

Kiwanis International Foundation

Accountants' Report and Financial Statements

September 30, 2012 and 2011

Kiwanis International Foundation

September 30, 2012 and 2011

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Kiwanis International Foundation
Indianapolis, Indiana

We have audited the accompanying statements of financial position of Kiwanis International Foundation (Foundation) as of September 30, 2012 and 2011, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 Kiwanis International Foundation as of September 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the financial statements as a whole. The Operating and Eliminate Project Statements of Financial Position and Activities and Eliminate Project Historical Statement of Activities listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 2010 information presented in the Eliminate Project Historical Statement of Activities has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it. Except for the 2010 information previously noted, the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BKD, LLP

January 11, 2013

Kiwanis International Foundation

Statements of Financial Position September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Cash	\$ 2,391,029	\$ 2,887,156
Investments	11,938,400	10,075,048
Contributions receivable, net	6,682,007	1,483,975
Other assets	12,609	71,571
Cash surrender value of life insurance	211,563	186,015
Advances to affiliates	110,000	75,000
Beneficial interest in assets held by others	163,570	133,086
	<u>21,509,178</u>	<u>14,911,851</u>
Total assets	<u>\$ 21,509,178</u>	<u>\$ 14,911,851</u>
Liabilities		
Accounts payable - affiliates	\$ 498,516	\$ 1,160,997
Accounts payable	18,126	1,064
Grants payable	62,221	44,091
Annuities payable	135,876	162,947
	<u>714,739</u>	<u>1,369,099</u>
Total liabilities	<u>714,739</u>	<u>1,369,099</u>
Net Assets		
Unrestricted	(437,640)	(508,066)
Temporarily restricted	10,086,344	3,189,675
Permanently restricted	11,145,735	10,861,143
	<u>20,794,439</u>	<u>13,542,752</u>
Total net assets	<u>20,794,439</u>	<u>13,542,752</u>
	<u>\$ 21,509,178</u>	<u>\$ 14,911,851</u>
Total liabilities and net assets	<u>\$ 21,509,178</u>	<u>\$ 14,911,851</u>

Kiwanis International Foundation
Statements of Activities
Years Ended September 30, 2012 and 2011

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Support								
Contributions	\$ 1,215,094	\$ 11,875,018	\$ 293,677	\$ 13,383,789	\$ 1,663,553	\$ 4,763,565	\$ 292,368	\$ 6,719,486
In-kind contributions	275,633	-	-	275,633	313,488	-	-	313,488
Investment income (loss), net of fees	73,978	1,752,349	-	1,826,327	(36,791)	(51,159)	-	(87,950)
Net assets released from restrictions	6,433,144	(6,433,144)	-	-	2,993,978	(2,940,016)	(53,962)	-
Total revenue and gains	<u>7,997,849</u>	<u>7,194,223</u>	<u>293,677</u>	<u>15,485,749</u>	<u>4,934,228</u>	<u>1,772,390</u>	<u>238,406</u>	<u>6,945,024</u>
Expenses and Losses								
Program services	3,665,302	-	-	3,665,302	2,238,441	-	-	2,238,441
Management and general	1,029,020	-	-	1,029,020	751,196	-	-	751,196
Fundraising	3,292,572	-	-	3,292,572	1,861,478	-	-	1,861,478
Bad debts - uncollectible pledges	2,170	297,554	9,085	308,809	1,920	78,446	5,974	86,340
Total expenses and losses	<u>7,989,064</u>	<u>297,554</u>	<u>9,085</u>	<u>8,295,703</u>	<u>4,853,035</u>	<u>78,446</u>	<u>5,974</u>	<u>4,937,455</u>
Change in Net Assets Before Other Changes	8,785	6,896,669	284,592	7,190,046	81,193	1,693,944	232,432	2,007,569
Other Changes in Net Assets								
Change in value of annuities payable	61,641	-	-	61,641	(30,927)	-	-	(30,927)
Change in Net Assets	70,426	6,896,669	284,592	7,251,687	50,266	1,693,944	232,432	1,976,642
Net Assets, Beginning of Year	<u>(508,066)</u>	<u>3,189,675</u>	<u>10,861,143</u>	<u>13,542,752</u>	<u>(558,332)</u>	<u>1,495,731</u>	<u>10,628,711</u>	<u>11,566,110</u>
Net Assets, End of Year	<u>\$ (437,640)</u>	<u>\$ 10,086,344</u>	<u>\$ 11,145,735</u>	<u>\$ 20,794,439</u>	<u>\$ (508,066)</u>	<u>\$ 3,189,675</u>	<u>\$ 10,861,143</u>	<u>\$ 13,542,752</u>

