

Keep America Beautiful, Inc.

Financial Statements as of and for the
Years Ended December 31, 2016 and 2015,
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, 2016 and 2015, 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, 2016 and 2015, 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

May 11, 2017

KEEP AMERICA BEAUTIFUL, INC.

STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 2,784,114	\$ 2,711,527
INVESTMENTS (Note 10)	4,438,817	3,828,752
CONTRIBUTIONS AND OTHER RECEIVABLES (Note 5)	1,368,868	1,237,024
PREPAID EXPENSES AND OTHER ASSETS	185,777	145,987
FIXED ASSETS—Net of accumulated depreciation (Note 6)	<u>161,837</u>	<u>161,107</u>
TOTAL	<u>\$ 8,939,413</u>	<u>\$ 8,084,397</u>
 LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 989,472	\$ 745,890
Deferred income grants (Note 8)	<u>555,813</u>	<u>332,370</u>
Total liabilities	<u>1,545,285</u>	<u>1,078,260</u>
NET ASSETS:		
Unrestricted	3,752,934	4,201,973
Temporarily restricted (Note 11)	<u>3,641,194</u>	<u>2,804,164</u>
Total net assets	<u>7,394,128</u>	<u>7,006,137</u>
TOTAL	<u>\$ 8,939,413</u>	<u>\$ 8,084,397</u>

See notes to financial statements.

KEEP AMERICA BEAUTIFUL, INC.

STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
UNRESTRICTED REVENUES AND SUPPORT:		
Contributions and grants	\$ 3,023,315	\$ 2,754,093
Benefit dinner—net of expenses of \$321,445 and \$298,349 in 2016 and 2015, respectively	587,155	466,372
Fees (Note 3)	250,900	420,555
National and other conferences	185,950	268,897
Publication sales	20,575	19,214
Investment income	156,357	89,332
Unrealized (loss) gain on investments	(39,920)	31,734
Other income	80,145	64,332
Net assets released from restrictions (Note 12)	<u>3,478,636</u>	<u>3,666,652</u>
Total unrestricted revenues and support	<u>7,743,113</u>	<u>7,781,181</u>
EXPENSES:		
Program services:		
Communication and public education	353,753	361,282
Program and field training services	<u>6,299,568</u>	<u>6,083,573</u>
Total program services	<u>6,653,321</u>	<u>6,444,855</u>
Supporting services:		
Management and general	738,316	914,128
Fundraising	<u>800,515</u>	<u>490,154</u>
Total supporting services	<u>1,538,831</u>	<u>1,404,282</u>
Total expenses	<u>8,192,152</u>	<u>7,849,137</u>
DEFICIT OF TOTAL UNRESTRICTED REVENUES AND SUPPORT OVER TOTAL EXPENSES	(449,039)	(67,956)
UNRESTRICTED NET ASSETS—Beginning of year	<u>4,201,973</u>	<u>4,269,929</u>
UNRESTRICTED NET ASSETS—End of year	<u>3,752,934</u>	<u>4,201,973</u>
GIFTS AND GRANTS RESTRICTED FOR FUTURE PERIODS	4,315,666	3,251,300
NET ASSETS RELEASED FROM RESTRICTIONS (Note 12)	<u>(3,478,636)</u>	<u>(3,666,652)</u>
INCREASE (DECREASE) IN RESTRICTED NET ASSETS	837,030	(415,352)
RESTRICTED NET ASSETS—Beginning of year	<u>2,804,164</u>	<u>3,219,516</u>
RESTRICTED NET ASSETS—End of year	<u>3,641,194</u>	<u>2,804,164</u>
INCREASE (DECREASE) IN TOTAL NET ASSETS	<u>\$ 387,991</u>	<u>\$ (483,308)</u>

See notes to financial statements.

