

THE KOSCIUSZKO FOUNDATION, INC.

Financial Statements and Supplemental Schedule

June 30, 2012 and 2011

(With Independent Auditors' Report)

THE KOSCIUSZKO FOUNDATION, INC.

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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, 2012 and 2011, 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, 2012 and 2011, 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.

November 8, 2012



THE KOSCIUSZKO FOUNDATION, INC.

Balance Sheets

June 30, 2012 and 2011

Assets	2012	2011
Cash and cash equivalents	\$ 715,521	655,688
Contributions and other receivables	387,192	379,610
Prepaid expenses and other assets	344,691	453,402
Interest and dividends receivable	—	5,756
Investments (note 3)	25,909,808	27,288,877
Property, plant, and equipment, net of accumulated depreciation (note 4)	2,669,377	2,733,510
Art collections (note 2)	2,218,762	2,218,762
Investment in pooled income fund	135,167	135,472
Beneficial interest in perpetual trusts (note 10)	1,420,896	1,474,801
Total assets	<u>\$ 33,801,414</u>	<u>35,345,878</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 117,621	111,221
Scholarships and grants payable	1,119	—
Funds on deposit	102,057	119,685
Deferred revenue – pooled income fund	1,905	2,042
Total liabilities	<u>222,702</u>	<u>232,948</u>
Commitments and contingencies (note 5)		
Net assets:		
Unrestricted	5,898,502	6,010,309
Temporarily restricted (note 6)	10,480,462	12,062,121
Permanently restricted (note 7)	17,199,748	17,040,500
Total net assets	<u>33,578,712</u>	<u>35,112,930</u>
Total liabilities and net assets	<u>\$ 33,801,414</u>	<u>35,345,878</u>

See accompanying notes to financial statements.

THE KOSCIUSZKO FOUNDATION, INC.

Statements of Activities

Years ended June 30, 2012 and 2011

	2012				2011			
	Unrestricted	Temporarily restricted	Permanently restricted	Total	Unrestricted	Temporarily restricted	Permanently restricted	Total
Revenues, support, and gains:								
Contributions	\$ 193,862	81,528	213,153	488,543	221,337	71,887	1,232,978	1,526,202
Donated Art	—	—	—	—	—	—	—	—
Summer program	47,075	—	—	47,075	57,214	—	—	57,214
Other programs and functions	216,874	—	—	216,874	217,457	—	—	217,457
Dictionary/ Books	6,039	—	—	6,039	6,676	—	—	6,676
Membership dues	263,385	—	—	263,385	256,326	—	—	256,326
Rental income	108,614	—	—	108,614	188,863	—	—	188,863
Dividends and interest (note 3)	133,040	532,544	—	665,584	121,275	484,267	—	605,542
Other income	109,563	14,913	—	124,476	147,390	5,355	—	152,745
Charitable Remainder Annuity Trust	—	(69,000)	—	(69,000)	—	(9,000)	—	(9,000)
Net unrealized and realized (losses) gains on investments (note 3)	(57,014)	(1,175,228)	—	(1,232,242)	334,094	3,044,069	—	3,378,163
Net unrealized and realized (losses) gains on pooled income fund and beneficial interest in perpetual trusts (note 11)	—	(304)	—	(54,209)	—	12,259	194,103	206,362
Net assets released from restrictions (note 9)	966,112	(966,112)	—	—	889,085	(889,085)	—	—
Total revenues, support, and gains	1,987,550	(1,581,659)	159,248	565,139	2,439,717	2,719,752	1,427,081	6,586,550
Expenses:								
Program services:								
Scholarships and grants	946,181	—	—	946,181	931,560	—	—	931,560
Cultural and educational programs	459,018	—	—	459,018	501,653	—	—	501,653
Shipping service	32,532	—	—	32,532	28,608	—	—	28,608
Warsaw office	36,011	—	—	36,011	50,836	—	—	50,836
Washington office	96,244	—	—	96,244	85,467	—	—	85,467
Total program services	1,569,986	—	—	1,569,986	1,598,124	—	—	1,598,124
Supporting services:								
Administrative and general	373,761	—	—	373,761	374,956	—	—	374,956
Development	155,610	—	—	155,610	200,960	—	—	200,960
Total supporting services	529,371	—	—	529,371	575,916	—	—	575,916
Total expenses	2,099,357	—	—	2,099,357	2,174,040	—	—	2,174,040
Change in net assets	(111,807)	(1,581,659)	159,248	(1,534,218)	265,677	2,719,752	1,427,081	4,412,510
Net assets at beginning 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
Net assets at end of year	\$ 5,898,502	10,480,462	17,199,748	33,578,712	6,010,309	12,062,121	17,040,500	35,112,930

See accompanying notes to financial statements.

