

THE KOSCIUSZKO FOUNDATION, INC.

Financial Statements and Supplemental Schedule

June 30, 2010 and 2009

(With Independent Auditors' Report)

THE KOSCIUSZKO FOUNDATION, INC.

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DONALD F. SCHERER

Independent Auditors' Report

The Board of Trustees
The Kosciuszko Foundation, Inc.:

We have audited the accompanying balance sheet of the Kosciuszko Foundation, Inc. (the Foundation) as of June 30, 2010, and the related statement of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of The Kosciuszko Foundation, Inc. For the year ended June 30, 2009 were audited by other auditors, whose report dated November 24, 2009 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kosciuszko Foundation, Inc. as of June 30, 2010, and its changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedule I is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

November 12, 2010

Owen J. Flanagan & Co.

THE KOSCIUSZKO FOUNDATION, INC.

Balance Sheets

June 30, 2010 and 2009

Assets	2010	2009
Cash and cash equivalents	\$ 792,186	\$ 143,686
Contributions and other receivables	295,363	141,294
Prepaid expenses and other assets (note 7)	426,720	1,073,158
Interest and dividends receivable	13,809	13,395
Investments (note 3)	22,996,321	20,595,976
Property, plant, and equipment, net of accumulated depreciation (note 4)	2,819,265	1,592,536
Art collection	2,218,762	1,842,300
Investment in pooled income fund	123,213	118,957
Beneficial interest in perpetual trusts (note 10)	1,280,698	1,170,888
Total assets	<u>\$ 30,966,337</u>	<u>\$ 26,692,190</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 129,830	\$ 116,522
Scholarships and grants payable	11,456	38,975
Funds on deposit	122,453	96,808
Deferred revenue – pooled income fund	2,178	3,086
Total liabilities	<u>265,917</u>	<u>255,391</u>
Commitments and contingencies (note 5)		
Net assets:		
Unrestricted	5,744,632	2,861,638
Temporarily restricted (note 6)	9,342,369	8,439,709
Permanently restricted (note 7)	15,613,419	15,135,452
Total net assets	<u>30,700,420</u>	<u>26,436,799</u>
Total liabilities and net assets	<u>\$ 30,966,337</u>	<u>\$ 26,692,190</u>

See accompanying notes to financial statements.

THE KOSCIUSZKO FOUNDATION, INC.

Statements of Activities

Years ended June 30, 2010 and 2009

	2010				2009			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, support, and gains:								
Contributions	\$ 2,056,488	\$ 123,139	\$ 368,157	\$ 2,547,784	\$ 272,516	\$ 79,674	\$ 1,482,824	\$ 1,835,014
Donated art	376,462	—	—	376,462	—	—	—	—
Summer program	47,399	—	—	47,399	19,435	—	—	19,435
Other programs and functions	214,149	—	—	214,149	213,698	—	—	213,698
Dictionary/ Books	26,929	—	—	26,929	22,864	—	—	22,864
Membership dues	254,506	—	—	254,506	261,751	—	—	261,751
Rental income	162,517	—	—	162,517	140,947	—	—	140,947
Dividends and interest (note 3)	136,147	544,150	—	680,297	166,012	665,716	—	831,728
Other income	128,476	6,491	—	134,967	109,860	10,686	—	120,546
Charitable Remainder Annuity Trust	—	68,000	—	68,000	—	(227,000)	—	(227,000)
Net unrealized and realized (losses) gains on investments (note 3)	533,152	—	—	533,152	(867,246)	(3,563,369)	—	(4,430,615)
Net unrealized and realized (losses) gains on pooled income fund and beneficial interest in perpetual trusts (note 11)	—	1,240,531	—	1,773,683	—	—	—	—
Net assets released from restrictions (note 9)	1,083,907	4,256	109,810	114,066	—	(15,141)	(293,365)	(308,506)
		(1,083,907)	—	—	1,548,902	(1,548,902)	—	—
Total revenues, support, and gains	5,020,132	902,660	477,967	6,400,759	1,888,739	(4,598,336)	1,189,459	(1,520,138)
Expenses:								
Program services:								
Scholarships and grants	892,093	—	—	892,093	1,303,806	—	—	1,303,806
Cultural and educational programs	517,684	—	—	517,684	529,471	—	—	529,471
Shipping service	41,648	—	—	41,648	61,945	—	—	61,945
Warsaw office	38,411	—	—	38,411	48,784	—	—	48,784
Washington Center	78,797	—	—	78,797	—	—	—	—
Total program services	1,568,633	—	—	1,568,633	1,944,006	—	—	1,944,006
Supporting services:								
Administrative and general Development	364,868	—	—	364,868	310,969	—	—	310,969
	203,637	—	—	203,637	221,054	—	—	221,054
Total supporting services	568,505	—	—	568,505	532,023	—	—	532,023
Total expenses	2,137,138	—	—	2,137,138	2,476,029	—	—	2,476,029
Change in net assets	2,882,994	902,660	477,967	4,263,621	(587,290)	(4,598,336)	1,189,459	(3,996,167)
Net assets at beginning of year	2,861,638	8,439,709	15,135,452	26,436,799	3,448,928	13,038,045	13,945,993	30,432,966
Net assets at end of year	\$ 5,744,632	\$ 9,342,369	\$ 15,613,419	\$ 30,700,420	\$ 2,861,638	\$ 8,439,709	\$ 15,135,452	\$ 26,436,799