KEEP AMERICA BEAUTIFUL, INC.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 387,991	\$ (483,308)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization expense	77,541	18,329
Donated securities	(10,424)	-
Realized (gain) loss on investments	(67,456)	17,622
Unrealized loss (gain) on investments	39,920	(31,734)
Bad debt expense	300,000	-
Changes in assets and liabilities:		
Increase in contributions and other receivables	(431,844)	(534,883)
(Increase) decrease in prepaid expenses and other assets	(39,790)	42,856
Increase in accounts payable and accrued expenses	243,582	270,723
Increase (decrease) in deferred income grants	<u>223,443</u>	<u>(15,857)</u>
Net cash provided by (used in) operating activities	<u>722,963</u>	<u>(716,252)</u>
CASH FLOWS FROM INVESTING ACTIVITY:		
Purchases of securities	(1,848,664)	(1,553,296)
Proceeds from sales of securities	1,276,559	2,462,745
Purchases of fixed assets	<u>(78,271)</u>	<u>(142,600)</u>
Net cash (used in) provided by investing activities	<u>(650,376)</u>	<u>766,849</u>
NET INCREASE IN CASH AND EQUIVALENTS	72,587	50,597
CASH AND CASH EQUIVALENTS—Beginning of year	<u>2,711,527</u>	<u>2,660,930</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 2,784,114</u>	<u>\$ 2,711,527</u>

See notes to financial statements.

KEEP AMERICA BEAUTIFUL, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2016

	Communications and Public Education	Program and Field Training Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries	\$ 145,129	\$ 355,022	\$ 500,151	\$ 412,242	\$ 403,183	\$ 815,425	\$ 1,315,576
Payroll taxes	10,926	20,234	31,160	35,915	23,337	59,252	90,412
Employee benefits	36,704	75,715	112,419	61,761	82,948	144,709	257,128
Rent and services	27,271	203,271	230,542	30,117	60,733	90,850	321,392
Stationery and supplies	1,042	2,713	3,755	1,748	2,314	4,062	7,817
Postage	630	5,438	6,068	561	5,687	6,248	12,316
Telephone	2,703	5,519	8,222	3,287	6,080	9,367	17,589
Computer systems	15,094	17,592	32,686	14,170	18,997	33,167	65,853
Dues and subscriptions	1,877	10,608	12,485	2,069	16,906	18,975	31,460
Communications	34,384	1,804	36,188	516	23,070	23,586	59,774
Equipment leases	2,833	5,191	8,024	3,065	6,317	9,382	17,406
Meetings and conferences	1,467	292	1,759	17,179	925	18,104	19,863
Affiliate certification	-	55,919	55,919	-	-	-	55,919
Travel	3,882	68,726	72,608	16,909	19,025	35,934	108,542
Professional fees	8,068	14,738	22,806	10,082	22,325	32,407	55,213
Consultants	30,128	29,924	60,052	49,276	53,545	102,821	162,873
Programs	16,877	5,024,125	5,041,002	19,787	40,810	60,597	5,101,599
Printing	10,202	21,595	31,797	549	3,744	4,293	36,090
Bad debt	-	300,000	300,000	-	-	-	300,000
Miscellaneous	3,105	9,781	12,886	57,524	7,379	64,903	77,789
Depreciation and amortization	1,431	71,361	72,792	1,559	3,190	4,749	77,541
Subtotal	<u>\$ 353,753</u>	<u>\$ 6,299,568</u>	<u>\$ 6,653,321</u>	<u>\$ 738,316</u>	<u>\$ 800,515</u>	<u>\$ 1,538,831</u>	8,192,152
Benefit dinner expenses							<u>321,445</u>
Total							<u>\$8,513,597</u>

KEEP AMERICA BEAUTIFUL, INC.

