

THE KOSCIUSZKO FOUNDATION, INC.

Consolidated Financial Statements

and Supplemental Schedule

June 30, 2011 and 2010

(With Independent Auditors' Report)

THE KOSCIUSZKO FOUNDATION, INC.

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OWEN J. FLANAGAN & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
60 EAST 42ND STREET, SUITE 1536
NEW YORK, NEW YORK 10165

OWEN J. FLANAGAN, CPA
(1925-1996)

KEVIN C. SUNKEL, CPA
JOHN L. CORCORAN, CPA
MEREDITH A.F. KORN, CPA

(212) 682-2783
FACSIMILE (212) 697-5843
WWW.OJFLANAGAN.COM

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC
ACCOUNTANTS

DONALD F. SCHERER

Independent Auditors' Report

The Board of Trustees
The Kosciuszko Foundation, Inc.:

We have audited the accompanying consolidated balance sheet of the Kosciuszko Foundation, Inc. (the Foundation) as of June 30, 2011 and 2010, and the related consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Kosciuszko Foundation, Inc. as of June 30, 2011 and 2010, and its changes in its net assets and its cash flows for the years 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.



October 19, 2011

THE KOSCIUSZKO FOUNDATION, INC.

Consolidated Balance Sheets

June 30, 2011 and 2010

Assets	2011	2010
Cash and cash equivalents	\$ 655,688	792,186
Contributions and other receivables	379,610	295,363
Prepaid expenses and other assets	453,402	426,720
Interest and dividends receivable	5,756	13,809
Investments (note 3)	27,288,877	22,996,321
Property, plant, and equipment, net of accumulated depreciation (note 4)	2,733,510	2,819,265
Art collections	2,218,762	2,218,762
Investment in pooled income fund	135,472	123,213
Beneficial interest in perpetual trusts (note 10)	1,474,801	1,280,698
Total assets	\$ <u>35,345,878</u>	<u>30,966,337</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 111,221	129,830
Scholarships and grants payable	—	11,456
Funds on deposit	119,685	122,453
Deferred revenue – pooled income fund	2,042	2,178
Total liabilities	<u>232,948</u>	<u>265,917</u>
Commitments and contingencies (note 5)		
Net assets:		
Unrestricted	6,010,309	5,744,632
Temporarily restricted (note 6)	12,062,121	9,342,369
Permanently restricted (note 7)	17,040,500	15,613,419
Total net assets	<u>35,112,930</u>	<u>30,700,420</u>
Total liabilities and net assets	\$ <u>35,345,878</u>	<u>30,966,337</u>

See accompanying notes to financial statements.

THE KOSCIUSZKO FOUNDATION, INC.
Consolidated Statements of Activities
Years ended June 30, 2011 and 2010