See accompanying notes to financial statements.

THE KOSCIUSZKO FOUNDATION, INC.

Statements of Cash Flows

Years ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Change in net assets	\$ 4,263,620	\$ (3,996,167)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net unrealized and realized losses (gains) on investments	(1,887,749)	4,739,121
Depreciation	77,981	74,755
Contribution of art collection	(376,462)	—
Contribution of Washington property	(1,300,000)	—
Permanently restricted contributions	(368,157)	(1,482,824)
Other changes in assets and liabilities:		
Contributions and other receivables	(85,069)	243,409
Prepaid expenses and other assets	(7,259)	(6,190)
Interest and dividends receivable	(415)	28,936
Accounts payable, accrued expenses, and deferred revenue	12,402	(72,199)
Scholarships and grants payable	(27,519)	20,883
Funds on deposit	25,645	(10,666)
Deposits held in custody for others	—	(72,000)
Net cash used in operating activities	<u>327,018</u>	<u>(532,942)</u>
Cash flows from investing activities:		
Purchases of securities	(11,333,310)	(29,938,301)
Proceeds from sales of securities	10,706,647	30,045,474
Purchases of property and building improvements	(4,709)	(12,731)
Net cash provided by (used in) investing activities	<u>(631,372)</u>	<u>94,442</u>
Cash flows from financing activities:		
Permanently restricted contributions	368,157	445,493
Decrease (increase) in permanently restricted contributions receivable	(69,000)	—
Cash collection of permanently restricted asset	653,697	—
Net cash provided by financing activities	<u>952,854</u>	<u>445,493</u>
Net increase in cash and cash equivalents	648,500	6,993
Cash and cash equivalents at beginning of year	143,686	136,693
Cash and cash equivalents at end of year	<u>\$ 792,186</u>	<u>\$ 143,686</u>
Noncash transactions:		
Permanently restricted contributions of noncash assets	\$ —	\$ (1,037,331)

See accompanying notes to financial statements.

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Financial Statements

June 30, 2010 and 2009

(1) Organization

The Kosciuszko Foundation, Inc. (the Foundation) was incorporated on December 23, 1925 as a charitable corporation under the provisions of the not-for-profit corporation law of the State of New York. The Foundation has been established for educational, scholarship, and cultural purposes. Its objectives are to:

- a. Foster among the American people knowledge and appreciation of Polish culture, history, and traditions;
- b. Strengthen understanding, goodwill, and friendship between the people of the United States of America and the people of Poland by promoting closer educational and cultural relations;
- c. Enhance knowledge of the Polish contribution to world civilization in general and to America in particular;
- d. Encourage and promote the study of Polish culture, history, language, and traditions of the United States of America; and
- e. Foster among Americans of Polish ancestry a deeper understanding and appreciation of their cultural heritage, thereby enriching the pluralistic culture and traditions of the United States of America.

