



THE KOSCIUSZKO FOUNDATION, INC.

Financial Statements and Supplemental Schedule

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

THE KOSCIUSZKO FOUNDATION, INC.

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KPMG LLP
345 Park Avenue
New York, NY 10154

Independent Auditors' Report

The Board of Trustees
The Kosciuszko Foundation, Inc.:

We have audited the accompanying balance sheets of The Kosciuszko Foundation, Inc. (the Foundation) as of June 30, 2009 and 2008, and the related statements of activities and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were 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.

KPMG LLP

November 24, 2009

THE KOSCIUSZKO FOUNDATION, INC.

Balance Sheets

June 30, 2009 and 2008

Assets	2009	2008
Cash and cash equivalents	\$ 143,686	136,693
Contributions and other receivables	141,294	384,703
Prepaid expenses and other assets (note 7)	1,073,158	29,637
Interest and dividends receivable	13,395	42,331
Investments (note 3)	20,595,976	25,133,765
Property, plant, and equipment, net of accumulated depreciation (note 4)	1,592,536	1,654,560
Art collection	1,842,300	1,842,300
Investment in pooled income fund	118,957	134,097
Beneficial interest in perpetual trusts (note 11)	1,170,888	1,464,253
Total assets	<u>\$ 26,692,190</u>	<u>30,822,339</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 116,522	187,959
Scholarships and grants payable	38,975	18,092
Funds on deposit	96,808	107,474
Deposits held in custody for others	—	72,000
Deferred revenue – pooled income fund	3,086	3,848
Total liabilities	<u>255,391</u>	<u>389,373</u>
Commitments and contingencies (note 5)		
Net assets:		
Unrestricted	2,861,638	3,448,928
Temporarily restricted (note 6)	8,439,709	13,038,045
Permanently restricted (note 7)	15,135,452	13,945,993
Total net assets	<u>26,436,799</u>	<u>30,432,966</u>
Total liabilities and net assets	<u>\$ 26,692,190</u>	<u>30,822,339</u>

See accompanying notes to financial statements.

THE KOSCIUSZKO FOUNDATION, INC.

Statements of Activities

Years ended June 30, 2009 and 2008

	2009				2008			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, support, and (losses) gains:								
Contributions	\$ 272,516	79,674	1,482,824	1,835,014	171,639	446,080	587,014	1,204,733
Summer program	19,435	—	—	19,435	11,720	—	—	11,720
Other programs and functions	213,698	—	—	213,698	249,225	—	—	249,225
Dictionary/ Books	22,864	—	—	22,864	32,663	—	—	32,663
Membership dues	261,751	—	—	261,751	225,569	—	—	225,569
Rental income (note 5)	140,947	—	—	140,947	120,692	—	—	120,692
Dividends and interest (note 3)	166,012	665,716	—	831,728	162,515	626,270	—	788,785
Other income	109,860	10,686	—	120,546	111,320	14,423	—	125,743
Change in value of split-interest agreement	—	(227,000)	—	(227,000)	—	—	—	—
Net unrealized and realized losses on investments (note 3)	(867,246)	(3,563,369)	—	(4,430,615)	(18,053)	(1,589,481)	—	(1,607,534)
Net unrealized and realized losses on pooled income fund and beneficial interest in perpetual trusts (note 11)	—	(15,141)	(293,365)	(308,506)	—	(8,928)	(105,796)	(114,724)
Net assets released from restrictions (note 9)	1,548,902	(1,548,902)	—	—	1,334,097	(1,334,097)	—	—
Total revenues, support, and (losses) gains	1,888,739	(4,598,336)	1,189,459	(1,520,138)	2,401,387	(1,845,733)	481,218	1,036,872
Expenses:								
Program services:								
Scholarships and grants	1,303,806	—	—	1,303,806	1,520,793	—	—	1,520,793
Cultural and educational programs	529,471	—	—	529,471	629,240	—	—	629,240
Shipping service	61,945	—	—	61,945	75,600	—	—	75,600
Warsaw office	48,784	—	—	48,784	38,123	—	—	38,123
Total program services	1,944,006	—	—	1,944,006	2,263,756	—	—	2,263,756
Supporting services:								
Administrative and general	310,969	—	—	310,969	442,004	—	—	442,004
Development	221,054	—	—	221,054	248,872	—	—	248,872
Total supporting services	532,023	—	—	532,023	690,876	—	—	690,876
Total expenses	2,476,029	—	—	2,476,029	2,954,632	—	—	2,954,632
Change in net assets	(587,290)	(4,598,336)	1,189,459	(3,996,167)	(553,245)	(1,845,733)	481,218	(1,917,760)
Net assets at beginning of year	3,448,928	13,038,045	13,945,993	30,432,966	4,002,173	14,883,778	13,464,775	32,350,726
Net assets at end 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