THE KOSCIUSZKO FOUNDATION, INC.

Statements of Cash Flows

Years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ (1,534,218)	4,412,510
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Net unrealized and realized losses (gains) on investments	1,286,451	(3,584,525)
Depreciation	85,593	87,199
Permanently restricted contributions	(213,153)	(1,232,978)
Other changes in assets and liabilities:		
Contributions and other receivables	(7,582)	96,753
Prepaid expenses and other assets	1,857	10,537
Interest and dividends receivable	5,756	8,053
Accounts payable, accrued expenses, and deferred revenue	6,264	(18,745)
Scholarships and grants payable	1,119	(11,456)
Funds on deposit	(17,628)	(2,768)
Net cash used in operating activities	(385,541)	(235,420)
Cash flows from investing activities:		
Purchases of securities	(33,077,578)	(12,087,713)
Proceeds from sales of securities	33,224,405	11,136,101
Purchases of property and building improvements	(21,460)	(1,444)
Net cash provided by (used in) investing activities	125,367	(953,056)
Cash flows from financing activities:		
Permanently restricted contributions	213,153	1,232,978
Decrease (increase) in permanently restricted contributions receivable	106,854	(181,000)
Net cash provided by financing activities	320,007	1,051,978
Net increase in cash and cash equivalents	59,833	(136,498)
Cash and cash equivalents at beginning of year	655,688	792,186
Cash and cash equivalents at end of year	\$ 715,521	655,688

See accompanying notes to financial statements.

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(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. To date, there have been no significant financial transactions.

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

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 Consolidated Financial Statements

June 30, 2012 and 2011

(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 and mutual 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.

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Notes to Consolidated Financial Statements

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(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. As of June 30, 2012 the Foundation had liquidated most of these investments and was in the process of collecting the remaining balances.

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

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

The cost and fair value of the Foundation's investments at June 30, 2012 and 2011 are as follows:

	2012		2011	
	Cost	Fair value	Cost	Fair value
Cash and cash equivalents	\$ 281	281	1,342,404	1,394,749
Multi-Asset Fund	24,467,524	23,984,168	—	—
Short-Term Fund	1,882,589	1,882,675	—	—
U.S. government and agency obligations	—	—	1,498,962	1,529,485
Mutual Funds	—	—	9,300,624	10,209,943
Stocks	—	—	9,254,402	10,693,169
Alternative Investments	54,054	42,684	3,297,100	3,461,531
	<u>\$ 26,404,448</u>	<u>25,909,808</u>	<u>24,693,492</u>	<u>27,288,877</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 short term investments for permanently restricted purposes (The Michalina and Herman Zimmer Fund). Pool C includes short term investments for permanently restricted purposes (Polish American Club of North Jersey (PAC)).

Included in the cost of the Multi-Asset Fund is an entry fee paid of \$122,338.

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(4) Property, Plant, and Equipment

Property, plant, and equipment consist of the following at June 30, 2012 and 2011:

	2012	2011
Land	\$ 974,711	974,711
Building and improvements	2,977,742	2,976,210
Furniture and fixtures	373,283	373,283
Equipment	272,306	252,379
	4,598,042	4,576,583
Less accumulated depreciation	1,928,665	1,843,073
	\$ 2,669,377	2,733,510

(5) Commitments

The Foundation has one (two in 2011) operating lease for an apartment 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, 2012 and 2011 was \$39,222 and \$39,971, respectively. The future minimum rental commitment under these annual leases is approximately \$39,000 and is renewable annually.

At June 30, 2012, the Foundation was committed, subject to the satisfaction of acceptance conditions, to award scholarships, fellowships, and grants of approximately \$542,090 for the 2012 – 2013 academic year (September 2012 – May 2013).