The Foundation conducts and/or sponsors programs, projects, and activities designed to support its purposes and objectives.

Warsaw Office

The Foundation maintains an office in Warsaw as a representative office providing information about the Foundation exchange program with the U.S. and provides assistance to Americans studying in Poland through the auspices of a Foundation sponsored program or activity.

Washington Center

The Kosciuszko Foundation's Center in Washington D.C. promotes Polish culture in America and encourages cooperation between the United States and Poland. The office houses a museum of Polish art that is open to the public daily, and provides a venue for local Polish-American events through a wide range of activities, including films, concerts, exhibitions, educational programs, publications, and seminars.

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Financial Statements

June 30, 2010 and 2009

Chapters

There are eight Chapters of the Foundation: Philadelphia, Pittsburgh, Western New York (Buffalo), Chicago, Rocky Mountain (Denver), New England (Springfield), Texas (Houston), and Northeast Ohio (Cleveland).

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements of the Foundation have been prepared on the accrual basis and in accordance with U.S. generally accepted accounting principles applicable to not-for-profit organizations.

The Foundation's net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation 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 the Foundation, fulfillments of donors' stipulations, or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purposes have been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

(b) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets; the valuation of fixed assets, inventory, investments and contributions receivable; and reserves for other contingencies. The current economic environment has increased the degree of uncertainty inherent in those estimates and assumptions.

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Financial Statements

June 30, 2010 and 2009

(c) Scholarships and Grants

Scholarships and grants are reported as a liability and expense when the recipients have satisfied all conditions of acceptance.

(d) Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value based upon values provided by the Foundation's external investment managers. Alternative investments, primarily hedge and absolute return funds, are based on net asset values provided by the fund managers based upon the underlying net assets of the funds. These values are reviewed and evaluated by management.

(e) Cash and Cash Equivalents

Cash and cash equivalents include highly liquid debt instruments with a maturity of three months or less at the time of purchase, except for those amounts held as part of a long-term investment strategy.

(f) Inventory

Inventory, which consists primarily of dictionaries and text books, and is included in prepaid expenses and other assets in the accompanying balance sheets, is stated at the lower of cost or net realizable value with cost determined on a first-in, first-out basis.

(g) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost less accumulated depreciation, except for donated items, which are recorded at the fair value on the date of donation. Maintenance and repairs are charged to operations as incurred. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The number of years used in determining depreciation is as follows:

	<u>Years</u>
Furniture, fixtures, and equipment	3 – 7
Building and improvements	20 – 40

(h) Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

(i) Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Financial Statements

June 30, 2010 and 2009

(j) Contributions Receivables

Unconditional promises to give (pledges) are reported as revenues in the period pledged. Contributions expected to be received after one year are discounted at a risk-free rate of return. Amortization of the discount is recorded as additional contribution revenue in accordance with the donor-imposed restrictions, if any, on the contribution.

(k) Art Collection

The Foundation has an extensive collection of artwork and other artifacts, which are the results of numerous donations over the years. Donated artwork or other artifacts are capitalized at their appraised or fair value on the accession date. If collection items are sold, the proceeds from the sale are used to acquire other collection items. Gains or losses on the deaccession of collection items are classified on the statements of activities as unrestricted or temporarily restricted support depending on donor restrictions, if any, at the time of accession.

The art collection was last appraised in March 2004 and the fair value approximated \$2.8 million.

(l) Pooled Income Fund

The Foundation manages a pooled income fund that assigns units to each donor's contribution. Such donor receives the income earned on the assigned units until the donor's death, at which time the value of the units is payable to the Foundation for its unrestricted use.