	2011			2010				
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, support, and gains:								
Contributions	\$ 221,337	71,887	1,232,978	1,526,202	2,056,488	123,139	368,157	2,547,784
Donated Art	—	—	—	—	376,462	—	—	376,462
Summer program	57,214	—	—	57,214	47,399	—	—	47,399
Other programs and functions	217,457	—	—	217,457	214,149	—	—	214,149
Dictionary/ Books	6,676	—	—	6,676	26,929	—	—	26,929
Membership dues	256,326	—	—	256,326	254,506	—	—	254,506
Rental income	188,863	—	—	188,863	162,517	—	—	162,517
Dividends and interest (note 3)	121,275	484,267	—	605,542	136,147	544,150	—	680,297
Other income	147,390	5,355	—	152,745	128,476	6,491	—	134,967
Charitable Remainder Annuity Trust	—	(9,000)	—	(9,000)	—	68,000	—	68,000
Net unrealized and realized (losses) gains	—	—	—	—	—	—	—	—
Net investments (note 3)	334,094	3,044,069	—	3,378,163	533,152	1,240,531	—	1,773,683
Net unrealized and realized (losses) gains on pooled income fund and beneficial interest in perpetual trusts (note 11)	—	—	—	—	—	—	—	—
Net assets released from restrictions (note 9)	—	12,259	194,103	206,362	—	4,256	109,810	114,066
	889,085	(889,085)	—	—	1,083,907	(1,083,907)	—	—
Total revenues, support, and gains	2,439,717	2,719,752	1,427,081	6,586,550	5,020,132	902,660	477,967	6,400,759
Expenses:								
Program services:								
Scholarships and grants	931,560	—	—	931,560	892,093	—	—	892,093
Cultural and educational programs	501,653	—	—	501,653	517,684	—	—	517,684
Shipping service	28,608	—	—	28,608	41,648	—	—	41,648
Warsaw office	50,836	—	—	50,836	38,411	—	—	38,411
Washington Center	85,467	—	—	85,467	78,797	—	—	78,797
Total program services	1,598,124	—	—	1,598,124	1,568,633	—	—	1,568,633
Supporting services:								
Administrative and general	374,956	—	—	374,956	364,868	—	—	364,868
Development	200,960	—	—	200,960	203,637	—	—	203,637
Total supporting services	575,916	—	—	575,916	568,505	—	—	568,505
Total expenses	2,174,040	—	—	2,174,040	2,137,138	—	—	2,137,138
Change in net assets	265,677	2,719,752	1,427,081	4,412,510	2,882,994	902,660	477,967	4,263,621
Net assets at beginning 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
Net assets at end of year	\$ 6,010,309	12,062,121	17,040,500	35,112,930	5,744,632	9,342,369	15,613,419	30,700,420

See accompanying notes to financial statements.

THE KOSCIUSZKO FOUNDATION, INC.

Consolidated Statements of Cash Flows

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Change in net assets	\$ 4,412,510	4,263,620
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net unrealized and realized losses (gains) on investments	(3,584,525)	(1,887,749)
Depreciation	87,199	77,981
Contribution of art collection	0	(376,462)
Contribution of Washington property	0	(1,300,000)
Permanently restricted contributions	(1,232,978)	(368,157)
Other changes in assets and liabilities:		
Contributions and other receivables	96,753	(85,069)
Prepaid expenses and other assets	(26,682)	(7,259)
Interest and dividends receivable	8,053	(415)
Accounts payable, accrued expenses, and deferred revenue	(18,745)	12,402
Scholarships and grants payable	(11,456)	(27,519)
Funds on deposit	(2,768)	25,645
Net cash used in operating activities	<u>(272,639)</u>	<u>327,018</u>
Cash flows from investing activities:		
Purchases of securities	(12,050,494)	(11,333,310)
Proceeds from sales of securities	11,136,101	10,706,647
Purchases of property and building improvements	(1,444)	(4,709)
Net cash provided by (used in) investing activities	<u>(915,837)</u>	<u>(631,372)</u>
Cash flows from financing activities:		
Permanently restricted contributions	1,232,978	368,157
Decrease (increase) in permanently restricted contributions receivable	(181,000)	(69,000)
Cash collection of permanently restricted assets	0	653,697
Net cash provided by financing activities	<u>1,051,978</u>	<u>952,854</u>
Net increase in cash and cash equivalents	<u>(136,498)</u>	<u>648,500</u>
Cash and cash equivalents at beginning of year	<u>792,186</u>	<u>143,686</u>
Cash and cash equivalents at end of year	\$ <u>655,688</u>	<u>792,186</u>

See accompanying notes to financial statements.

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(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 office 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.

Polish Foundation

During the fiscal year ended June 30, 2011, the Foundation filed in Poland Articles of Association under the Polish Foundation Act of April 4, 1984 to establish "The Kosciuszko Foundation Poland – Fundacja Kosciuszkowska Polska". This organization is controlled by the United States Kosciuszko Foundation and has similar purposes. During this year, there were no significant financial transactions.

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

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

THE KOSCIUSZKO FOUNDATION, INC.