See accompanying notes to financial statements.

THE KOSCIUSZKO FOUNDATION, INC.

Statements of Cash Flows

Years ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ (3,996,167)	(1,917,760)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net unrealized and realized losses on investments	4,739,121	1,722,258
Depreciation	74,755	75,599
Permanently restricted contributions	(1,482,824)	(587,014)
Other changes in assets and liabilities:		
Contributions and other receivables	243,409	(373,991)
Prepaid expenses and other assets	(6,190)	210,563
Interest and dividends receivable	28,936	7,420
Accounts payable, accrued expenses, and deferred revenue	(72,199)	6,907
Scholarships and grants payable	20,883	14,047
Funds on deposit	(10,666)	(47,282)
Deposits held in custody for others	(72,000)	(72,000)
Net cash used in operating activities	<u>(532,942)</u>	<u>(961,253)</u>
Cash flows from investing activities:		
Purchases of securities	(29,938,301)	(37,474,926)
Proceeds from sales of securities	30,045,474	37,628,953
Purchases of property and building improvements	(12,731)	(100,245)
Net cash provided by investing activities	<u>94,442</u>	<u>53,782</u>
Cash flows from financing activities:		
Permanently restricted contributions	445,493	587,014
Decrease in permanently restricted contributions receivable	—	340,000
Net cash provided by financing activities	<u>445,493</u>	<u>927,014</u>
Net increase in cash and cash equivalents	6,993	19,543
Cash and cash equivalents at beginning of year	<u>136,693</u>	<u>117,150</u>
Cash and cash equivalents at end of year	<u>\$ 143,686</u>	<u>136,693</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, 2009 and 2008

(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.

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.

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Financial Statements

June 30, 2009 and 2008

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.

(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 fair value or net asset value as a practical expedient 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.

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Financial Statements

June 30, 2009 and 2008

(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.

(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.

In November 2004, the art collection was appraised and the fair value approximated \$2.8 million.

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Financial Statements

June 30, 2009 and 2008

(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.

(m) Deposits Held in Custody for Others

The Foundation was custodian of \$72,000 received from a resource provider during the year ended June 30, 2008, which was remitted to a university in Poland (i.e., specified beneficiary) for specific educational programs. Such amount was included in deposits held in custody for others in the accompanying balance sheet at June 30, 2008

(n) New Accounting Pronouncements

Adoption of FASB Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations*

In August 2008, FASB Staff Position No. FAS 117-1 (FAS 117-1), *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 (UPMIFA) and Enhanced Disclosures for All Endowment Funds*, was issued, and its guidance is effective for fiscal years ending after December 15, 2008. A key component of FAS 117-1 is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. New York State has not yet adopted UPMIFA; however, for the year ended June 30, 2009, the Foundation has adopted the disclosure requirements of FAS 117-1.

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*

In June 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty Income Taxes – an interpretation of FASB Statement No. 109*, which addresses accounting for, and disclosure of, uncertain tax positions. FIN 48 prescribes a model for how an entity should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the entity has taken or expects to take on a tax return. Under FIN 48, the financial statements will reflect expected future tax consequences of such positions, presuming the tax authorities' full knowledge of the position and all relevant facts. FIN 48 will require an entity to recognize the benefit of tax positions when it is "more likely than not" that the provision will be sustainable based on the merits of the position. The Foundation is currently evaluating the impact that FIN 48 will have on its financial statements upon adoption effective June 30, 2010.