(3) Investments

In addition to investments in equity securities and debt securities, the Foundation holds investments in alternative investments, consisting primarily of hedge and absolute return funds, which invest in long and short publicly traded equities, debt and credit related instruments, private equity situations and real estate, for which no ready market exists. The Foundation's investments in alternative investments are recorded at fair values provided by the fund managers and general partners. The values assigned to the holdings do not necessarily represent amounts that might ultimately be realized upon the sale or other disposition since such amounts depend on future circumstances and cannot reasonably be determined until the actual liquidation occurs. The Foundation reviews the values provided by the fund managers and general partners and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments.

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Financial Statements

June 30, 2010 and 2009

The cost and fair value of the Foundation's investments at June 30, 2010 and 2009 are as follows:

	2010		2009	
	Cost	Fair value	Cost	Fair value
Cash and cash equivalents	\$ 1,286,735	\$ 1,286,735	\$ 1,479,689	\$ 1,479,689
U.S. government and agency obligations	2,430,498	2,520,566	2,445,162	2,504,083
Mutual Funds	6,553,590	6,592,581	4,002,131	3,585,261
Stocks	8,192,433	8,037,181	9,391,996	8,470,304
Alternative Investments	4,584,677	4,559,258	4,907,771	4,556,639
	<u>\$2 3,047,933</u>	<u>\$ 22,996,321</u>	<u>\$ 22,226,749</u>	<u>\$ 20,595,976</u>

All investments are held in three investment pools. Pool A includes the permanent endowment fund, the unappropriated net appreciation from those endowments, unrestricted contributions, and the appreciation on unrestricted gifts. Pool B includes treasury notes for permanently restricted purposes (The Michalina and Herman Zimmer Fund). Pool C includes treasury notes for permanently restricted purposes (Polish American Club of North Jersey (PAC)).

The following provides a rollforward of investment activities:

	Pool A	Pool B	Pool C
Investments, at June 30, 2008	\$ 24,688,394	\$ 256,492	\$1 88,879
Receipts available for investment	592,487	—	—
Dividends and interest	826,068	2,546	3,114
Realized and unrealized (losses) gains	<u>(4,430,189)</u>	<u>(56)</u>	<u>(370)</u>
Total return on investment	(3,604,121)	2,490	2,744
Amount appropriated for current operations	<u>(1,515,250)</u>	<u>(8,150)</u>	<u>(7,989)</u>
Investments, at June 30, 2009	20,161,510	250,832	183,634
Receipts available for investment	1,204,989	—	—
Dividends and interest	829,898	29	1,801
Realized and unrealized (losses) gains	<u>1,774,773</u>	<u>—</u>	<u>(1,090)</u>
Total return on investment	2,604,671	29	711
Amount appropriated for current operations	<u>(1,401,054)</u>	<u>(5,150)</u>	<u>(3,851)</u>
Investments, at June 30, 2010	<u>\$ 22,570,116</u>	<u>\$ 245,711</u>	<u>\$ 180,494</u>

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Financial Statements

June 30, 2010 and 2009

The participation in the pools and net asset classes of the investments at June 30, 2010 and 2009 is shown in the table below:

	2010			
	Pool A	Pool B	Pool C	Total
Permanently restricted	\$ 13,667,383	\$1 80,000	\$ 93,657	\$ 13,941,040
Temporarily restricted	8,869,051	65,711	86,837	9,021,599
Unrestricted	33,682	—	—	33,682
	<u>\$ 22,570,116</u>	<u>\$2 45,711</u>	<u>\$ 180,494</u>	<u>\$ 22,996,321</u>
	2009			
	Pool A	Pool B	Pool C	Total
Permanently restricted	\$ 12,653,576	\$1 80,000	\$ 93,657	\$ 12,927,233
Temporarily restricted	8,032,575	70,832	89,977	8,193,384
Unrestricted	(524,641)	—	—	(524,641)
	<u>\$ 20,161,510</u>	<u>\$2 50,832</u>	<u>\$ 183,634</u>	<u>\$ 20,595,976</u>

(4) Property, Plant, and Equipment

Property, plant, and equipment consist of the following at June 30, 2010 and 2009:

	2010	2009
Land	\$ 974,711	\$ 22,811
Building and improvements	2,976,210	2,626,959
Furniture and fixtures	373,283	372,884
Equipment	250,935	247,775
	<u>4,575,139</u>	<u>3,270,429</u>
Less accumulated depreciation	<u>1,755,874</u>	<u>1,677,893</u>
	<u>\$ 2,819,265</u>	<u>\$ 1,592,536</u>

(5) Commitments

The Foundation has two operating leases for apartments used by grantees while residing in the United States of America and a lease on an office in Warsaw. Rent expense for the years ended June 30, 2010 and 2009 was \$37,854 and \$37,716, respectively. The future minimum rental commitment under these annual leases is approximately \$39,000 and is renewable annually.

The Foundation leases office space in its building to third parties. Office rental income in the amount of \$57,892 was the same for both years ending June 30, 2010 and 2009.

At June 30, 2010, the Foundation was committed, subject to the satisfaction of acceptance conditions, to award scholarships, fellowships, and grants of approximately \$480,445 for the 2010 – 2011 academic year (September 2010 – May 2011).

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Financial Statements

June 30, 2010 and 2009

(6) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
For Scholarship and grants	\$9,163,369	\$8,328,709
For future periods	<u>179,000</u>	<u>111,000</u>
Total	<u>\$9,342,369</u>	<u>\$8,439,709</u>

(7) Permanently Restricted Net Assets

The income from permanently restricted net assets at June 30, 2010 and 2009 is available for the following purposes:

	<u>2010</u>	<u>2009</u>
Scholarships	\$ 14,059,064	\$ 13,690,907
Beneficial interest in perpetual trusts:		
Scholarships	405,399	377,384
Cultural	875,299	793,504
Pool B and C funds for scholarships:		
PAC	93,657	93,657
Zimber	180,000	180,000
	<u>\$ 15,613,419</u>	<u>\$ 15,135,452</u>

Permanently restricted net assets are reported in the following assets categories on the accompanying balance sheet:

	<u>2010</u>	<u>2009</u>
Other assets	\$ 383,634	\$ 1,037,331
Investments	13,949,087	12,927,233
Beneficial interest in perpetual trusts	1,280,698	1,170,888
	<u>\$ 15,613,419</u>	<u>\$ 15,135,452</u>

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Financial Statements

June 30, 2010 and 2009

(8) Endowment

In August 2008, FASB issued guidance for endowments, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. It provides guidance on the net asset classification of donor-restricted endowment funds that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), and expands disclosures for endowment funds. As of June 30, 2010, the State of New York had not adopted UPMIFA. Accordingly, the Foundation continues to follow the Uniform Management of Institutional Funds Act (UMIFA); however, for the year ended June 30, 2010, the Foundation has adopted the required disclosure requirements.

The Foundation's endowment consists of 96 individual funds established for a number of purposes. The endowment includes donor-restricted funds, temporarily restricted charitable trusts and annuity funds, and original gifts held long-term for scholarships and grants.

Interpretation of Relevant Law

The Board of Trustees of the Foundation has interpreted UMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the Act.

The following represents a description of the endowment net asset composition, excluding pledges and the estate included in other assets, by type of fund as of June 30, 2010:

	Unrestricted	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ (334,094)	\$ 9,163,369	\$ 15,229,785	\$ 24,059,060

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Financial Statements

June 30, 2010 and 2009

The following represents a description of the endowment net asset composition, excluding pledges, by type of fund as of June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (867,246)	\$ 8,328,709	\$ 14,098,121	\$ 21,559,584

The Foundation has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while maintaining the purchasing power of the endowment assets. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to earn, over the market cycle, a compound annual rate of return in excess of inflation, the spending rate, and fund expenses while maintaining a moderate risk level that the board of trustees (the Board) considers prudent based upon all the facts and circumstances known to the Board at that time.