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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 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.

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Consolidated Financial Statements

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(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 Collections

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 in New York was appraised and the fair value approximated \$2.8 million. The art collection at the Washington Center received during fiscal 2010, is recorded at approximately \$400,000.

(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, debt securities, and mutual funds, 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.

The Foundation follows the guidance found in Accounting Standards update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* for certain investments in funds that do not have readily determinable fair values including hedge funds, absolute return funds and other funds. This guidance allows for the estimation of the fair value of investments in investment

THE KOSCIUSZKO FOUNDATION, INC.

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companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent.

The cost and fair value of the Foundation's investments at June 30, 2011 and 2010 are as follows:

	2011		2010	
	Cost	Fair value	Cost	Fair value
Cash and cash equivalents	\$ 1,342,404	1,394,749	1,286,735	1,286,735
U.S. government and agency obligations	1,498,962	1,529,485	2,430,498	2,520,566
Mutual Funds	9,300,624	10,209,943	6,553,590	6,592,581
Stocks	9,254,402	10,693,169	8,192,433	8,037,181
Alternative Investments	3,297,100	3,461,531	4,584,677	4,559,258
	<u>\$ 24,693,492</u>	<u>27,288,877</u>	<u>23,047,933</u>	<u>22,996,321</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)).

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Notes to Consolidated 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, 2009	\$ 20,161,510	250,832	183,634	20,595,976
Receipts available for investment	1,204,989	—	—	1,204,989
Dividends and interest	829,898	29	1,801	831,728
Realized and unrealized (losses) gains	<u>1,774,773</u>	<u>—</u>	<u>(1,090)</u>	<u>1,773,683</u>
Total return on investment	2,604,671	29	711	2,605,411
Amount appropriated for current operations	<u>(1,401,054)</u>	<u>(5,150)</u>	<u>(3,851)</u>	<u>(1,410,055)</u>
Investments, at June 30, 2010	22,570,116	245,711	180,494	22,996,321
Receipts available for investment	1,173,762	—	—	1,173,762
Dividends and interest	605,514	16	12	605,542
Realized and unrealized (losses) gains	<u>3,374,210</u>	<u>3,953</u>	<u>—</u>	<u>3,378,163</u>
Total return on investment	3,979,724	3,969	12	3,983,705
Amount appropriated for current operations	<u>(824,768)</u>	<u>(22,804)</u>	<u>(17,339)</u>	<u>(864,911)</u>
Investments, at June 30, 2011	<u>\$ 26,898,834</u>	<u>226,876</u>	<u>163,167</u>	<u>27,288,877</u>

The participation in the pools and net asset classes of the investments at June 30, 2011 and 2010 is shown in the table below:

	<u>2011</u>			
	<u>Pool A</u>	<u>Pool B</u>	<u>Pool C</u>	<u>Total</u>
Permanently restricted	\$ 14,670,668	180,000	93,657	14,944,325
Temporarily restricted	11,628,012	46,876	69,510	11,744,398
Unrestricted	<u>600,154</u>	<u>—</u>	<u>—</u>	<u>600,154</u>
	<u>\$ 26,898,834</u>	<u>226,876</u>	<u>163,167</u>	<u>27,288,877</u>
	<u>2010</u>			
	<u>Pool A</u>	<u>Pool B</u>	<u>Pool C</u>	<u>Total</u>
Permanently restricted	\$ 13,667,383	180,000	93,657	13,941,040
Temporarily restricted	8,869,051	65,711	86,837	9,021,599
Unrestricted	<u>33,682</u>	<u>—</u>	<u>—</u>	<u>33,682</u>
	<u>\$ 22,570,116</u>	<u>245,711</u>	<u>180,494</u>	<u>20,595,976</u>

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(4) Property, Plant, and Equipment

Property, plant, and equipment consist of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Land	\$ 974,711	974,711
Building and improvements	2,976,210	2,976,210
Furniture and fixtures	373,283	373,283
Equipment	<u>252,379</u>	<u>250,935</u>
	4,576,583	4,575,139
Less accumulated depreciation	<u>1,843,073</u>	<u>1,755,874</u>
	<u>\$ 2,733,510</u>	<u>2,819,265</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, 2011 and 2010 was \$39,971 and \$37,854, respectively. The future minimum rental commitment under these annual leases is approximately \$39,000 and is renewable annually.

