

# **Kiwanis International Foundation**

Accountants' Report and Financial Statements

September 30, 2011 and 2010

# Kiwanis International Foundation

September 30, 2011 and 2010

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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 statement of financial position of Kiwanis International Foundation (Foundation) as of September 30, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Kiwanis International Foundation as of and for the year ended September 30, 2010, were audited by other accountants whose report dated December 31, 2010, on those statements was qualified because the Foundation's statements were not those of the primary reporting entity and did not reflect all organizations under common control.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2011 financial statements referred to above present fairly, in all material respects, the financial position of Kiwanis International Foundation as of September 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying supplementary information as of and for the year ended September 30, 2011, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information as of and for the year ended September 30, 2011 has been subjected to the procedures applied in the audit of the basic financial statements as of and for the year ended September 30, 2011 and, in our opinion, is fairly stated, in all material respects, in relation to those basic financial statements taken as a whole.

*BKD, LLP*

January 13, 2012

# Kiwanis International Foundation

## Statements of Financial Position September 30, 2011 and 2010

### Assets

	<u>2011</u>	<u>2010</u>
Cash	\$ 2,887,156	\$ 1,642,290
Investments	10,075,048	9,956,136
Contributions receivable, net	1,483,975	41,500
Other assets	146,571	84,585
Cash surrender value of life insurance	186,015	176,846
Beneficial interest in assets held by others	133,086	72,519
Office equipment, net	-	18,182
	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 14,911,851</u>	<u>\$ 11,992,058</u>

### Liabilities

Accrued expenses	\$ -	\$ 24,546
Payable to Kiwanis International	1,162,061	146,501
Grants payable	44,091	81,733
Annuities payable	162,947	173,168
	<u>                    </u>	<u>                    </u>
Total liabilities	<u>1,369,099</u>	<u>425,948</u>

### Net Assets

Unrestricted	(508,066)	(558,332)
Temporarily restricted	3,189,675	1,495,731
Permanently restricted	10,861,143	10,628,711
	<u>                    </u>	<u>                    </u>
Total net assets	<u>13,542,752</u>	<u>11,566,110</u>
	<u>                    </u>	<u>                    </u>
Total liabilities and net assets	<u>\$ 14,911,851</u>	<u>\$ 11,992,058</u>

**Kiwanis International Foundation**  
**Statements of Activities**  
**Years Ended September 30, 2011 and 2010**

	2011				2010			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues and Support</b>								
Contributions	\$ 1,663,553	\$ 4,763,565	\$ 292,368	\$ 6,719,486	\$ 2,694,564	\$ 417,075	\$ 351,382	\$ 3,463,021
In-kind contributions	313,488	-	-	313,488	213,432	-	-	213,432
Registration fees	-	-	-	-	16,420	-	-	16,420
Investment income (loss), net of fees	(36,791)	(51,159)	-	(87,950)	643,408	157,527	-	800,935
Net assets released from restrictions	2,993,978	(2,940,016)	(53,962)	-	459,005	(459,005)	-	-
Total revenue and gains	<u>4,934,228</u>	<u>1,772,390</u>	<u>238,406</u>	<u>6,945,024</u>	<u>4,026,829</u>	<u>115,597</u>	<u>351,382</u>	<u>4,493,808</u>
<b>Expenses and Losses</b>								
Program services	2,238,441	-	-	2,238,441	1,315,914	-	-	1,315,914
Management and general	751,196	-	-	751,196	581,476	-	-	581,476
Fundraising	1,861,478	-	-	1,861,478	418,290	-	-	418,290
Bad debts - uncollectible pledges	1,920	78,446	5,974	86,340	-	-	858,856	858,856
Total expenses and losses	<u>4,853,035</u>	<u>78,446</u>	<u>5,974</u>	<u>4,937,455</u>	<u>2,315,680</u>	<u>-</u>	<u>858,856</u>	<u>3,174,536</u>
<b>Change in Net Assets Before Other Changes</b>	81,193	1,693,944	232,432	2,007,569	1,711,149	115,597	(507,474)	1,319,272
<b>Other Changes in Net Assets</b>								
Change in value of annuities payable	<u>(30,927)</u>	<u>-</u>	<u>-</u>	<u>(30,927)</u>	<u>(6,527)</u>	<u>-</u>	<u>-</u>	<u>(6,527)</u>
<b>Change in Net Assets</b>	50,266	1,693,944	232,432	1,976,642	1,704,622	115,597	(507,474)	1,312,745
<b>Net Assets, Beginning of Year</b>	<u>(558,332)</u>	<u>1,495,731</u>	<u>10,628,711</u>	<u>11,566,110</u>	<u>(2,262,954)</u>	<u>1,380,134</u>	<u>11,136,185</u>	<u>10,253,365</u>
<b>Net Assets, End of Year</b>	<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>