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2015

	Communications and Public Education	Program and Field Training Services	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries	\$ 147,592	\$ 334,744	\$ 482,336	\$ 499,113	\$ 290,815	\$ 789,928	\$ 1,272,264
Payroll taxes	10,963	21,583	32,546	37,417	19,451	56,868	89,414
Employee benefits	32,069	76,771	108,840	104,086	47,611	151,697	260,537
Rent and services	22,612	227,841	250,453	41,462	32,890	74,352	324,805
Stationery and supplies	899	1,991	2,890	4,325	1,257	5,582	8,472
Postage	669	3,712	4,381	1,907	1,137	3,044	7,425
Telephone	1,674	7,438	9,112	8,210	2,435	10,645	19,757
Computer systems	20,173	15,257	35,430	15,706	11,786	27,492	62,922
Dues and subscriptions	5,788	24,634	30,422	16,158	13,634	29,792	60,214
Communications	31,088	18,870	49,958	238	3,200	3,438	53,396
Equipment leases	2,493	5,572	8,065	4,563	3,614	8,177	16,242
Meetings and conferences	1,812	205	2,017	19,185	980	20,165	22,182
Affiliate certification	-	34,569	34,569	-	-	-	34,569
Travel	9,180	42,343	51,523	25,405	30,346	55,751	107,274
Professional fees	6,617	14,837	21,454	20,239	11,261	31,500	52,954
Consultants	38,881	10,284	49,165	53,952	4,679	58,631	107,796
Programs	20,128	5,189,291	5,209,419	-	8,883	8,883	5,218,302
Printing	3,750	32,274	36,024	47	237	284	36,308
Miscellaneous	3,684	9,166	12,850	58,947	4,178	63,125	75,975
Depreciation	1,210	12,191	13,401	3,168	1,760	4,928	18,329
Subtotal	<u>\$ 361,282</u>	<u>\$ 6,083,573</u>	<u>\$ 6,444,855</u>	<u>\$ 914,128</u>	<u>\$ 490,154</u>	<u>\$ 1,404,282</u>	7,849,137
Benefit dinner expenses							<u>298,349</u>
Total							<u>\$ 8,147,486</u>

See notes to financial statements.

KEEP AMERICA BEAUTIFUL, INC.

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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.

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported results of operations.

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 benchmarks. KAB’s program services are described as follows:

Communication and Public Education—This program increases KAB’s recognition and visibility as a national organization that 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 US 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, ARD and *I Want to Be Recycled* 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 71% of the gifts and grants restricted for future periods from four donors and 39% of the gifts and grants restricted for future periods from two donors during the years ended December 31, 2016 and 2015, respectively. There is no concentration of the unrestricted revenue and support during 2016 and 2015.

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 10 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. The Organization recognized \$0 and \$5,000 of in-kind support during 2016 and 2015, respectively. In-kind support is presented within other income in the statements 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. Management values the investments with the assistance of an investment advisor based on quoted market prices and/or broker quotes. Debt 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 in 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, corporate and municipal 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 a 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 2016 or 2015. 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 2014, the FASB issued guidance to establish a comprehensive and converged standard on revenue recognition to enable financial statement users to better understand and consistently analyze an entity's revenue. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that

reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued its final standard formally amending the effective date of the new revenue recognition standard. The amended guidance defers the effective date to annual reporting periods in fiscal years beginning after December 15, 2018. The Organization is in the process of evaluating the impact that this guidance may have on its financial statements.

In January 2016, the FASB issued its new standard on accounting for leases, ASU 2016-02. The new standard address the off-balance-sheet financing accounting related to lessees' operating leases and introduces a lessee model that brings most leases on the balance sheet. The guidance is effective for calendar periods beginning January 1, 2020. The Organization is in the process of evaluating the impact that this guidance may have on its financial statements.

In August 2014, the FASB issued guidance regarding management's responsibility to evaluate whether there is substantial doubt about an Organization's ability to continue as a going concern and to provide related footnote disclosures. The new guidance requires that management evaluate at each annual reporting period whether conditions exist that give rise to substantial doubt about the Organization's ability to continue as a going concern within one year from the financial statement issuance date, and if so, provide related disclosures. The guidance is effective for annual reporting periods ending after December 15, 2016. The Organization's adoption of this guidance did not have an impact on the financial statements.

In August 2016, the FASB issued guidance that significantly changes the presentation requirements for financial statements of not-for-profit entities (NFPs). The amendments are intended to improve the guidance on net asset classification as well as the information presented in the financial statements and financial statement notes regarding liquidity, financial performance, and cash flows for NFPs. The guidance is effective for annual reporting periods ending after December 15, 2017. The Organization is in the process of evaluating the impact that this guidance may have on its financial statements.