The following represents a description of the changes in net endowment assets, excluding pledges and the estate included in other assets, for the year ended June 30, 2010:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net endowment assets, beginning of year	\$ (867,246)	\$ 8,328,709	\$ 14,098,121	\$ 21,559,584
Investment return:				
Investment income, net	—	544,150	—	544,150
Net appreciation	533,152	1,244,787	109,810	1,887,749
Total investment return	533,152	1,788,937	109,810	2,431,899
New gifts	—	123,139	368,157	491,296
Appropriation of endowment assets for expenditure	—	(1,083,907)	—	(1,083,907)
Other changes, including transfers	—	6,491	653,697	660,188
Net endowment assets, end of year	<u>\$ (334,094)</u>	<u>\$ 9,163,369</u>	<u>\$ 15,229,785</u>	<u>\$ 24,059,060</u>

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Financial Statements

June 30, 2010 and 2009

The following represents a description of the changes in net endowment assets, excluding pledges, and the estate included in other assets, for the year ended June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net endowment assets, beginning of year	\$ —	\$ 12,700,045	\$ 13,945,993	\$ 26,646,038
Investment return:				
Investment income, net	—	665,716	—	665,716
Net depreciation	<u>(867,246)</u>	<u>(3,578,510)</u>	<u>(293,365)</u>	<u>(4,739,121)</u>
Total investment return	(867,246)	(2,912,794)	(293,365)	(4,073,405)
New gifts	—	79,674	445,493	525,167
Appropriation of endowment assets for expenditure	—	(1,548,902)	—	(1,548,902)
Other changes, including transfers	<u>—</u>	<u>10,686</u>	<u>—</u>	<u>10,686</u>
Net endowment assets, end of year	<u>\$ (867,246)</u>	<u>\$ 8,328,709</u>	<u>\$ 14,098,121</u>	<u>\$ 21,559,584</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the Act requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were \$334,094 as of June 30, 2010 and \$867,246 as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations.

Spending policy

The Foundation has a policy of appropriating a certain percentage of its portfolio for scholarship distribution annually. Scholarship distribution for fiscal year 2010 was based on 3% of its entire portfolio value. In fiscal year 2011 the scholarship distribution is set at 3%.

In addition, the Foundation has a policy of appropriating from 0.5% to 2% of its entire portfolio value for its administrative fee. The percentage is based on a rolling 3 year (fiscal year) average of portfolio value and it is being set based on the financial needs of the Foundation in a given year.

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Notes to Financial Statements

June 30, 2010 and 2009

(9) Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors or permitted under existing endowment law:

	2010	2009
Scholarships and grants	\$ 500,012	\$ 889,618
Management fees	173,820	181,298
Investment fees and other expenses	410,075	477,986
	<u>\$ 1,083,907</u>	<u>\$ 1,548,902</u>

(10) Retirement Plan

The Foundation ceased providing benefits to employees in December 2008. The related expenses were \$0 and \$14,994 for the years ended June 30, 2010 and 2009, respectively.

(11) Beneficial Interest in Perpetual Trusts

The fair value of funds that are held in perpetuity by third parties where the Foundation is the income beneficiary is included in the balance sheets. The following is a summary of such trusts at June 30, 2010 and 2009:

Trust	2010		2009	
	Fair value of securities held by third parties	Investment income received during the year	Fair value of securities held by third parties	Investment income received during the year
Stanley W. Wasil	\$ 405,399	\$ 6,978	\$ 377,384	\$ 12,405
Mary R. Koons	875,299	41,242	793,504	42,406
	<u>\$ 1,280,698</u>	<u>\$ 48,220</u>	<u>\$ 1,170,888</u>	<u>\$ 54,811</u>

(12) Fair Value Measurements

The accounting standards codification defines fair value, establishes a framework for measuring fair value in accordance with Generally Acceptable Accounting Principles (GAAP), and requires disclosures about fair value measurements. The ASC provides a consistent definition of fair value, which focuses on exit price, the price 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.

For the year ended June 30, 2009, the Foundation elected to early adopt the measurement provisions of Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate and other funds. This guidance allows for the estimation of the fair value of investments in investment companies for which the investment does not

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Notes to Financial Statements

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have a readily determinable fair value using net asset value per share or its equivalent. Net asset value, in many instances may not equal fair value that would be calculated pursuant to Statement.