FASB Statement No. 165, *Subsequent Events*

Effective June 30, 2009, the Foundation adopted FASB Statement No. 165, *Subsequent Events* (Statement 165). Statement 165 establishes principles and requirements for subsequent events and applies to accounting for and disclosure of subsequent events not addressed in other applicable generally accepted accounting principles.

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Financial Statements

June 30, 2009 and 2008

(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 value or net asset value as a practical expedient as 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.

In conjunction with the adoption of Statement No. 157, 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 hedge funds, absolute return funds and other funds. This guidance amends Statement No. 157 and allows for the estimation of the fair value of investments in investment companies for which the investment does not 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 No. 157.

The cost and fair value of the Foundation's investments at June 30, 2009 and 2008 are as follows:

	2009		2008	
	Cost	Fair value	Cost	Fair value
Cash and cash equivalents	\$ 1,479,689	1,479,689	1,999,486	1,999,486
U.S. government and agency obligations	6,447,293	6,089,344	7,499,562	7,500,527
Stocks	9,391,996	8,470,304	15,638,723	15,633,752
Alternative Investments	4,907,771	4,556,639	—	—
	<u>\$ 22,226,749</u>	<u>20,595,976</u>	<u>25,137,771</u>	<u>25,133,765</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 Zimber Fund). Pool C includes treasury notes for permanently restricted purposes (Polish American Club of North Jersey (PAC)).

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Financial Statements

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The following provides a rollforward of investment activities:

	<u>Pool A</u>	<u>Pool B</u>	<u>Pool C</u>	<u>Total</u>
Investments, at June 30, 2007	\$ 26,449,047	259,492	186,787	26,895,326
Receipts available for investment	1,279,634	—	—	1,279,634
Dividends and interest	771,731	9,926	7,128	788,785
Realized and unrealized (losses) gains	<u>(1,612,153)</u>	<u>2,244</u>	<u>2,375</u>	<u>(1,607,534)</u>
Total return on investment	(840,422)	12,170	9,503	(818,749)
Amount appropriated for current operations	<u>(2,199,865)</u>	<u>(15,170)</u>	<u>(7,411)</u>	<u>(2,222,446)</u>
Investments, at June 30, 2008	24,688,394	256,492	188,879	25,133,765
Receipts available for investment	592,487	—	—	592,487
Dividends and interest	826,068	2,546	3,114	831,728
Realized and unrealized losses	<u>(4,430,189)</u>	<u>(56)</u>	<u>(370)</u>	<u>(4,430,615)</u>
Total return on investment	(3,604,121)	2,490	2,744	(3,598,887)
Amount appropriated for current operations	<u>(1,515,250)</u>	<u>(8,150)</u>	<u>(7,989)</u>	<u>(1,531,389)</u>
Investments, at June 30, 2009	\$ <u>20,161,510</u>	<u>250,832</u>	<u>183,634</u>	<u>20,595,976</u>

The participation in the pools and net asset classes of the investments at June 30, 2009 and 2008 is shown in the table below:

	2009			
	<u>Pool A</u>	<u>Pool B</u>	<u>Pool C</u>	<u>Total</u>
Permanently restricted	\$ 12,653,576	180,000	93,657	12,927,233
Temporarily restricted	8,032,575	70,832	89,977	8,193,384
Unrestricted	<u>(524,641)</u>	<u>—</u>	<u>—</u>	<u>(524,641)</u>
	\$ <u>20,161,510</u>	<u>250,832</u>	<u>183,634</u>	<u>20,595,976</u>
	2008			
	<u>Pool A</u>	<u>Pool B</u>	<u>Pool C</u>	<u>Total</u>
Permanently restricted	\$ 12,208,083	180,000	93,657	12,481,740
Temporarily restricted	12,339,636	76,492	95,222	12,511,350
Unrestricted	<u>140,675</u>	<u>—</u>	<u>—</u>	<u>140,675</u>
	\$ <u>24,688,394</u>	<u>256,492</u>	<u>188,879</u>	<u>25,133,765</u>