Kiwanis International Foundation
Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Operating Activities		
Change in net assets	\$ 7,251,687	\$ 1,976,642
Items not requiring (providing) cash		
Transfer of office equipment to Kiwanis International	-	18,182
Increase in cash surrender value of life insurance	(25,548)	(9,169)
Realized and unrealized (gains) losses on investments	(1,554,367)	263,211
Change in value of annuities payable	(2,682)	17,404
Contributions, restricted for long-term investment	(286,647)	(291,921)
Changes in		
Contributions receivable, net	(5,198,032)	(1,442,475)
Other assets	58,962	(61,986)
Advances to affiliates	(35,000)	-
Beneficial interest in assets held by others	(30,484)	(60,567)
Accounts payable and accrued expenses	17,062	(24,546)
Grants payable	18,130	(37,642)
Net cash provided by operating activities	213,081	347,133
Investing Activities		
Purchase of investments	(8,344,457)	(8,317,208)
Proceeds from sales of investments	8,035,472	7,935,085
Net cash used in investing activities	(308,985)	(382,123)
Financing Activities		
Net payments of annuities	(24,389)	(27,625)
Net change in payable to Kiwanis International	(662,481)	1,015,560
Proceeds from contributions restricted for investment in endowment	286,647	291,921
Net cash provided by (used in) financing activities	(400,223)	1,279,856
Net Increase (Decrease) in Cash	(496,127)	1,244,866
Cash, Beginning of Year	2,887,156	1,642,290
Cash, End of Year	\$ 2,391,029	\$ 2,887,156

Kiwanis International Foundation

Notes to Financial Statements September 30, 2012 and 2011

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Kiwanis International Foundation (Foundation) was incorporated as a not-for-profit Foundation under the laws of the State of Illinois and commenced operations in 1939. The Foundation was subsequently incorporated under the laws of the State of Indiana in December 1997. The Foundation was created to form, promote, sponsor or assist related and qualified charitable, benevolent, eleemosynary, educational, religious or scientific enterprises. The Foundation provides funding for grants, scholarships, merit awards, disaster relief, and other various needs for supporting young children. The Foundation's major sources of revenue are charitable contributions and investment income.

During 2010, the Foundation and Kiwanis International initiated a \$110 million capital campaign to eliminate maternal and neonatal tetanus called the Eliminate Project. The Eliminate Project represents a joint-effort between the Foundation, Kiwanis International and UNICEF.

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, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Cash

Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts through December 31, 2012, at all FDIC-insured institutions.

At September 30, 2012 and 2011, funds held outside the United States totaled approximately \$265,000 and \$386,000, respectively.

Investments and Investment Return

Investments are carried at fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value.

The Foundation maintains pooled investment accounts for its endowments. Investment income and realized and unrealized gains and losses from securities in the pooled investment accounts are allocated to the individual endowments based on the relationship of the fair value of the interest of each endowment to the total fair value of the pooled investments accounts, as adjusted for additions to or deductions from those accounts.

Kiwanis International Foundation

Notes to Financial Statements September 30, 2012 and 2011

Cash Surrender Life Insurance

The Foundation is the owner and beneficiary of various life insurance policies that were gifted to the Foundation and that have a cash surrender value of \$211,563 and \$186,015 at September 30, 2012 and 2011, respectively.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Foundation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Foundation in perpetuity.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional. At September 30, 2012, approximately \$297,600 of conditional promises to give were available to the Foundation based on matching requirements by the donor.