The three-level valuation hierarchy for disclosure of fair value measurements is defined as follows:

- Level 1 Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date;
- Level 2 Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;
- Level 3 Inputs that are unobservable.

Management considers observable data to be that market data which is readily available, regular distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Foundation's perceived risk of that instrument.

The following table presents the Foundation's fair value hierarchy for investments and funds held by bond trustees measured at fair value as of June 30, 2010:

	Level 1	Level 2	Level 3	Fair value total
Investments:				
Cash and money market funds	\$ 1,286,735	\$ —	\$ —	\$ 1,286,735
U.S. government and agency obligations	2,520,566	—	—	2,520,566
Mutual Funds	6,592,581	—	—	6,592,581
Stocks	8,037,181	—	—	8,037,181
Alternative investments	—	2,126,078	2,433,180	4,559,258
Total	\$ 18,437,063	\$ 2,126,078	\$ 2,433,180	\$ 22,996,321
Pooled Income Fund:				
Cash	\$ 6,498	\$ —	\$ —	\$ 6,498
Equities	60,844	—	—	60,844
Fixed income	55,743	—	—	55,743
Total	\$ 123,085	\$ —	\$ —	\$ 123,085
Beneficial Interest in Perpetual Trusts:				
Cash	\$ 27,550	\$ —	\$ —	\$ 27,550
Equities	547,876	—	—	547,876
Fixed income	705,272	—	—	705,272
Total	\$ 1,280,698	\$ —	\$ —	\$ 1,280,698

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The alternative investments consist of investments in hedge funds that have at least quarterly liquidity with 45 days notice. The Foundation has no commitments for future investment in these funds.

The change in level three assets for the year was as follows:

Balance, July 1	\$1,752,509
Net income reported in statement of activities	854,857
Net purchases/ redemptions	<u>(266,024)</u>
	<u>\$2,433,180</u>

(13) Subsequent Events

In connection with the preparation of these financial statements, the Foundation evaluated subsequent events after the balance sheet date at June 30, 2010 through November 12, 2010, which was the date the financial statements were available to be issued. The following events were noted:

The Foundation is a 25% residuary beneficiary under the Last Will and Testament of Sofia W. Dembia which was admitted to probate on June 7, 2010 in the Bergen County Surrogate's Office, Hackensack, New Jersey. The amount of the bequest, which is restricted for scholarships, cannot be ascertained at this time. The Foundation's Washington, D.C. Center also is the beneficiary under said Last Will and Testament of a \$50,000 unrestricted bequest..

In accordance with a Consent Judgment to admit the Last Will and Testament of Halina Krzeminski to probate the Foundation as one of several named beneficiaries will participate in forty percent of the Decedent's net Estate, the amount of which is undetermined at this time.

The Foundation is currently in the process of filing Articles of Association under the Polish Foundation Act of April 6, 1984 which will establish a Polish NGO to be called "The Kosciuszko Foundation Poland - Fundacja Kosciuszkowska Polska". It is intended that this Polish NGO will carry out, support and promoted intellectual, cultural and educational exchanges between Poland and the United States of America."

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Financial Statements

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(14) Uncertain Tax Positions

The Foundation has not entered into any uncertain tax positions that would require financial statement recognition. The Foundation is no longer subject to audits by the applicable taxing jurisdictions for periods prior to June 30, 2007.

THE KOSCIUSZKO FOUNDATION, INC.