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Financial Statements

June 30, 2009 and 2008

(4) Property, Plant, and Equipment

Property, plant, and equipment consist of the following at June 30, 2009 and 2008:

	2009	2008
Land	\$ 22,811	22,811
Building and improvements	2,626,959	2,614,229
Furniture and fixtures	372,884	372,884
Equipment	247,776	247,775
	3,270,430	3,257,699
Less accumulated depreciation	1,677,894	1,603,139
	\$ 1,592,536	1,654,560

(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, 2009 and 2008 was \$37,716 and \$38,218, 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 was \$57,892 and \$49,467 for the years ending June 30, 2009 and 2008, respectively.

At June 30, 2009, the Foundation was committed, subject to the satisfaction of acceptance conditions, to award scholarships, fellowships, and grants of approximately \$364,000 for the 2009 – 2010 academic year (September 2008 – May 2009).

(6) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2009 and 2008:

	2009	2008
For Scholarships and grants	\$ 8,328,709	12,700,045
For future projects	111,000	338,000
	\$ 8,439,709	13,038,045

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Financial Statements

June 30, 2009 and 2008

(7) Permanently Restricted Net Assets

The income from permanently restricted net assets at June 30, 2009 and 2008 is available for the following purposes:

	2009	2008
Scholarships	\$ 13,690,907	12,208,083
Beneficial interest in perpetual trusts:		
Scholarships	377,384	428,088
Cultural	793,504	1,036,165
Pool B and C funds for scholarships:		
PAC	93,657	93,657
Zimmer	180,000	180,000
	\$ 15,135,452	13,945,993

During 2009, the Foundation was the beneficiary of an estate whose assets included cash, real estate and other assets of \$1.3 million, at fair value, which is included in investments and other assets in the accompanying balance sheet at June 30, 2009. The proceeds from the sale of the estate's assets are required by the donor to be used to establish an endowment, the income from which will be used to support the Foundation's scholarship programs.

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

	2009	2008
Other assets	\$ 1,037,331	—
Investments	12,927,233	12,481,740
Beneficial interest in perpetual trusts	1,170,888	1,464,253
	\$ 15,135,452	13,945,993

(8) Endowment

In August 2008, FASB issued FASB Staff Position (FSP) FAS 117-1, *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*. FSP FAS 117-1 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, 2009, 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, 2009, the Foundation has adopted the disclosure requirements of FAS 117-1.

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Financial Statements

June 30, 2009 and 2008

The Foundation's endowment consists of over one hundred 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 to the extent the donor restricted income earned on such endowments to a particular purpose or time, and in all other cases is classified as unrestricted net assets. Such amounts recorded as temporarily restricted net assets are released from restriction when the donor stipulated purpose has been fulfilled and/or the required time period has elapsed.

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, 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 following represents a description of the endowment net asset composition, excluding pledges, by type of fund as of June 30, 2008:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	12,700,045	13,945,993	26,646,038

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 KOSCIUSZKO FOUNDATION, INC.

Notes to Financial Statements

June 30, 2009 and 2008

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><u>(867,246)</u></u>	<u><u>8,328,709</u></u>	<u><u>14,098,121</u></u>	<u><u>21,559,584</u></u>

The following represents a description of the changes in net endowment assets, excluding pledges, for the year ended June 30, 2008:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net endowment assets, beginning of year	\$ —	14,883,778	13,464,775	28,348,553
Investment return:				
Investment income, net	—	626,270	—	626,270
Net depreciation	<u>—</u>	<u>(1,598,409)</u>	<u>(105,796)</u>	<u>(1,704,205)</u>
Total investment return	—	(972,139)	(105,796)	(1,077,935)
New gifts	—	108,080	587,014	695,094
Appropriation of endowment assets for expenditure	—	(1,334,097)	—	(1,334,097)
Other changes, including transfers	<u>—</u>	<u>14,423</u>	<u>—</u>	<u>14,423</u>
Net endowment assets, end of year	\$ <u><u>—</u></u>	<u><u>12,700,045</u></u>	<u><u>13,945,993</u></u>	<u><u>26,646,038</u></u>

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Financial Statements

June 30, 2009 and 2008

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 \$867,246 as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations. There were no such deficiencies as of June 30, 2008.

