\$ 969,882</u>	<u>\$ 586,782</u>	<u>\$ 1,556,664</u>	10,547,322
Benefit dinner expenses							<u>231,580</u>
Total							<u>\$ 10,778,902</u>

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	<u>\$ 286,105</u>	<u>\$ 6,600,221</u>	<u>\$ 6,886,326</u>	<u>\$ 1,404,374</u>	<u>\$ 628,928</u>	<u>\$ 2,033,302</u>	8,919,628
Benefit dinner expenses							<u>173,529</u>
Total							<u>\$ 9,093,157</u>

See notes to financial statements.

KEEP AMERICA BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

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, 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.

The Organization considers any individual donor that contributes more than 10% of total revenue to be significant. The Organization received 64% and 41% of the gifts and grants restricted for future periods from three and two donors during the years ended December 31, 2013 and 2012, respectively. The Organization received 11% of the unrestricted revenues and support from a single donor during 2012. There is no concentration of the unrestricted revenue and support during 2013.

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. There was \$6,995 and \$0 of in-kind support recognized during 2013 and 2012, respectively.

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 on investments.

Investments in equity securities, government and agency bonds, and mutual funds that 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 2013 or 2012. 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.

3. FEES

To establish a new KAB affiliate, KAB trains local organizational teams, distributes KAB system programs, precertification 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 \$51,000 and \$26,000 for the years ended December 31, 2013 and 2012, 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 \$107,200 and \$120,315 for the years ended December 31, 2013 and 2012, respectively. Program administrative fees were \$411,500 and \$183,000 for the years ended December 31, 2013 and 2012, respectively. In addition, the Organization received \$15,560 and \$16,630 of state recycling organization fees for the years ended December 31, 2013 and 2012, respectively.

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, 2013 and 2012, is made up of the following:

	2013	2012
Checking accounts	\$ 1,287,380	\$ 1,056,746
Money market fund — sustainability fund (Note 10)	295,224	158,187
Money market fund	<u>1,400,070</u>	<u>987,941</u>
Total	<u>\$ 2,982,674</u>	<u>\$ 2,202,874</u>

5. CONTRIBUTIONS AND OTHER RECEIVABLES

Receivables of \$1,231,441 and \$220,500 at December 31, 2013 and 2012, respectively, are due within the year. As of December 31, 2013, \$200,000 is due after one year. During the years ended December 31, 2013 and 2012, the Organization recorded \$0 and \$50,000, 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, 2013 and 2012, consist of the following:

	2013	2012
Furniture, fixtures, and equipment	\$ 341,817	\$ 329,737
Less accumulated depreciation	<u>(288,914)</u>	<u>(236,085)</u>
Fixed assets — net of accumulated depreciation	<u>\$ 52,903</u>	<u>\$ 93,652</u>

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, 2013 and 2012. 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 \$36,900 and \$33,825 at December 31, 2013 and 2012, 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 \$68,750 and \$81,250 is included in prepaid expenses and other assets at December 31, 2013 and 2012, 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, 2013 and 2012. 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 \$9,713 and \$13,002 at December 31, 2013 and 2012, 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, 2013, is as follows:

Years Ending December 31	
2014	\$ 304,506
2015	272,872
2016	239,850
2017	242,925
2018	246,000
Thereafter through 2019	<u>123,000</u>
Total	<u>\$1,429,153</u>

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	
2014	\$ 28,908
2015	26,697
2016	20,519
2017	<u>5,514</u>
Total	<u>\$ 81,638</u>

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 2013 and 2012, \$250,000 of the \$1,000,000 deferred income was recognized as a contribution when the GAC program was held in each year.

During 2013 and 2012, KAB received registration fees of \$79,533 and \$84,541, respectively, for the National Conference which was held in January of the following year. As of December 31, 2013 and 2012, the fees were recorded as deferred income on the statements of financial position, as the fees were 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 (IRC). 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 \$93,924 and \$96,152 for the years ended December 31, 2013 and 2012, respectively.