In-Kind Contributions

In addition to receiving cash contributions, the Foundation receives in-kind contributions from various donors. It is the policy of the Foundation to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by a like amount. For the years ended September 30, 2012 and 2011, \$275,633 and \$313,488, respectively, was received in in-kind contributions.

Kiwanis International Foundation

Notes to Financial Statements September 30, 2012 and 2011

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program services, management and general and fundraising categories based on the estimates of time spent by Foundation personnel.

Income Taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income.

The Foundation files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Foundation is no longer subject to U.S. federal examinations by tax authorities for years before 2009.

Note 2: Affiliated Organizations

The Foundation is affiliated with the following organizations through transactions and relations with Kiwanis International:

Kiwanis International - This is a not-for-profit organization exempt from taxation under Section 501(c)(4) of the U.S. Internal Revenue Code. Kiwanis International was established for the purpose of providing services to Kiwanis clubs.

Circle K International - This is a not-for-profit organization exempt from taxation under Section 501(c)(4) of the U.S. Internal Revenue Code. Circle K International was established for the purpose of providing services to Circle K clubs.

Key Club International - This is a not-for-profit organization exempt from taxation under Section 501(c)(3) of the U.S. Internal Revenue Code. Key Club International was established for the purpose of providing services to Key Club clubs.

In accordance with generally accepted accounting principles in the United States, consolidated financial statements are also prepared for Kiwanis International and its affiliates, which include Kiwanis International Foundation, and are issued under a separate cover.

Kiwanis International Foundation

Notes to Financial Statements September 30, 2012 and 2011

Note 3: Investments and Investment Return

Investments at September 30 consisted of the following:

	2012	2011
Money market funds	\$ 1,038,187	\$ 579,176
Fixed income securities		
Long-term bonds	1,430,317	350,356
Intermediate-term bonds	443,468	325,411
Short-term bonds	714,852	901,937
Fixed income blend	413,189	601,105
Total fixed income securities	3,001,826	2,178,809
Common and preferred stocks		
Large-cap stocks	4,054,369	3,588,166
Mid- and small-cap stocks	1,903,339	1,484,900
International stocks	1,501,856	1,358,728
Equities blend	438,823	367,291
Total common and preferred stocks	7,898,387	6,799,085
Commodities	-	474,701
Limited partnership	-	43,277
Total	\$ 11,938,400	\$ 10,075,048

The Foundation's investment return at September 30 consisted of the following:

	2012	2011
Interest and dividends	\$ 347,442	\$ 240,685
Realized and unrealized gains (losses)	1,554,367	(263,211)
Investment fees	(75,482)	(65,424)
Total	\$ 1,826,327	\$ (87,950)

Kiwanis International Foundation

Notes to Financial Statements September 30, 2012 and 2011

Note 4: Contributions Receivable

Contributions receivable at September 30 consisted of the following:

	<u>2012</u>	<u>2011</u>
Due within one year	\$ 1,520,580	\$ 356,876
Due in one to five years	<u>5,649,602</u>	<u>1,239,144</u>
	7,170,182	1,596,020
Less:		
Allowance for uncollectible contributions	(389,175)	(86,340)
Unamortized discount	<u>(99,000)</u>	<u>(25,705)</u>
	<u>\$ 6,682,007</u>	<u>\$ 1,483,975</u>

The discount rates for 2012 and 2011 ranged from 0.18% to 0.78%.

Note 5: Beneficial Interest in Assets Held by Others

The Foundation has agreements with the Kiwanis Foundations of Canada, Jamaica and Japan that provide for contributions made to the Foundation to be held in those countries by the respective local foundations. The agreements also provide for the local foundations to recommend grants to be made from those funds that are ultimately approved by the Foundation. At September 30, 2012 and 2011, the balance of the beneficial interest in assets held by others was \$163,570 and \$133,086, respectively.

Note 6: Annuities Payable

The Foundation has been the recipient of several gift annuities, which require future payments to the donor or their named beneficiaries. The assets received from the donor are recorded at fair value. The Foundation has recorded a liability at September 30, 2012 and 2011, of \$135,876 and \$162,947, which represents the present value of the future annuity obligations. The liability has been determined using discount rates ranging from 3.2% to 9.0%.