Spending policy

The Foundation has a policy of appropriating a certain percentage of its portfolio for scholarship distribution annually. Scholarship distribution for fiscal year 2009 was based on 4% of its entire portfolio value. In fiscal year 2010 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.

(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:

	<u>2009</u>	<u>2008</u>
Scholarships and grants	\$ 889,618	1,024,292
Management fees	181,298	231,205
Administrative fees and other expenses	477,986	78,600
	<u>\$ 1,548,902</u>	<u>1,334,097</u>

(10) Retirement Plan

Substantially all employees who have completed one year of service may participate in the defined contribution plan. The related expenses were \$14,994 and \$53,661 for the years ended June 30, 2009 and 2008, respectively. The Foundation's ceased providing benefits to employees in December 2008.

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Financial Statements

June 30, 2009 and 2008

(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 accompanying balance sheets. The following is a summary of such trusts at June 30, 2009 and 2008:

Trust	2009		2008	
	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	\$ 377,384	12,405	428,088	17,272
Mary R. Koons	793,504	42,406	1,036,165	41,242
	\$ 1,170,888	54,811	1,464,253	58,514

(12) Fair Value Measurements

Effective June 30, 2009, the Foundation adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with Generally Acceptable Accounting Principles (GAAP), and expands disclosures about fair value measurements. The new standard 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.

In conjunction with the adoption of Statement No. 157, 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 amends Statement No. 157 and allows for the estimation of the fair value of investments in investment companies for which the investment does not 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.

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Financial Statements

June 30, 2009 and 2008

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 effect of the adoption of SFAS No. 157 did not have a material effect on the changes in net assets or financial position of the Foundation.

The following table presents the Foundation's fair value hierarchy for investments and funds held by bond trustees measured at fair value at June 30, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair value total</u>
Investments:				
Cash and money market funds	\$ 1,772,473	—	—	1,772,473
U.S. government and agency obligations	6,089,344	—	—	6,089,344
Stocks	8,177,520	—	—	8,177,520
Alternative investments	—	2,804,130	1,752,509	4,556,639
Total	<u>\$ 16,039,337</u>	<u>2,804,130</u>	<u>1,752,509</u>	<u>20,595,976</u>
Pooled Income Fund:				
Cash	\$ 515	—	—	515
Equities	67,442	—	—	67,442
Fixed income	50,500	—	—	50,500
Total	<u>\$ 118,457</u>	<u>—</u>	<u>—</u>	<u>118,457</u>
Beneficial Interest in Perpetual Trusts:				
Cash	\$ 63,607	—	—	63,607
Equities	664,602	—	—	664,602
Fixed income	125,035	317,644	—	442,679
Total	<u>\$ 853,244</u>	<u>317,644</u>	<u>—</u>	<u>1,170,888</u>

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Financial Statements

June 30, 2009 and 2008

The following table presents the changes in Level 3 investments as of June 30, 2009:

Fair value at July 1, 2008	\$ <u> —</u>
Net realized and unrealized losses in the statement of activities	<u> (255,265)</u>
Purchase of investments	2,007,774
Proceeds from sale/distributions of investments	<u> —</u>
Purchases and sales, net	<u> 2,007,774</u>
Fair value at June 30, 2009	\$ <u><u> 1,752,509</u></u>

(13) Subsequent Events

In connection with the preparation of the financial statements and in accordance with the recently issued Statement of Financial Accounting Standards No. 165, Subsequent Events, the Foundation evaluated subsequent events after the balance sheet date of June 30, 2009 through November 24, 2009 which was the date the financial statements were available to be issued.