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 \$43,000 and \$30,000 for the years ended December 31, 2016 and 2015, 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 \$118,400 and \$118,825 for the years ended December 31, 2016 and 2015, respectively. Program administrative fees were \$458,000 and \$265,000 for the years ended December 31, 2016 and 2015, respectively. Of this amount, \$368,000 was included in gifts and grants restricted for future periods for the year ended December 31, 2016. In addition, the Organization received \$0 and \$6,730 of state recycling organization fees for the years ended December 31, 2016 and 2015, 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, 2016 and 2015, is made up of the following:

	2016	2015
Checking accounts	\$ 853,749	\$ 1,751,156
US Treasury bills	1,299,482	-
Money market fund—sustainability fund (Note 10)	19,359	481,699
Money market fund	<u>611,524</u>	<u>478,672</u>
Total	<u>\$ 2,784,114</u>	<u>\$ 2,711,527</u>

5. CONTRIBUTIONS AND OTHER RECEIVABLES

Receivables of \$1,043,868 and \$1,087,024 at December 31, 2016 and 2015, respectively, are due within the year. \$325,000 and \$150,000 were due within two years as of December 31, 2016 and 2015, respectively. During the years ended December 31, 2016 and 2015, the Organization recorded bad debt expense of \$300,000 and \$0, respectively.

6. FIXED ASSETS

Fixed assets at December 31, 2016 and 2015, consist of the following:

	2016	2015
Furniture, fixtures, and computer equipment	\$ 563,814	\$ 485,543
Less accumulated depreciation and amortization	<u>(401,977)</u>	<u>(324,436)</u>
Fixed assets—net	<u>\$ 161,837</u>	<u>\$ 161,107</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 and \$233,700 for the years ended December 31, 2016 and 2015, 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 \$27,675 and \$33,825 at December 31, 2016 and 2015, 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 \$31,250 and \$43,750 is included in prepaid expenses and other assets at December 31, 2016 and 2015, respectively.

During 2010, KAB entered into a sublease agreement for office space in Washington, DC, for a second office. The lease ended during 2015. Rent expense related to this lease was \$0 and \$32,397 for the years ended December 31, 2016 and 2015, respectively.

During 2015, KAB entered into a sublease agreement for different office space in Washington, DC, to replace the expired lease. The lease runs through 2017. Rent expense related to this lease was \$27,930 and \$13,770 for the years ended December 31, 2016 and 2015, respectively.

The projected minimum rental commitment under the Organization's two leases as of December 31, 2016, is as follows:

Years Ending December 31	
2017	\$255,195
2018	246,000
2019	<u>123,000</u>
 Total	 <u><u>\$624,195</u></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	
2017	\$ 19,672
2018	14,158
2019	14,158
2020	13,009
2021	<u>10,450</u>
 Total	 <u><u>\$ 71,447</u></u>

8. DEFERRED INCOME GRANTS

During 2016 and 2015, KAB received registration fees of \$105,813 and \$82,370, respectively, for the National Conference which was held in January of the following year. As of December 31, 2016 and 2015, the fees were recorded as deferred income in the statements of financial position, as the fees were contingent on the occurrence of the National Conference.

During 2016 and 2015, KAB received contributions from sponsors of \$350,000 and \$250,000, respectively, earmarked specifically and conditionally upon the GAC program to be held during 2017 and 2016, respectively. If the program is not held, the funds must be returned to the donors. These contributions are included in deferred income in the statements of financial position. During 2016 and 2015, KAB recognized \$250,000 as contribution revenue when the GAC was held.

During 2016, KAB received a contribution from a sponsor of \$50,000 earmarked specifically for a new program as part of the *I Want to be Recycled* campaign. This new program requires additional funding to be raised before it will be given the go-ahead, a process which is still underway as of the date of these financial statements. If the program does not proceed, the funds must be returned to the donor. This contribution is included in deferred income as of December 31, 2016 in the statements of financial position.

During 2016, KAB received a contribution from a sponsor of \$50,000 earmarked specifically for a specific recycling campaign. This program will take place during 2017. If the program does not proceed, the funds must be returned to the donor. This contribution is included in deferred income as of December 31, 2016 in the statements of financial position.

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 \$91,046 and \$88,791 for the years ended December 31, 2016 and 2015, respectively.