Deferred Compensation Plan — During 2008, the Board established an agreement with the Organization's former President that the Organization would compensate the former President \$35,000 each year in lieu of a deferred compensation plan. As of December 31, 2013 and 2012, the Organization accrued \$14,583 and \$35,000, respectively, within deferred compensation in the statements of financial position in connection with this arrangement. The former President resigned from the Organization during 2013.

10. INVESTMENTS

As of December 31, 2013, the Organization's total investments of \$3,294,713 consist of \$2,545,814 in the KAB Sustainability Fund (the "Fund") and \$748,899 in other investment holdings. As of December 31, 2012, the Organization's total investments of \$5,687,796 consisted of \$2,290,268 in the Fund and \$3,397,528 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, 2013 and 2012, the Fund consists of the following:

	2013	2012
Cash and cash equivalents	\$ 295,224	\$ 158,187
Investments at fair value	<u>2,545,814</u>	<u>2,290,268</u>
Total	<u>\$2,841,038</u>	<u>\$2,448,455</u>

Investments within the Fund are made up of the following:

Type	2013 Fair Value	Cost	Unrealized Gain(Loss)
Exchange-traded equities	\$ 1,757,700	\$ 1,162,069	\$ 595,631
Fixed-income mutual funds	533,299	533,610	(311)
Exchange-traded mutual funds	<u>254,815</u>	<u>192,738</u>	<u>62,077</u>
Total	<u>\$2,545,814</u>	<u>\$1,888,417</u>	<u>\$ 657,397</u>

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	<u>482,137</u>	<u>436,263</u>	<u>45,874</u>
Total	<u>\$ 2,290,268</u>	<u>\$ 1,920,343</u>	<u>\$ 369,925</u>

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

Type	2013 Fair Value	Cost	Unrealized Loss
Municipal bonds	<u>\$ 748,899</u>	<u>\$ 753,294</u>	<u>\$ (4,395)</u>
Total	<u>\$ 748,899</u>	<u>\$ 753,294</u>	<u>\$ (4,395)</u>

Type	2012 Fair Value	Cost	Unrealized Loss
Municipal bonds	<u>\$ 3,397,528</u>	<u>\$ 3,399,544</u>	<u>\$ (2,016)</u>
Total	<u>\$ 3,397,528</u>	<u>\$ 3,399,544</u>	<u>\$ (2,016)</u>

During 2013 and 2012, realized losses of \$24,368 and \$193,833, 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, 2013 and 2012, included in miscellaneous expense in the statements of functional expenses is \$33,154 and \$31,144, 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 hierarchical 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, 2013 and 2012, are as follows:

Type	Total	Level I	Level II	Level III
Exchange-traded equities	\$ 1,757,700	\$ 1,757,700	\$ -	\$ -
Fixed-income mutual funds	533,299	533,299	-	-
Exchange-traded mutual funds	254,815	254,815	-	-
Municipal bonds	<u>748,899</u>	<u>-</u>	<u>748,899</u>	<u>-</u>
Total as of December 31, 2013	<u>\$ 3,294,713</u>	<u>\$ 2,545,814</u>	<u>\$ 748,899</u>	<u>\$ -</u>
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	<u>3,397,528</u>	<u>-</u>	<u>3,397,528</u>	<u>-</u>
Total as of December 31, 2012	<u>\$ 5,687,796</u>	<u>\$ 2,290,268</u>	<u>\$ 3,397,528</u>	<u>\$ -</u>

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 \$1,695,294 and \$1,146,128 as of December 31, 2013 and 2012, respectively, in money market funds that 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, 2013 and 2012.

11. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2013 and 2012, temporarily restricted net assets are composed of the following:

	2013	2012
Purpose restrictions:		
Ad Council Recycling Program	\$ 773,137	\$ 1,078,650
Cigarette Litter Prevention Program 2014	685,000	-
UPS	241,730	228,658
Coca Cola/KAB Public Space Recycling Program	239,160	186,008
Wrigley Litter Prevention	222,597	285,231
National Conference	162,000	165,000
Coca Cola/KAB College Recycling Program	139,787	117,988
Recyclemania	130,647	28,905
Great American Cleanup Affiliate Grants	124,000	25,000
Litter Prevention and Recycling Campaign	114,633	194,195
Harmony Paint Program	100,000	-
Pepsi Research Grant	98,000	-
Lowes Grants	67,000	-
Cigarette Litter Prevention Program 2013	52,107	689,000
Alcoa/KAB Bin Grant Program	51,191	182,026
Cigarette Litter Prevention Program Canada	47,856	-
State Fair	43,526	125,000
Business Pledge	42,610	50,000
Recyclemania Cycle 2	39,365	31,295
Coca Cola Chicago	36,000	-
Littering is Wrong Too Campaign	34,584	72,652
Dr. Pepper	20,300	-
Vision Dinner 2014	20,000	-
Alcoa Grant Programs	16,993	70,000
MillerCoors	10,000	10,000
Sherwin Williams Graffiti Hurts	9,664	6,283
Waste Management Communities	7,252	-
McKenna Internship Fund	6,957	21,362
Give & Go 2014	5,000	-
California Smokeless Tobacco	4,460	13,998
California Affiliate Marketing	3,199	3,805
Pass-through Grants	2,500	5,000
Collegiate Summit	304	-
Cigarette Litter Prevention Program 2012	-	72,545
Curbside Value Partnership	-	65,000
Capacity Building	-	25,334
Pepsi Cola/KAB Bin Grant Program	-	22,794
Community Foundation for the National Capital Region	-	10,000
AF&PA Pilot Project — Paper Recycling	-	9,443
State Leaders Fund	-	842
Anheuser Busch/KAB Bin Grant Program	-	203
Hofmann Scholarship Fund	-	100
	<u>\$3,551,559</u>	<u>\$3,796,317</u>

12. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets as of December 31, 2013 and 2012, were released from donor-imposed restrictions by the incurrence of expenses in the following programs:

	2013	2012
Coca Cola Chicago	\$ 1,214,000	\$ -
Lowes Grants	833,000	-
Cigarette Litter Prevention Program 2013	636,893	-
Ad Council Recycling Program	305,515	11,179
Waste Management Communities	242,748	-
Litter Prevention and Recycling Campaign	216,562	1,039,381
Dr. Pepper	199,700	-
UPS	186,928	208,271
National Conference	165,000	-
Coca Cola/KAB Public Space Recycling Program	158,848	197,292
Alcoa/KAB Bin Grant Program	130,835	210,508
Coca Cola/KAB College Recycling Program	116,200	173,712
State Fair	106,474	-
Recyclemania Cycle 2	91,930	113,999
Cigarette Litter Prevention Program 2012	72,545	570,070
Curbside Value Partnership	65,000	-
Littering is Wrong Too Campaign	63,068	280,845
Wrigley Litter Prevention	62,633	-
Aloca Grant Programs	53,007	20,000
Recyclemania	48,257	195,258
Pepsi Research Grant	35,000	-
Sherwin Williams Graffiti Hurts	33,614	23,717
Business Pledge	32,390	-
Capacity Building	25,334	64,798
Great American Cleanup Affiliate Grants	25,000	-
Pepsi Cola/KAB Bin Program	22,794	48,121
McKenna Internship Fund	14,505	3,638
Collegiate Summit	10,826	-
Community Foundation for the National Capital Region	10,000	10,000
California Smokeless Tobacco	9,538	43,607
AF&PA Pilot Project — Paper Recycling	9,443	1,200
Pass-Through Grants	5,000	-
State Leaders Fund	842	-
California Affiliate Marketing	606	5,061
Cigarette Litter Prevention Program Canada	516	-
Anheuser-Busch/KAB Bin Program	203	22,330
Litter Prevention Education	-	185,564
Cigarette Litter Prevention Program 2011	-	45,751
MillerCoors	-	40,000
Campaign 2000 — Capacity Building	-	4,934
	<u>\$ 5,204,754</u>	<u>\$ 3,519,236</u>

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 that 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 June 6, 2014, 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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