Kiwanis International Foundation

Notes to Financial Statements September 30, 2012 and 2011

Note 7: Temporarily Restricted Net Assets

Temporarily restricted net assets at September 30 are available for the following purposes or periods:

	<u>2012</u>	<u>2011</u>
Eliminate Project	\$ 7,374,276	\$ 1,784,864
Scholarships, awards, grants and other programs	<u>2,712,068</u>	<u>1,404,811</u>
	<u>\$ 10,086,344</u>	<u>\$ 3,189,675</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors as of September 30:

	<u>2012</u>	<u>2011</u>
Eliminate Project	\$ 5,980,888	\$ 2,915,117
Scholarships, awards, grants and other programs	<u>452,256</u>	<u>78,861</u>
	<u>\$ 6,433,144</u>	<u>\$ 2,993,978</u>

Note 8: Permanently Restricted Net Assets

Permanently restricted net assets at September 30 are restricted to:

	<u>2012</u>	<u>2011</u>
Investment in perpetuity, the income of which is expendable to support:		
USI Sustainability Fund	\$ 1,846,595	\$ 1,839,118
Youth Opportunities	1,280,900	1,149,940
Other	1,145,665	1,153,914
Any activity of the Foundation	<u>6,872,575</u>	<u>6,718,171</u>
	<u>\$ 11,145,735</u>	<u>\$ 10,861,143</u>

Note 9: Endowment

The Foundation's endowment consists of approximately 20 individual funds established for a variety of purposes. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Kiwanis International Foundation

Notes to Financial Statements September 30, 2012 and 2011

The Foundation's governing body has interpreted the State of Indiana's Prudent Management of Institutional Funds Act (SPMIFA) as requiring 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 this interpretation, the Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment plus the original value of subsequent gifts to the permanent endowment. The remaining portion of donor-restricted endowment funds 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 SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. Duration and preservation of the fund
2. Purposes of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

The composition of net assets by type of endowment fund at September 30, 2012 and 2011, was:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (30,128)	\$ 1,792,006	\$ 11,130,140	\$ 12,892,018
2011				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (124,014)	\$ 395,802	\$ 10,843,493	\$ 11,115,281

Kiwanis International Foundation
Notes to Financial Statements
September 30, 2012 and 2011

Changes in endowment net assets for the years ended September 30, 2012 and 2011 were:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, October 1, 2010	\$ (409,295)	\$ 59,164	\$ 10,628,711	\$ 10,278,580
Investment loss	(30,003)	(63,354)	-	(93,357)
Contributions	-	5,707	291,921	297,628
Appropriation of endowment assets for expenditure	-	(46,329)	-	(46,329)
Other changes	<u>315,284</u>	<u>440,614</u>	<u>(77,139)</u>	<u>678,759</u>
Endowment net assets, September 30, 2011	(124,014)	395,802	10,843,493	11,115,281
Investment income	93,886	1,625,969	-	1,719,855
Contributions	-	-	286,647	286,647
Appropriation of endowment assets for expenditure	-	(257,572)	-	(257,572)
Other changes	<u>-</u>	<u>27,807</u>	<u>-</u>	<u>27,807</u>
Endowment net assets, September 30, 2012	<u>\$ (30,128)</u>	<u>\$ 1,792,006</u>	<u>\$ 11,130,140</u>	<u>\$ 12,892,018</u>

During 2011, the Foundation reevaluated its calculation of underwater endowments based on the application of the spending rate and investment allocations. Based on this evaluation, it was determined that \$678,759 was required to be included in the various endowment funds.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level the Foundation is required to retain as a fund of perpetual duration pursuant to donor stipulation or SPMIFA. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets and aggregated \$30,128 and \$124,014 at September 30, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

Kiwanis International Foundation

Notes to Financial Statements September 30, 2012 and 2011

Amounts of donor-restricted endowment funds classified as permanently and temporarily restricted net assets at September 30 consisted of:

	<u>2012</u>	<u>2011</u>
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA	<u>\$ 11,130,140</u>	<u>\$ 10,843,493</u>
Temporarily restricted net assets		
Portion of perpetual endowment funds subject to a time restriction under SPMIFA		
With purpose restrictions	\$ 945,001	\$ 385,042
Without purpose restrictions	<u>847,005</u>	<u>10,760</u>
	<u>\$ 1,792,006</u>	<u>\$ 395,802</u>