(6) Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2012 and 2011:

	2012	2011
For scholarships and grants	\$ 10,379,462	11,892,121
For future periods	101,000	170,000
Total	\$ 10,480,462	12,062,121

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Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(7) Permanently Restricted Net Assets

The income from permanently restricted net assets at June 30, 2012 and 2011 is available for the following purposes:

	<u>2012</u>	<u>2011</u>
Scholarships	\$ 15,505,195	15,292,042
Beneficial interest in perpetual trusts:		
Scholarships	448,393	457,134
Cultural	972,503	1,017,667
Pool B and C funds for scholarships:		
PAC	93,657	93,657
Zimber	180,000	180,000
	<u>\$ 17,199,748</u>	<u>17,040,500</u>

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

	<u>2012</u>	<u>2011</u>
Other assets	\$ 511,549	618,403
Investments	15,267,303	14,947,296
Beneficial interest in perpetual trusts	1,420,896	1,474,801
	<u>\$ 17,199,748</u>	<u>17,040,500</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

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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) 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, 2012:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	10,379,462	16,688,199	27,067,661

The following represents a description of the endowment net asset composition, excluding pledges, 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 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.

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Notes to Consolidated Financial Statements

June 30, 2012 and 2011

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, 2012:

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net endowment assets, beginning of year	\$ —	11,891,121	16,612,097	28,503,218
Investment return:				
Investment income, net	—	532,544	—	532,544
Net appreciation	—	(1,175,532)	(53,905)	(1,229,437)
Total investment return	—	(642,988)	(53,905)	(696,893)
New gifts	—	81,528	213,153	294,681
Appropriation of endowment assets for expenditure	—	(966,112)	—	(966,112)
Other changes, including transfers	—	14,913	(80,245)	(65,332)
Net endowment assets, end of year	\$ —	10,378,462	16,691,100	27,069,562

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	334,094	3,055,328	194,103	3,583,525
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	—	5,355	(44,769)	(39,414)
Net endowment assets, end of year	\$ —	11,891,121	16,612,097	28,503,218

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Notes to Consolidated Financial Statements

June 30, 2012 and 2011

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 2012 was based on 4% of its entire portfolio value. In fiscal year 2013 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>2012</u>	<u>2011</u>
Scholarships and grants	\$ 603,828	559,470
Management fees	164,368	202,965
Administrative fees and other expenses	126,940	126,650
	<u>\$ 895,136</u>	<u>889,085</u>

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Notes to Consolidated Financial Statements

June 30, 2012 and 2011

(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, 2012 and 2011:

Trust	2012		2011	
	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	\$ 448,393	18,641	457,134	6,420
Mary R. Koons	972,503	45,500	1,017,667	42,307
	\$ 1,420,896	64,141	1,474,801	48,727

(11) Fair Value Measurements

The Foundation follows 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, 2012 and 2011

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, 2012

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value Total</u>
Investments:				
Cash and money market funds	\$ 281	—	—	281
Multi-Asset Fund	23,984,168	—	—	23,984,168
Short-Term Fund	1,882,675	—	—	1,882,675
Alternative investments	—	—	42,684	42,684
	<u>25,867,124</u>	<u>—</u>	<u>42,684</u>	<u>25,909,808</u>
Pooled Income Fund:				
Cash	\$ 4,236	—	—	4,236
Equities	72,685	—	—	72,685
Fixed Income	58,246	—	—	58,246
	<u>135,167</u>	<u>—</u>	<u>—</u>	<u>135,167</u>
Beneficial Interest in Perpetual Trusts				
Cash	\$ 18,046	—	—	18,046
Equities	861,289	—	—	861,289
Fixed Income	541,561	—	—	541,561
	<u>1,420,896</u>	<u>—</u>	<u>—</u>	<u>1,420,896</u>

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair value total</u>
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	\$ 23,069,680	3,081,591	1,137,606	27,288,877
Pooled Income Fund:				
Cash	\$ 5,316	—	—	5,316
Equities	73,465	—	—	73,465
Fixed income	56,691	—	—	56,691
Total	\$ 135,472	—	—	135,472
Beneficial Interest in Perpetual Trusts				
Cash	\$ 22,256	—	—	22,256
Equities	755,110	—	—	755,110
Fixed income	697,435	—	—	697,435
Total	\$ 1,474,801	—	—	1,474,801

THE KOSCIUSZKO FOUNDATION, INC.

Notes to Consolidated Financial Statements

June 30, 2012 and 2011

At June 30, 2012, the level 3 assets consist of two remaining hedge funds that have limited liquidity and will be paid out as the funds can redeem underlying investments. At June 30, 2011, the alternative investments consisted of six investments in hedge funds. Three funds are priced daily and can be liquidated with 10 days notice. These were considered level two investments. The remaining funds had 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 were as follows:

	<u>2012</u>	<u>2011</u>
Balance, July 1	\$ 1,137,606	2,433,180
Amounts redeemed	(1,085,720)	(1,420,384)
Realized gains	19,094	41,490
Change in unrealized appreciation	<u>(28,296)</u>	<u>83,320</u>
Balance, June 30	<u>\$ 42,684</u>	<u>1,137,606</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, 2012 through November 8, 2012, which was the date the financial statements were available to be issued.