10. INVESTMENTS

As of December 31, 2016, the Organization's total investments of \$4,438,817 consist of \$2,927,745 in the KAB Sustainability Fund (the "Fund") and \$1,511,072 in other investment holdings. As of December 31, 2015, the Organization's total investments of \$3,828,752 consist of \$2,595,874 in the Fund and \$1,232,878 in other investment holdings.

KAB Sustainability Fund—In 2006, KAB's Board of Directors 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, 2016 and 2015, the Fund consists of the following:

	2016	2015
Cash and cash equivalents	\$ 19,359	\$ 481,699
Investments at fair value	<u>2,927,745</u>	<u>2,595,874</u>
Total	<u>\$2,947,104</u>	<u>\$3,077,573</u>

Investments within the Fund are made up of the following:

Type	2016 Fair Value	Cost	Unrealized Gain (Loss)
Exchange-traded equities	\$ 1,738,727	\$ 1,153,224	\$585,503
Fixed-income mutual funds	744,527	757,687	(13,160)
Exchange-traded mutual funds	<u>444,491</u>	<u>422,908</u>	<u>21,583</u>
Total	<u>\$ 2,927,745</u>	<u>\$ 2,333,819</u>	<u>\$593,926</u>

Type	2015 Fair Value	Cost	Unrealized Gain (Loss)
Exchange-traded equities	\$ 1,694,637	\$ 1,071,571	\$623,066
Fixed-income mutual funds	541,978	553,760	(11,782)
Exchange-traded mutual funds	<u>359,259</u>	<u>342,752</u>	<u>16,507</u>
Total	<u>\$ 2,595,874</u>	<u>\$ 1,968,083</u>	<u>\$627,791</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	2016 Fair Value	Cost	Unrealized Gain (Loss)
US Treasury bills	\$ 598,778	\$ 598,045	\$ 733
US Agency securities	149,970	150,248	(278)
Fixed-income mutual funds	<u>762,324</u>	<u>772,478</u>	<u>(10,154)</u>
Total	<u>\$ 1,511,072</u>	<u>\$ 1,520,771</u>	<u>\$ (9,699)</u>

Type	2015 Fair Value	Cost	Unrealized Loss
Fixed-income mutual funds	\$ 769,191	\$ 772,478	\$(3,287)
Municipal bonds	<u>463,687</u>	<u>464,044</u>	<u>(357)</u>
Total	<u>\$ 1,232,878</u>	<u>\$ 1,236,522</u>	<u>\$(3,644)</u>

During 2016 and 2015, realized gains (losses) of \$67,456 and \$(17,622), 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, 2016 and 2015, included in miscellaneous expense in the statements of functional expenses is \$37,544 and \$37,161, 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 that are generally included in this category include corporate and municipal bonds, less liquid and restricted equity securities 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.

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, 2016 and 2015, are as follows:

Type	Total	Level I	Level II	Level III
Exchange-traded equities	\$1,738,727	\$1,738,727	\$ -	\$ -
Fixed-income mutual funds	1,506,851	1,506,851	-	-
Exchange-traded mutual funds	444,491	444,491	-	-
US Treasury bills	598,778	598,778	-	-
US Agency Securities	<u>149,970</u>	<u>149,970</u>	<u>-</u>	<u>-</u>
Total as of December 31, 2016	<u>\$4,438,817</u>	<u>\$4,438,817</u>	<u>\$ -</u>	<u>\$ -</u>

Type	Total	Level I	Level II	Level III
Exchange-traded equities	\$1,694,637	\$1,694,637	\$ -	\$ -
Fixed-income mutual funds	1,311,169	1,311,169	-	-
Exchange-traded mutual funds	359,259	359,259	-	-
Municipal bonds	<u>463,687</u>	<u>-</u>	<u>463,687</u>	<u>-</u>
Total as of December 31, 2015	<u>\$3,828,752</u>	<u>\$3,365,065</u>	<u>\$463,687</u>	<u>\$ -</u>

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

As discussed in Note 4, *Cash and Cash Equivalents*, KAB has \$630,883 and \$960,371 in money market funds as well as \$1,299,482 and \$0 in US Treasury bills with maturity of less than three months at the date of purchase, as of December 31, 2016 and 2015, respectively, that are considered to be Level I.