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Endowment assets include those assets of donor-restricted endowment funds the Foundation must hold in perpetuity or for donor-specified periods, as well as those of board-designated endowment funds. Under the Foundation's policies, endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the Standard & Poors 500 index while assuming the lowest possible risk. The Foundation expects its endowment funds to provide an average rate of return of approximately 10% annually over time. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation has a policy of appropriating for distribution each year up to 4% of its endowment fund's average fair value over the prior 12 quarters. In establishing this policy, the Foundation considered the long-term expected return on its endowment. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Kiwanis International Foundation

Notes to Financial Statements September 30, 2012 and 2011

Note 10: Transactions With Affiliates

The Foundation shares common office facilities with and receives administrative services from Kiwanis International. In addition, two trustees of the Foundation served on Kiwanis International's Board of Trustees during the fiscal year 2012 and 2011.

During the years ended September 30, 2012 and 2011, the Foundation received contributions from Kiwanis International of \$0 and \$1,000,000, respectively. At September 30, 2012 and 2011, the Foundation had a deposit with Kiwanis International of \$110,000 and \$75,000 to cover approximately one month of expenses paid by Kiwanis International on behalf of the Foundation. There were also \$498,516 and \$1,160,997 of accounts payable to Kiwanis International for various expenses at September 30, 2012 and 2011, respectively.

Grants paid by the Foundation to affiliates for the years ended September 30, 2012 and 2011 were:

	<u>2012</u>	<u>2011</u>
Kiwanis International	\$ 124,088	\$ 114,140
Key Club International	50,000	50,000
Circle K International	<u>15,000</u>	<u>16,500</u>
	<u>\$ 189,088</u>	<u>\$ 180,640</u>

During 2011, Kiwanis International agreed to provide a \$3 million line of credit to the Foundation. The borrowings on this line of credit will bear interest at 3%, and the line matures December 31, 2015. At September 30, 2012, there were no borrowings against this line.

Note 11: Employee Benefit Plans

The Foundation employees participated in the Kiwanis International 401(k) Plan (a defined-contribution retirement savings plan). The Foundation matches participants' contributions to the Plan up to 4% of participant's compensation. All employer costs of this plan are included in the allocated administrative expenses paid by the Foundation to Kiwanis International. These allocated administrative expenses to the plan were \$29,648 and \$17,424 as of September 30, 2012 and 2011, respectively.

Kiwanis International Foundation

Notes to Financial Statements September 30, 2012 and 2011

Note 12: Disclosures About Fair Value of Assets and Liabilities

ASC Topic 820, *Fair Value Measurements*, defines fair value as 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. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market funds, certain fixed income securities, common and preferred stocks and commodities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows and classified as Level 2 fair value measurements. Level 2 securities include corporate and government fixed income securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include investments in limited partnerships.

Beneficial Interest in Assets Held by Others

Fair value is estimated using the values of the underlying assets, which represent cash accounts held in foreign countries. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

Kiwanis International Foundation

Notes to Financial Statements September 30, 2012 and 2011

The following tables present the fair value measurements of assets recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2012 and 2011:

	2012			
	Fair Value Measurements Using			
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Investments				
Money market funds	\$ 1,038,187	\$ 1,038,187	\$ -	\$ -
Fixed income securities				
Long-term bonds	1,430,317	426,827	1,003,490	-
Intermediate-term bonds	443,468	347,333	96,135	-
Short-term bonds	714,852	692,438	22,414	-
Fixed income blend	413,189	413,189	-	-
Total fixed income securities	<u>3,001,826</u>	<u>1,879,787</u>	<u>1,122,039</u>	<u>-</u>
Common and preferred stocks				
Large-cap stocks	4,054,369	4,054,369	-	-
Mid- and small-cap stocks	1,903,339	1,903,339	-	-
International stocks	1,501,856	1,501,856	-	-
Equities blend	438,823	438,823	-	-
Total common and preferred stocks	<u>7,898,387</u>	<u>7,898,387</u>	<u>-</u>	<u>-</u>
Total investments	<u>11,938,400</u>	<u>10,816,361</u>	<u>1,122,039</u>	<u>-</u>
Beneficial interest in assets held by others	<u>163,570</u>	<u>-</u>	<u>163,570</u>	<u>-</u>
Total	<u>\$ 12,101,970</u>	<u>\$ 10,816,361</u>	<u>\$ 1,285,609</u>	<u>\$ -</u>