At June 30, 2011, the Foundation was committed, subject to the satisfaction of acceptance conditions, to award scholarships, fellowships, and grants of approximately \$523,390 for the 2011 – 2012 academic year (September 2011 – May 2012).

(6) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
For Scholarship and grants	\$11,892,121	9,163,369
For future periods	170,000	179,000
Total	\$12,062,121	9,342,369

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(7) Permanently Restricted Net Assets

The income from permanently restricted net assets at June 30, 2011 and 2010 is available for the following purposes:

	2011	2010
Scholarships	\$ 15,292,042	14,059,064
Beneficial interest in perpetual trusts:		
Scholarships	457,134	405,399
Cultural	1,017,667	875,299
Pool B and C funds for scholarships:		
PAC	93,657	93,657
Zimber	180,000	180,000
	<u>\$ 17,040,500</u>	<u>15,613,419</u>

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

	2011	2010
Other assets	\$ 618,403	383,634
Investments	14,947,296	13,949,087
Beneficial interest in perpetual trusts	1,474,801	1,280,698
	<u>\$ 17,040,500</u>	<u>15,613,419</u>

(8) Endowment

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

Prior to September 17, 2010, the Board of Trustees of the Foundation had interpreted Uniform Management of Institutional Funds Act (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 classified 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.

On September 17, 2010, New York State enacted the New York Prudent Management of Institutional Funds Act (NYPMIFA). Unlike UMIFA, the new law allows not-for-profits to spend permanently restricted endowment fund below their "historic dollar value" if the governing body (Board of Trustees)

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Consolidated Financial Statements

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determines that the spending is prudent in accordance with various factors. Also, in accordance with the act, the Foundation, where possible, has contacted donors of endowment funds with gifts made prior to September 17, 2010, and gave them the choice of following UMIFA or NYPMIFA rules.

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, 2011:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	11,891,121	16,612,097	28,503,218

The following represents a description of the endowment net asset composition, excluding pledges, by type of fund as of June 30, 2010:

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

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 Consolidated Financial Statements

June 30, 2011 and 2010

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, 2011:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net endowment assets, beginning of year	\$ (334,094)	9,163,369	15,229,785	24,059,060
Investment return:				
Investment income, net	—	484,267	—	484,267
Net appreciation	<u>334,094</u>	<u>3,055,328</u>	<u>194,103</u>	<u>3,583,525</u>
Total investment return	334,094	3,539,595	194,103	4,067,792
New gifts	—	71,887	1,232,978	1,304,865
Appropriation of endowment assets for expenditure	—	(889,085)	—	(889,085)
Other changes, including transfers	<u>—</u>	<u>5,355</u>	<u>(44,769)</u>	<u>(39,414)</u>
Net endowment assets, end of year	<u>\$ —</u>	<u>11,891,121</u>	<u>16,612,097</u>	<u>28,503,218</u>

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	<u>533,152</u>	<u>1,244,787</u>	<u>109,810</u>	<u>1,887,749</u>
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	<u>—</u>	<u>6,491</u>	<u>653,697</u>	<u>660,188</u>
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 Consolidated Financial Statements

June 30, 2011 and 2010

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. These deficiencies resulted from unfavorable market fluctuations. There were no deficiencies as of June 30, 2011.

Spending policy

The Foundation has a policy of appropriating a certain percentage of its portfolio for scholarship distribution annually. Scholarship distribution for fiscal year 2011 was based on 3% of its entire portfolio value. In fiscal year 2012 the scholarship distribution is set at 4%.