**Kiwanis International Foundation**  
**Statements of Cash Flows**  
**Years Ended September 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Operating Activities</b>		
Change in net assets	\$ 1,976,642	\$ 1,312,745
Items not requiring (providing) cash		
Depreciation	-	2,489
Transfer of office equipment to Kiwanis International	18,182	-
Increase in cash surrender value of life insurance	(9,169)	(8,173)
Realized and unrealized (gain) loss on investments	263,211	(650,751)
Change in value of annuities payable	30,927	6,527
Changes in		
Contributions receivable, net	(1,442,475)	892,300
Other assets	(61,986)	(9,252)
Beneficial interest in assets held by others	(60,567)	(37,646)
Accrued expenses	(24,546)	(27,923)
Grants payable	(37,642)	50,118
Net cash provided by operating activities	652,577	1,530,434
<b>Investing Activities</b>		
Purchase of investments	(8,317,208)	(7,607,941)
Proceeds from sales of investments	7,935,085	6,015,354
Net cash used in investing activities	(382,123)	(1,592,587)
<b>Financing Activities</b>		
Net payments of annuities	(41,148)	(30,562)
Net change in payable to Kiwanis International	1,015,560	131,961
Net cash provided by financing activities	974,412	101,399
<b>Net Increase in Cash</b>	1,244,866	39,246
<b>Cash, Beginning of Year</b>	1,642,290	1,603,044
<b>Cash, End of Year</b>	\$ 2,887,156	\$ 1,642,290

# Kiwanis International Foundation

## Notes to Financial Statements September 30, 2011 and 2010

### 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*

The financial institutions holding the Foundation's cash accounts are participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2010, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

At September 30, 2011 and 2010, funds held outside the United States totaled approximately \$386,000 and \$310,000.

#### *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.

# **Kiwanis International Foundation**

## **Notes to Financial Statements September 30, 2011 and 2010**

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.

### ***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 \$186,015 and \$176,846 at September 30, 2011 and 2010, 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 statement 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, 2011, approximately \$230,000 of conditional promises to give were available to the Foundation based on matching requirements by the donor.

# Kiwanis International Foundation

## Notes to Financial Statements September 30, 2011 and 2010

### ***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, 2011 and 2010, \$313,488 and \$213,432, respectively, was received in in-kind contributions.

### ***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 2008.

### ***Advertising Expense***

Total advertising expenses for the year ended September 30, 2010 was \$184,308. These costs were expensed as incurred.

### ***Reclassifications***

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 financial statement presentation. These reclassifications had no effect on the change in net assets.

## **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.

# Kiwanis International Foundation

## Notes to Financial Statements September 30, 2011 and 2010

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.