Kiwanis International Foundation

Notes to Financial Statements September 30, 2012 and 2011

	2011			
	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments				
Money market funds	\$ 579,176	\$ 579,176	\$ -	\$ -
Fixed income securities				
Long-term bonds	350,356	139,505	210,851	-
Intermediate-term bonds	325,411	325,411	-	-
Short-term bonds	901,937	703,604	198,333	-
Fixed income blend	601,105	601,105	-	-
Total fixed income securities	<u>2,178,809</u>	<u>1,769,625</u>	<u>409,184</u>	<u>-</u>
Common and preferred stocks				
Large-cap stocks	3,588,166	3,588,166	-	-
Mid- and small-cap stocks	1,484,900	1,484,900	-	-
International stocks	1,358,728	1,358,728	-	-
Equities blend	367,291	367,291	-	-
Total common and preferred stocks	<u>6,799,085</u>	<u>6,799,085</u>	<u>-</u>	<u>-</u>
Commodities	474,701	474,701	-	-
Limited partnership	43,277	-	-	43,277
Total investments	<u>10,075,048</u>	<u>9,622,587</u>	<u>409,184</u>	<u>43,277</u>
Beneficial interest in assets held by others	133,086	-	133,086	-
Total assets	<u>\$ 10,208,134</u>	<u>\$ 9,622,587</u>	<u>\$ 542,270</u>	<u>\$ 43,277</u>

Kiwanis International Foundation

Notes to Financial Statements September 30, 2012 and 2011

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying statements of financial position using significant unobservable (Level 3) inputs:

	Investment in Limited Partnership
Balance at October 1, 2010	\$ 798,639
Sale of investment	(866,624)
Realized and unrealized gains included in the change in net assets	<u>111,262</u>
Balance at September 30, 2011	43,277
Sales of investment	<u>(43,277)</u>
Balance at September 30, 2012	<u><u>\$ -</u></u>

Note 13: Significant Estimates and Concentrations

Current Economic Conditions

The current protracted economic decline continues to present not-for-profit organizations with difficult circumstances and challenges, which in some cases have resulted in large and unanticipated declines in the fair value of investments and other assets and declines in contributions. The financial statements have been prepared using values and information currently available to the Foundation.

In addition, given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values and allowances for receivables that could negatively impact the Foundation's ability to maintain sufficient liquidity.

Note 14: Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

Supplementary Information

Kiwanis International Foundation
Operating and Eliminate Project Statements of Financial Position
September 30, 2012 and 2011

	2012			2011		
	Operating	Eliminate Project	Total	Operating	Eliminate Project	Total
Assets						
Cash	\$ 1,546,949	\$ 844,080	\$ 2,391,029	\$ 1,932,592	\$ 954,564	\$ 2,887,156
Investments	11,938,400	-	11,938,400	10,075,048	-	10,075,048
Contributions receivable, net	21,607	6,660,400	6,682,007	19,196	1,464,779	1,483,975
Prepaid expenses	11,981	628	12,609	20,443	51,128	71,571
Cash surrender value of life insurance	211,563	-	211,563	186,015	-	186,015
Advances to affiliates	110,000	-	110,000	75,000	-	75,000
Beneficial interest in assets held by others	74,316	89,254	163,570	72,709	60,377	133,086
Interfund receivable (payable)	(177,466)	177,466	-	(300,539)	300,539	-
Total assets	\$ 13,737,350	\$ 7,771,828	\$ 21,509,178	\$ 12,080,464	\$ 2,831,387	\$ 14,911,851
Liabilities						
Accounts payable - affiliates	\$ 115,857	\$ 382,659	\$ 498,516	\$ 114,474	\$ 1,046,523	\$ 1,160,997
Accounts payable	3,233	14,893	18,126	1,064	-	1,064
Grants payable	62,221	-	62,221	44,091	-	44,091
Annuities payable	135,876	-	135,876	162,947	-	162,947
Total liabilities	317,187	397,552	714,739	322,576	1,046,523	1,369,099
Net Assets						
Unrestricted	(437,640)	-	(437,640)	(508,066)	-	(508,066)
Temporarily restricted	2,712,068	7,374,276	10,086,344	1,404,811	1,784,864	3,189,675
Permanently restricted	11,145,735	-	11,145,735	10,861,143	-	10,861,143
Total net assets	13,420,163	7,374,276	20,794,439	11,757,888	1,784,864	13,542,752
Total liabilities and net assets	\$ 13,737,350	\$ 7,771,828	\$ 21,509,178	\$ 12,080,464	\$ 2,831,387	\$ 14,911,851