Schedule of Functional Expenses
 Year ended June 30, 2010,
 with comparative totals for 2009

	Program services					Supporting services						
	Cultural and educational programs		Shipping service	Warsaw office	Washington Center	Total	Administrative and general	Development	Operation of K.F. house	Total	Total 2010	Total 2009
Salaries	\$ 113,223	\$ 114,036	\$ 7,646	\$ —	\$ 32,539	\$ 267,444	\$ 147,840	\$ 83,391	\$ 36,110	\$ 267,341	\$ 534,785	\$ 515,908
Employee benefits	14,821	14,008	2,025	—	4,527	35,381	18,598	10,570	5,503	34,671	70,052	94,840
Total personnel costs	128,044	128,044	9,671	—	37,066	302,825	166,438	93,961	41,613	302,012	604,837	610,748
Scholarships and grants	500,012	—	—	—	—	500,012	—	—	—	—	500,012	889,618
Program honoraria	—	400	—	—	—	400	—	—	—	—	400	5,977
Program cost	—	215,966	—	1,031	10,151	227,148	1,009	579	—	1,588	228,736	186,654
Office supplies	13	383	—	464	541	1,401	4,894	4,281	2,204	12,572	13,973	13,892
Postage	3,921	3,006	345	244	469	7,985	6,007	5,393	—	10,287	18,272	16,401
Professional fees	—	—	—	—	5,496	5,496	46,650	—	—	46,650	52,146	81,584
Telephone	4,228	3,171	211	1,559	587	9,756	7,200	9,829	—	15,836	25,592	14,671
Insurance	—	—	—	314	2,824	3,138	261	—	54,184	61,384	64,522	58,287
Supplies	—	—	—	1,983	172	2,155	261	—	3,973	4,234	6,389	8,607
Cleaning service	—	—	—	1,192	—	1,192	1,991	—	1,991	1,991	3,183	3,861
Service fees	100	2,620	296	8,608	43	11,667	10,969	6,409	546	17,924	29,591	25,140
Investment management fees	173,820	—	—	—	—	173,820	7,300	—	—	7,300	181,120	188,873
Property tax	—	—	—	—	12,035	12,035	—	—	—	—	12,035	—
Travel and entertainment	3,402	3,930	—	852	387	8,571	158	355	1,212	1,725	10,296	6,559
Promotional expenses	1,572	1,546	—	—	722	3,840	2,845	449	—	3,294	7,134	15,118
Printing	797	16,023	17,304	—	186	34,310	2,700	3,414	—	6,114	40,424	19,772
Equipment rental	—	—	—	—	1,719	1,719	841	1,295	48,556	50,692	52,411	58,087
Electricity and heat	—	—	—	—	4,032	4,032	—	—	64,029	64,029	68,061	59,806
Repair and maintenance	—	—	250	88	2,367	2,705	—	—	3,212	3,212	5,917	23,093
Outside services	—	—	—	12,432	—	12,432	2,285	20,492	—	20,492	32,924	56,383
Membership fee	—	—	—	—	—	—	—	—	—	2,285	2,285	1,000
K.F. chapter expenses	—	61,332	—	—	—	61,332	467	545	—	467	61,877	39,240
Subscriptions	—	—	—	—	—	—	—	—	—	—	467	575
Warsaw office rental	—	—	—	9,644	—	9,644	—	—	—	—	9,644	10,488
Storage	—	—	6,840	—	—	6,840	—	—	—	—	6,840	6,840
Accrued vacation	3,091	8,170	1,205	—	—	12,466	3,772	3,031	800	7,603	20,069	—
Depreciation	819,000	444,591	36,122	38,411	78,797	1,416,921	269,883	150,033	222,320	642,236	2,059,157	2,401,274
Total expenses before allocation	—	—	—	—	—	—	—	—	77,981	77,981	77,981	74,755
Allocation of K.F. house costs	819,000	444,591	36,122	38,411	78,797	1,416,921	269,883	150,033	300,301	720,217	2,137,138	\$ 2,476,029
Total expenses – 2010	73,093	73,093	5,526	—	—	151,712	94,985	53,604	(300,301)	(151,712)	—	—
Total expenses – 2009	\$ 892,093	\$ 517,684	\$ 41,648	\$ 38,411	\$ 78,797	\$ 1,568,633	\$ 364,868	203,637	—	568,505	2,137,138	—
	\$ 1,303,806	\$ 529,471	\$ 61,945	\$ 48,784	\$ —	\$ 1,944,006	\$ 310,969	\$ 221,054	\$ —	\$ 532,023	\$ 2,476,029	—

See accompanying independent auditors' report.