### Note 3: Investments and Investment Return

Investments at September 30 consisted of the following:

	<u>2011</u>	<u>2010</u>
Money market funds	\$ 579,176	\$ 560,798
Fixed income securities		
Long-term bonds	350,356	292,987
Intermediate-term bonds	325,411	729,098
Short-term bonds	901,937	1,010,409
Fixed income blend	601,105	-
Total fixed income securities	<u>2,178,809</u>	<u>2,032,494</u>
Common and preferred stocks		
Large-cap stocks	3,588,166	3,939,172
Mid- and small-cap stocks	1,484,900	919,860
International stocks	1,358,728	1,361,607
Equities blend	367,291	215,566
Total common and preferred stocks	<u>6,799,085</u>	<u>6,436,205</u>
Commodities	<u>474,701</u>	<u>128,000</u>
Limited partnership	<u>43,277</u>	<u>798,639</u>
Total	<u>\$ 10,075,048</u>	<u>\$ 9,956,136</u>

# Kiwanis International Foundation

## Notes to Financial Statements September 30, 2011 and 2010

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

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 240,685	\$ 203,503
Realized and unrealized gains (losses)	(263,211)	650,751
Investment fees	<u>(65,424)</u>	<u>(53,319)</u>
Total	<u>\$ (87,950)</u>	<u>\$ 800,935</u>

### Note 4: Contributions Receivable

Contributions receivable at September 30 consisted of the following:

	<u>2011</u>	<u>2010</u>
Due within one year	\$ 356,876	\$ 37,891
Due in one to five years	1,239,144	9,127
	<u>1,596,020</u>	<u>47,018</u>
Less:		
Allowance for uncollectible contributions	(86,340)	(5,361)
Unamortized discount	<u>(25,705)</u>	<u>(157)</u>
	<u>\$ 1,483,975</u>	<u>\$ 41,500</u>

The discount rates for 2011 and 2010 ranged from 0.11% to 1.04%.

### 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, 2011 and 2010, the balance of the beneficial interest in assets held by others was \$133,086 and \$72,519, 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, 2011 and 2010, of \$162,947 and \$173,168, 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, 2011 and 2010

### Note 7: Temporarily Restricted Net Assets

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

	<b>2011</b>	<b>2010</b>
Eliminate Project	\$ 1,784,864	\$ 59,375
Scholarships, awards, grants and other programs	1,404,811	1,436,356
	\$ 3,189,675	\$ 1,495,731

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:

	<b>2011</b>	<b>2010</b>
Eliminate Project	\$ 2,915,117	\$ 5,314
Scholarships, awards, grants and other programs	78,861	453,691
	\$ 2,993,978	\$ 459,005

### Note 8: Permanently Restricted Net Assets

Permanently restricted net assets at December 31 are restricted to:

	<b>2011</b>	<b>2010</b>
Investment in perpetuity, the income of which is expendable to support:		
USI Sustainability Fund	\$ 1,839,118	\$ 1,826,469
Youth Opportunities	1,149,940	1,019,984
Other	1,153,914	1,113,914
Any activity of the Foundation	6,718,171	6,668,344
	\$ 10,861,143	\$ 10,628,711

### 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, 2011 and 2010

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, 2011 and 2010, was:

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	<u>\$ (124,014)</u>	<u>\$ 395,802</u>	<u>\$ 10,843,493</u>	<u>\$ 11,115,281</u>
	2010			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Donor-restricted endowment funds	<u>\$ -</u>	<u>\$ 59,164</u>	<u>\$ 10,628,711</u>	<u>\$ 10,687,875</u>
Board-designated endowment funds	<u>(409,295)</u>	<u>-</u>	<u>-</u>	<u>(409,295)</u>
	<u>\$ (409,295)</u>	<u>\$ 59,164</u>	<u>\$ 10,628,711</u>	<u>\$ 10,278,580</u>

# Kiwanis International Foundation

## Notes to Financial Statements September 30, 2011 and 2010

Changes in endowment net assets for the years ended September 30, 2011 and 2010 were:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, September 30, 2009	\$ (2,262,954)	\$ 18,100	\$ 11,136,185	\$ 8,891,331
Investment income	455,722	3,671	-	459,393
Contributions	539,081	73,385	351,382	963,848
Appropriation of endowment assets for expenditure	-	(35,992)	-	(35,992)
Uncollectible pledges	<u>858,856</u>	<u>-</u>	<u>(858,856)</u>	<u>-</u>
Endowment net assets, September 30, 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	<u>\$ (124,014)</u>	<u>\$ 395,802</u>	<u>\$ 10,843,493</u>	<u>\$ 11,115,281</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 \$124,014 and \$409,295 at September 30, 2011 and 2010, 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.