Kiwanis International Foundation
Operating and Eliminate Project Statements of Activities
Year Ended September 30, 2012 and 2011

	2012			2011		
	Operating	Eliminate Project	Total	Operating	Eliminate Project	Total
Revenues and Support						
Contributions	\$ 1,515,471	\$ 11,868,318	\$ 13,383,789	\$ 2,001,607	\$ 4,717,879	\$ 6,719,486
In-kind contributions	275,633	-	275,633	313,488	-	313,488
Investment income (loss), net of fees	1,826,791	(464)	1,826,327	(89,123)	1,173	(87,950)
Total revenue and gains	3,617,895	11,867,854	15,485,749	2,225,972	4,719,052	6,945,024
Expenses						
Program services	941,388	2,723,914	3,665,302	1,043,376	1,195,065	2,238,441
Management and general	688,565	340,455	1,029,020	530,223	220,973	751,196
Fundraising	376,053	2,916,519	3,292,572	362,399	1,499,079	1,861,478
Bad debts - uncollectible pledges	11,255	297,554	308,809	7,894	78,446	86,340
Total expenses	2,017,261	6,278,442	8,295,703	1,943,892	2,993,563	4,937,455
Change in Net Assets Before Other Changes	1,600,634	5,589,412	7,190,046	282,080	1,725,489	2,007,569
Other Changes in Net Assets						
Change in value of annuities payable	61,641	-	61,641	(30,927)	-	(30,927)
Change in Net Assets	1,662,275	5,589,412	7,251,687	251,153	1,725,489	1,976,642
Net Assets, Beginning of Year	11,757,888	1,784,864	13,542,752	11,506,735	59,375	11,566,110
Net Assets, End of Year	\$ 13,420,163	\$ 7,374,276	\$ 20,794,439	\$ 11,757,888	\$ 1,784,864	\$ 13,542,752

Kiwanis International Foundation
Eliminate Project Statements of Activities - Project History
Years Ended September 30

	2012	September 30 2011	2010	Total Eliminate Project
Revenues and Support				
Contributions	\$ 11,868,318	\$ 4,717,879	\$ 64,670	\$ 16,650,867
Investment income (loss), net of fees	(464)	1,173	19	728
Total revenue and gains	<u>11,867,854</u>	<u>4,719,052</u>	<u>64,689</u>	<u>16,651,595</u>
Expenses				
Program services	2,723,914	1,195,065	-	3,918,979
Management and general	340,455	220,973	5,314	566,742
Fundraising	2,916,519	1,499,079	-	4,415,598
Bad debts - uncollectible pledges	297,554	78,446	-	376,000
Total expenses	<u>6,278,442</u>	<u>2,993,563</u>	<u>5,314</u>	<u>9,277,319</u>
Change in Net Assets	5,589,412	1,725,489	59,375	7,374,276
Net Assets, Beginning of Year	<u>1,784,864</u>	<u>59,375</u>	<u>-</u>	<u>-</u>
Net Assets, End of Year	<u>\$ 7,374,276</u>	<u>\$ 1,784,864</u>	<u>\$ 59,375</u>	<u>\$ 7,374,276</u>