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>2011</u>	<u>2010</u>
Scholarships and grants	\$ 559,470	500,012
Management fees	202,965	173,820
Administrative fees and other expenses	126,650	410,075
	<u>\$ 889,085</u>	<u>1,083,907</u>

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

(10) 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, 2011 and 2010:

Trust	2011		2010	
	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	\$ 457,134	6,420	405,399	6,978
Mary R. Koons	1,017,667	42,307	875,299	41,242
	<u>\$ 1,474,801</u>	<u>48,727</u>	<u>1,280,698</u>	<u>48,220</u>

(11) Fair Value Measurements

Effective June 30, 2009, the Foundation adopted ASC 840 regarding *Fair Value Measurements*. Accounting guidance 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. This guidance also 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.

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 Consolidated Financial Statements

June 30, 2011 and 2010

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 trustees measured at fair value as of June 30, 2011:

	Level 1	Level 2	Level 3	Fair value total
Investments:				
Cash and money market funds	\$ 1,394,749	—	—	1,394,749
U.S. government bonds	771,819	—	—	771,819
Government agency obligations	—	757,666	—	757,666
Mutual Funds				
Fixed income	3,059,973	—	—	3,059,973
Equities	7,149,970	—	—	7,149,970
Stocks				
Energy	1,845,641	—	—	1,845,641
Financials	1,617,876	—	—	1,617,876
Information technology	1,370,864	—	—	1,370,864
Industrials	1,128,129	—	—	1,128,129
Materials	1,115,298	—	—	1,115,298
Other	3,615,361	—	—	3,615,361
Alternative investments	—	2,323,925	1,137,606	3,461,531
Total	<u>\$ 23,069,680</u>	<u>3,081,591</u>	<u>1,137,606</u>	<u>27,288,877</u>
Pooled Income Fund:				
Cash	\$ 5,316	—	—	5,316
Equities	73,465	—	—	73,465
Fixed income	56,691	—	—	56,691
Total	<u>\$ 135,472</u>	<u>—</u>	<u>—</u>	<u>135,472</u>
Beneficial Interest in Perpetual Trusts				
Cash	\$ 22,256	—	—	22,256
Equities	755,110	—	—	755,110
Fixed income	697,435	—	—	697,435
Total	<u>\$ 1,474,801</u>	<u>—</u>	<u>—</u>	<u>1,474,801</u>

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2011 and 2010

The alternative investments consist of investments in hedge funds. Three funds are priced daily and can be liquidated with 10 days notice. These are considered level two investments. The remaining funds have at least quarterly liquidity with 45 days notice. These are considered level three investments. The Foundation has no commitments for future investment in these funds.

The change in level three assets for the year ended June 30, 2011 was as follows:

Balance, July 1, 2010	\$2,433,180
Amounts redeemed	(1,420,384)
Realized Gains	41,490
Change in unrealized appreciation	<u>83,320</u>
Balance, June 30, 2011	<u>\$1,137,606</u>

The change in level three assets for the year ended June 30, 2010 was as follows:

Balance, July 1, 2009	\$1,752,509
Net income	854,857
Net purchases/redemptions	<u>(266,024)</u>
Balance, June 30, 2010	<u>\$2,433,180</u>

(12) Subsequent Events

In connection with the preparation of these financial statements, the Foundation evaluated subsequent events after the balance sheet date at June 30, 2011 through October 19, 2011, which was the date the financial statements were available to be issued. The following events were noted:

The Foundation has been named as beneficiaries in two estates: the Foundation will be the remainder interest in the Estate of Thaddeus F. Bryzinski (final amount undetermined) and has been named to receive \$25,000 from the Estate of Irene Buynowski.

(13) 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, 2008.