There were no transfers between Level I and II, and the Organization held no Level III investments during the years ended December 31, 2016 and 2015.

11. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2016 and 2015, temporarily restricted net assets are composed of the following:

	2016	2015
Purpose restrictions:		
Dr. Pepper	\$ 718,150	\$ 87,959
Ad Council Recycling Program	618,000	200,000
Cigarette Litter Prevention Program 2017	585,000	-
Litter Research	248,774	352,760
Wrigley Litter Prevention	219,511	153,345
Altria Project	168,242	-
UPS	166,900	215,451
KAB Mission Support	120,000	-
National Conference	114,500	106,300
Recyclemania	103,904	189,205
Nestle Recycling	80,021	150,000
Recyclemania Cycle 2	75,238	77,017
Vision Dinner	70,000	35,000
Flint Project	60,915	-
Bud Light Disaster Relief Grants	50,000	51,119
Digital Refresh	35,000	157,785
Lowes Grants	33,275	28,828
Coca Cola/KAB Public Space Recycling Program	27,604	9,026
Coca Cola Chicago	26,971	41,474
Cigarette Litter Prevention Program 2016	45,265	380,000
Alcoa Grant Programs	18,201	2,712
Hawaii Project	15,000	-
Waste Management Communities	13,323	32,475
Blight Study	9,610	-
Harmony Paint Program	8,455	7,888
H.O. Peet Internship Scholarships	6,957	6,368
Community Foundation for the National Capital Region	2,378	10,029
America Recycles Day	-	250,000
Cigarette Litter Prevention Program 2015	-	140,558
Affiliate Development	-	56,281
Litter Prevention and Recycling Campaign	-	32,217
State Leaders Council	-	10,000
Pass-through Grants	-	2,500
Coca Cola/KAB College Recycling Program	-	12,867
Pepsi Research Grant	-	5,000
	<u> </u>	<u> </u>
	<u>\$ 3,641,194</u>	<u>\$ 2,804,164</u>

12. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets as of December 31, 2016 and 2015, were released from donor-imposed restrictions by the incurrence of expenses in the following programs:

	2016	2015
Lowes Grants	\$ 738,986	\$ 832,009
Cigarette Litter Prevention Program 2016	334,724	-
Dr. Pepper	289,809	260,000
Coca Cola/KAB Public Space Recycling Program	281,422	291,915
America Recycles Day	250,000	-
Ad Council Recycling Program	200,000	372,304
Wrigley Litter Prevention	169,184	111,281
Digital Refresh	157,785	69,714
Cigarette Litter Prevention Program 2015	140,558	609,020
National Conference	106,300	157,205
Litter Research	103,986	7,240
Flint Project	89,085	-
Altria Project	81,758	-
Recyclemania Cycle 2	74,996	65,007
Nestle Recycling Program	69,979	-
Recyclemania	62,084	73,092
Affiliate Development	56,286	8,714
Bud Light Disaster Relief	51,119	48,881
UPS	48,551	184,548
Vision Dinner	35,000	-
Litter Prevention and Recycling Campaign	32,217	44,501
Aloca Grant Programs	23,333	22,695
Waste Management Communities	19,152	302,526
Coca Cola Chicago	14,503	3,320
Coca Cola/KAB College Recycling Program	12,867	78
State Leaders Council	10,000	8,135
Community Fund for the National Capital Region	7,651	9,971
Blight Study	5,390	31,709
Pepsi Research Grant	5,000	10,647
H.O. Peet Internship Scholarships	4,411	7,226
Pass-through Grants	2,500	-
Cigarette Litter Prevention Program Canada	-	59,011
Alcoa/KAB Bin Grant Program	-	29,093
Resource Guide	-	20,000
Harmony Paint Program	-	10,944
Great American Cleanup Affiliate Grants	-	6,200
Community Greening	-	5,250
Littering is Wrong Too Campaign	-	1,953
Business Pledge	-	1,119
California Affiliate Marketing	-	1,040
Collegiate Summit	-	304
	<u>\$3,478,636</u>	<u>\$3,666,652</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 May 11, 2017, 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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