THE KOSCIUSZKO FOUNDATION, INC.

Schedule of Functional Expenses

Year ended June 30, 2009,
with comparative totals for 2008

	Program services					Supporting services				Total 2009	Total 2008
	Scholarships and grants	Cultural and educational programs	Shipping service	Warsaw office	Total	Administrative and general	Development	Operation of K.F. house	Total		
Salaries	\$ 121,886	149,065	26,008	—	296,959	112,542	83,417	22,990	218,949	515,908	603,525
Employee benefits	21,390	32,656	8,259	—	62,305	9,317	17,616	5,602	32,535	94,840	199,467
Total personnel costs	143,276	181,721	34,267	—	359,264	121,859	101,033	28,592	251,484	610,748	802,992
Scholarships and grants	889,618	—	—	—	889,618	—	—	—	—	889,618	1,024,292
Program honoraria	—	5,977	—	—	5,977	—	—	—	—	5,977	12,275
Program cost	—	183,060	—	3,594	186,654	—	—	—	—	186,654	198,290
Office supplies	1,008	1,309	—	237	2,554	9,665	1,673	—	11,338	13,892	12,310
Postage	4,009	4,000	124	205	8,338	3,505	3,583	975	8,063	16,401	25,537
Professional fees	—	—	—	—	—	81,584	—	—	81,584	81,584	82,707
Telephone	2,533	1,806	562	1,192	6,093	5,137	3,441	—	8,578	14,671	15,008
Insurance	—	—	—	244	244	7,200	—	50,843	58,043	58,287	29,799
Supplies	—	—	—	1,103	1,103	38	—	7,466	7,504	8,607	8,488
Cleaning service	—	—	—	1,266	1,266	—	—	2,595	2,595	3,861	6,201
Service fees	1,847	657	—	13,594	16,098	5,176	3,466	400	9,042	25,140	12,528
Investment management fees	181,297	—	—	—	181,297	7,576	—	—	7,576	188,873	245,762
Travel and entertainment	1,740	2,582	223	852	5,397	249	658	255	1,162	6,559	13,240
Promotional expenses	4,274	6,105	—	1,930	12,309	1,588	1,221	—	2,809	15,118	26,993
Printing	—	8,879	2,170	—	11,049	—	8,723	—	8,723	19,772	69,944
Equipment rental	—	—	—	—	—	2,709	1,295	54,083	58,087	58,087	56,551
Electricity and heat	—	—	—	—	—	—	—	59,806	59,806	59,806	63,259
Repair and maintenance	—	—	—	1,343	1,343	—	—	21,750	21,750	23,093	13,645
Outside services	—	—	—	12,736	12,736	—	43,647	—	43,647	56,383	87,918
Membership fee	—	—	—	—	—	1,000	—	—	1,000	1,000	3,140
K.F. chapter expenses	—	39,240	—	—	39,240	—	—	—	—	39,240	49,271
Subscriptions	—	—	—	—	—	575	—	—	575	575	214
Warsaw office rental	—	—	—	10,488	10,488	—	—	—	—	10,488	11,919
Storage	—	—	6,840	—	6,840	—	—	—	—	6,840	6,750
	1,229,602	435,336	44,186	48,784	1,757,908	247,861	168,740	226,765	643,366	2,401,274	2,879,033
Depreciation	—	—	—	—	—	—	—	74,755	74,755	74,755	75,599
Total expenses before allocation	1,229,602	435,336	44,186	48,784	1,757,908	247,861	168,740	301,520	718,121	2,476,029	\$ 2,954,632
Allocation of K.F. house costs	74,204	94,135	17,759	—	186,098	63,108	52,314	(301,520)	(186,098)	—	—
Total expenses – 2009	\$ 1,303,806	529,471	61,945	48,784	1,944,006	310,969	221,054	—	532,023	\$ 2,476,029	—
Total expenses – 2008	\$ 1,520,793	629,240	75,600	38,123	2,263,756	442,004	248,872	—	690,876	\$ 2,954,632	—