THE KOSCIUSZKO FOUNDATION, INC.
Consolidated Schedule of Functional Expenses
Year ended June 30, 2011,
with comparative totals for 2010

	Program services				Administrative and general		Supporting services			Total 2011	Total 2010
	Scholarships and grants	Cultural and educational programs	Shipping service	Warsaw office	Washington Center	Total	Development	Operation of K.F. house	Total		
Salaries	\$ 89,701	123,115	10,629	—	37,279	260,724	101,713	18,754	282,176	542,900	534,785
Employee benefits	14,499	17,719	2,677	—	6,630	41,525	13,937	3,146	39,449	80,974	70,052
Total personnel costs	104,200	140,834	13,306	—	43,909	302,249	115,650	21,900	321,625	623,874	604,837
Scholarships and grants	559,470	—	—	—	—	559,470	—	—	—	559,470	500,012
Program cost	—	—	—	—	215	215	—	—	—	215	400
Office supplies	—	199,495	—	—	7,067	216,785	—	—	—	216,785	228,736
Postage	4,894	978	—	1,100	87	1,187	718	1,474	8,921	10,108	13,973
Professional fees	—	—	—	724	969	7,565	6,691	—	9,747	17,312	18,272
Telephone	3,426	2,570	171	—	2,700	2,700	5,825	—	54,848	57,548	52,146
Insurance	—	—	—	940	1,363	8,470	5,140	—	10,965	19,435	23,592
Supplies	—	—	—	311	7,742	8,053	3,897	54,085	57,982	66,035	64,522
Cleaning service	—	—	—	2,272	2,513	4,785	—	5,977	5,977	10,762	6,389
Service fees	234	537	—	1,213	355	1,568	—	2,854	2,854	4,422	3,183
Investment management fees	202,965	—	—	3,294	1,992	6,057	6,054	591	18,750	24,807	29,591
Property tax	—	—	—	—	7,873	7,873	—	—	4,410	207,375	181,120
Travel and entertainment	—	—	106	—	7,873	2,804	209	547	1,172	7,873	12,035
Promotional expenses	3,140	4,335	250	1,249	1,449	2,804	797	—	5,195	3,976	10,296
Printing	—	11,625	1,149	3,119	200	7,925	3,396	—	4,010	13,120	7,134
Equipment rental	—	—	—	—	2,456	18,349	1,445	—	50,103	22,359	40,424
Electricity and heat	—	—	—	—	188	188	—	48,658	50,103	50,291	52,411
Repair and maintenance	—	—	—	—	4,389	4,389	—	56,992	56,992	61,381	68,061
Outside services	—	—	—	—	—	—	—	4,836	4,836	4,836	5,917
Membership fee	—	—	—	15,340	—	15,340	—	—	—	15,340	32,924
K.F. chapter expenses	—	—	—	—	—	—	1,100	—	2,073	2,073	2,285
Subscriptions	—	66,868	—	—	—	66,868	—	—	—	66,868	61,877
Warsaw office rental	—	—	—	11,051	—	11,051	—	—	—	11,051	467
Storage	—	—	6,840	—	—	6,840	—	—	265	7,105	9,644
Accrued vacation	—	2,420	—	—	—	2,420	—	—	—	2,420	6,840
Depreciation	878,329	429,662	21,822	50,836	85,467	1,466,116	141,885	197,914	620,725	2,086,841	2,059,157
Total expenses before allocat	—	—	—	—	—	—	—	87,199	87,199	87,199	77,981
Allocation of K.F. house costs	878,329	429,662	21,822	50,836	85,467	1,466,116	141,885	285,113	707,924	2,174,040	\$ 2,137,138
Total expenses - 2011	53,231	71,991	6,786	—	—	132,008	59,075	(285,113)	(132,008)	—	—
Total expenses - 2010	\$ 931,560	501,653	28,608	50,836	85,467	1,598,124	200,960	—	575,916	2,174,040	2,174,040
Total expenses - 2010	\$ 892,093	517,684	41,648	38,411	78,797	1,568,633	203,637	—	568,505	2,137,138	2,137,138

See accompanying independent auditors' report.