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

	<u>2011</u>	<u>2010</u>
Permanently restricted net assets - portion of perpetual endowment funds required to be retained permanently by explicit donor stipulation or SPMIFA	<u>\$ 10,628,711</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	\$ 385,042	\$ 51,297
Without purpose restrictions	<u>10,760</u>	<u>7,867</u>
	<u>\$ 395,802</u>	<u>\$ 59,164</u>

# Kiwanis International Foundation

## Notes to Financial Statements September 30, 2011 and 2010

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 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.

### **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 2011 and 2010.

During the years ended September 30, 2011 and 2010, the Foundation received contributions from Kiwanis International of \$1,000,000 and \$750,000, respectively. At September 30, 2011 and 2010, the Foundation had a deposit with Kiwanis International of \$75,000 to cover approximately one month of expenses paid by Kiwanis International on behalf of the Foundation. There were also \$1,162,061 and \$146,501 of accounts payable to Kiwanis International for various expenses at September 30, 2011 and 2010, respectively.

During the year ended September 30, 2010, the Foundation made grants to Kiwanis International of \$376,132. No such grants were provided during 2011.

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, 2011, there were no borrowings against this line.

# Kiwanis International Foundation

## Notes to Financial Statements September 30, 2011 and 2010

### 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 \$17,424 and \$13,169 as of September 30, 2011 and 2010, respectively.

### 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.

# Kiwanis International Foundation

## Notes to Financial Statements September 30, 2011 and 2010

### ***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.

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, 2011 and 2010:

	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	<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, 2011 and 2010

	2010 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	\$ 560,798	\$ 560,798	\$ -	\$ -
Fixed income securities				
Long-term bonds	292,987	292,987	-	-
Intermediate-term bonds	729,098	729,098	-	-
Short-term bonds	1,010,409	1,010,409	-	-
Total fixed income securities	<u>2,032,494</u>	<u>2,032,494</u>	<u>-</u>	<u>-</u>
Common and preferred stocks				
Large-cap stocks	3,939,172	3,939,172	-	-
Mid- and small-cap stocks	919,860	919,860	-	-
International stocks	1,361,607	1,361,607	-	-
Equities blend	215,566	215,566	-	-
Total common and preferred stocks	<u>6,436,205</u>	<u>6,436,205</u>	<u>-</u>	<u>-</u>
Commodities	128,000	128,000	-	-
Limited partnership	798,639	-	-	798,639
Total investments	<u>9,956,136</u>	<u>9,157,497</u>	<u>-</u>	<u>798,639</u>
Contributions receivable	41,500	-	-	41,500
Total assets	<u>\$ 9,997,636</u>	<u>\$ 9,157,497</u>	<u>\$ -</u>	<u>\$ 840,139</u>
Annuities payable	<u>\$ 173,168</u>	<u>\$ -</u>	<u>\$ 173,168</u>	<u>\$ -</u>

During 2011, management reevaluated the classification of various securities within the fair value hierarchy, which resulted in certain reclassifications between Level 1 and Level 2.