(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, 2009.

THE KOSCIUSZKO FOUNDATION, INC.
 Schedule of Functional Expenses
 Year ended June 30, 2012,
 with comparative totals for 2011

Schedule 1

	Program services					Supporting services			Total 2012	Total 2011	
	Scholarships and grants	Cultural and educational programs	Shipping service	Warsaw office	Washington Center	Administrative and general	Development	Operation of K.F. house			
Salaries	91,879	122,818	11,936	—	38,562	160,992	75,003	10,444	246,439	513,634	542,900
Employee benefits	15,282	19,319	4,266	—	8,893	21,379	9,694	2,505	33,578	81,338	80,974
Total personnel costs	107,161	142,137	16,202	—	47,455	182,371	84,697	12,949	280,017	592,972	623,874
Scholarships and grants	603,828	—	—	—	2,040	—	—	—	—	603,828	559,470
Program honoraria	—	1,025	—	—	6,777	—	—	—	—	3,065	215
Program cost	—	197,044	—	—	4,985	—	—	—	—	208,806	216,785
Office supplies	496	326	—	—	816	8,577	507	354	9,438	11,101	10,108
Postage	5,149	1,955	50	—	68	4,001	5,147	—	9,148	16,703	17,312
Professional fees	—	—	—	—	—	50,534	—	—	50,534	57,548	57,548
Telephone	3,258	2,439	163	—	1,675	4,732	5,521	—	10,253	18,833	19,435
Insurance	—	—	—	—	7,326	10,458	—	—	42,930	50,548	66,035
Supplies	—	—	—	—	292	3,074	—	—	7,851	10,925	10,762
Cleaning service	—	—	—	—	334	—	—	7,040	7,040	8,602	4,422
Service fees	17	989	—	—	4,866	12,162	4,401	175	16,738	25,785	24,807
Investment management fees	164,368	—	—	—	8,812	3,380	—	—	3,380	167,748	207,375
Property tax	—	—	—	—	2,319	123	—	—	123	8,812	7,873
Travel and entertainment	4,171	1,140	25	—	8,567	—	—	—	954	8,690	3,976
Promotional expenses	3,042	2,371	—	—	300	—	954	—	9,970	6,667	13,120
Printing	509	10,265	645	—	4,581	174	9,796	—	9,970	22,359	22,359
Equipment rental	—	—	—	—	2,297	4,647	1,295	66,442	72,384	74,681	50,291
Electricity and heat	—	—	—	—	4,032	—	—	52,960	52,960	3,784	61,381
Repair and maintenance	—	—	—	—	325	—	—	3,459	3,459	56,992	4,836
Outside services	—	—	—	—	—	—	—	—	—	12,655	15,340
Membership fee	—	—	—	—	—	200	195	—	395	395	2,073
K.F. chapter expenses	—	27,425	—	—	—	—	280	—	280	27,705	66,868
Subscriptions	—	—	—	—	—	195	—	—	195	195	—
Warsaw office rental	—	—	—	—	—	—	—	—	—	—	11,051
Storage	—	—	7,260	—	—	—	—	—	—	10,508	7,105
Accrued vacation	—	—	—	—	—	—	—	—	—	7,260	2,420
Depreciation	891,999	387,116	24,345	36,011	96,244	281,554	112,793	183,702	578,049	2,013,764	2,086,841
Total expenses before allocat	891,999	387,116	24,345	36,011	96,244	281,554	112,793	183,702	578,049	2,013,764	2,086,841
Allocation of K.F. house costs	54,182	71,902	8,187	—	—	281,554	112,793	269,295	663,642	2,099,357	2,174,040
Total expenses – 2012	\$ 946,181	\$ 459,018	\$ 32,532	\$ 36,011	\$ 96,244	\$ 1,569,986	\$ 373,761	\$ 155,610	\$ 529,371	\$ 2,099,357	\$ 2,174,040
Total expenses – 2011	\$ 931,560	\$ 501,653	\$ 28,608	\$ 50,836	\$ 85,467	\$ 1,598,124	\$ 374,956	\$ 200,960	\$ 575,916	\$ 2,174,040	

See accompanying independent auditors' report.