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, 2009	\$ 750,086
Realized and unrealized gains included in the change in net assets	<u>48,553</u>
Balance at September 30, 2010	798,639
Sales of investment	(866,624)
Realized and unrealized gains included in the change in net assets	<u>111,262</u>
Balance at September 30, 2011	<u>\$ 43,277</u>

# Kiwanis International Foundation

## Notes to Financial Statements September 30, 2011 and 2010

### **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: Deficit Balance in Unrestricted Net Assets and Liquidity**

In recent years, the Foundation has experienced significant operating expenses associated with the start of its \$110 million capital campaign to eliminate maternal and neonatal tetanus. This has contributed to a deficit unrestricted net asset balance of approximately \$508,000 and \$558,000 at September 30, 2011 and 2010. Total net assets of the Foundation at September 30, 2011 and 2010 were approximately \$13.5 million and \$11.6 million, respectively. Furthermore, as previously discussed in these notes, the Foundation obtained a \$3 million line of credit from Kiwanis International. Management believes the Foundation has sufficient liquidity to meet obligations as they become due and will be able to maintain operations into the future in the normal course of business. As contributions related to the capital campaign increase, a positive net asset balance is expected to be reestablished. Management continues to monitor this area very closely and will take appropriate actions should circumstances dictate.

### **Note 15: 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 Statement of Financial Position**  
**September 30, 2011**

**Assets**

	<b>Operating</b>	<b>Eliminate Project</b>	<b>Total</b>
Cash	\$ 1,932,592	\$ 954,564	\$ 2,887,156
Investments	10,075,048	-	10,075,048
Contributions receivable, net	19,196	1,464,779	1,483,975
Prepaid expenses	95,443	51,128	146,571
Cash surrender value of life insurance	186,015	-	186,015
Interfund receivable (payable)	(300,539)	300,539	-
Beneficial interest in assets held by others	72,709	60,377	133,086
	<u>\$ 12,080,464</u>	<u>\$ 2,831,387</u>	<u>\$ 14,911,851</u>

**Liabilities**

Payable to Kiwanis International	\$ 115,538	\$ 1,046,523	\$ 1,162,061
Grants payable	44,091	-	44,091
Annuities payable	162,947	-	162,947
Total liabilities	<u>322,576</u>	<u>1,046,523</u>	<u>1,369,099</u>

**Net Assets**

Unrestricted	(508,066)	-	(508,066)
Temporarily restricted	1,404,811	1,784,864	3,189,675
Permanently restricted	10,861,143	-	10,861,143
Total net assets	<u>11,757,888</u>	<u>1,784,864</u>	<u>13,542,752</u>
Total liabilities and net assets	<u>\$ 12,080,464</u>	<u>\$ 2,831,387</u>	<u>\$ 14,911,851</u>

**Kiwanis International Foundation**  
**Operating and Eliminate Project Statement of Activities**  
**Year Ended September 30, 2011**

	<u>Operating</u>	<u>Eliminate Project</u>	<u>Total</u>
<b>Revenues and Support</b>			
Contributions	\$ 2,001,607	\$ 4,717,879	\$ 6,719,486
In-kind contributions	313,488	-	313,488
Investment income (loss), net of fees	(89,123)	1,173	(87,950)
Total revenue and gains	<u>2,225,972</u>	<u>4,719,052</u>	<u>6,945,024</u>
<b>Expenses</b>			
Program services	1,043,376	1,195,065	2,238,441
Management and general	530,223	220,973	751,196
Fundraising	362,399	1,499,079	1,861,478
Bad debts - uncollectible pledges	7,894	78,446	86,340
Total expenses	<u>1,943,892</u>	<u>2,993,563</u>	<u>4,937,455</u>
<b>Change in Net Assets Before Other Changes</b>	282,080	1,725,489	2,007,569
<b>Other Changes in Net Assets</b>			
Change in value of annuities payable	(30,927)	-	(30,927)
<b>Change in Net Assets</b>	251,153	1,725,489	1,976,642
<b>Net Assets, Beginning of Year</b>	<u>11,506,735</u>	<u>59,375</u>	<u>11,566,110</u>
<b>Net Assets, End of Year</b>	<u>\$ 11,757,888</u>	<u>\$ 1,784,864</u>	<u>\$ 13,542,752</u>