

Key Club International

Accountants' Report and Financial Statements

September 30, 2012 and 2011

Key Club International

September 30, 2012 and 2011

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Trustees
Key Club International
Indianapolis, Indiana

We have audited the accompanying statements of financial position of Key Club International (Organization) 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 Organization'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 Key Club International 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 schedules of expenses and schedules of revenues and expenses - Service Leadership Programs listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. 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

Key Club International
Statements of Financial Position
September 30, 2012 and 2011

Assets

	2012	2011
Cash and cash equivalents	\$ 1,000,963	\$ 438,504
Due from Kiwanis International	-	60,527
Investments held by Kiwanis International	1,309,629	1,003,440
Prepaid expenses and other	173,485	245,769
Total assets	\$ 2,484,077	\$ 1,748,240

Liabilities

Due to Kiwanis International	\$ 320,072	\$ -
Other liabilities	10,096	5,490
Total liabilities	330,168	5,490

Net Assets

Unrestricted	2,120,723	1,704,164
Temporarily restricted	33,186	38,586
Total net assets	2,153,909	1,742,750
Total liabilities and net assets	\$ 2,484,077	\$ 1,748,240

Key Club International
Statements of Activities
Years Ended September 30, 2012 and 2011

	2012			2011		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenue, Gains and Other Support						
Membership dues and fees	\$ 1,665,058	\$ -	\$ 1,665,058	\$ 1,634,045	\$ -	\$ 1,634,045
Service Leadership program fees	357,701	-	357,701	332,792	-	332,792
Registration fees	720,964	-	720,964	630,761	-	630,761
Investment income, net of fees of \$14,848 and \$15,380	17,219	-	17,219	23,429	-	23,429
Subsidies from Kiwanis International	521,432	-	521,432	756,269	-	756,269
Contributions and grants	-	48,975	48,975	-	725,173	725,173
Miscellaneous income	75,082	-	75,082	41,887	-	41,887
Total	<u>3,357,456</u>	<u>48,975</u>	<u>3,406,431</u>	<u>3,419,183</u>	<u>725,173</u>	<u>4,144,356</u>
Net assets released from restrictions	54,375	(54,375)	-	816,072	(816,072)	-
Total revenue, gains and other support	<u>3,411,831</u>	<u>(5,400)</u>	<u>3,406,431</u>	<u>4,235,255</u>	<u>(90,899)</u>	<u>4,144,356</u>
Expenses						
Program services						
Governance	159,558	-	159,558	145,881	-	145,881
International convention	374,928	-	374,928	283,541	-	283,541
Leadership, education and development	1,154,596	-	1,154,596	1,101,342	-	1,101,342
Magazine	157,828	-	157,828	121,462	-	121,462
Communications	195,064	-	195,064	218,627	-	218,627
Grants	128,212	-	128,212	892,678	-	892,678
Total program services	<u>2,170,186</u>	<u>-</u>	<u>2,170,186</u>	<u>2,763,531</u>	<u>-</u>	<u>2,763,531</u>
General and administrative expenses	437,436	-	437,436	556,815	-	556,815
Membership and club development	676,626	-	676,626	692,052	-	692,052
Total expenses	<u>3,284,248</u>	<u>-</u>	<u>3,284,248</u>	<u>4,012,398</u>	<u>-</u>	<u>4,012,398</u>
Change in Net Assets Before Gains (Losses) on Investments	127,583	(5,400)	122,183	222,857	(90,899)	131,958
Realized and Unrealized Gains (Losses) on Investments	288,976	-	288,976	(30,205)	-	(30,205)
Change in Net Assets	416,559	(5,400)	411,159	192,652	(90,899)	101,753
Net Assets, Beginning of Year	<u>1,704,164</u>	<u>38,586</u>	<u>1,742,750</u>	<u>1,511,512</u>	<u>129,485</u>	<u>1,640,997</u>
Net Assets, End of Year	<u>\$ 2,120,723</u>	<u>\$ 33,186</u>	<u>\$ 2,153,909</u>	<u>\$ 1,704,164</u>	<u>\$ 38,586</u>	<u>\$ 1,742,750</u>

Key Club International
Statements of Cash Flows
Years Ended September 30, 2012 and 2011

	2012	2011
Operating Activities		
Change in net assets	\$ 411,159	\$ 101,753
Items not requiring (providing) cash		
Realized and unrealized (gains) losses on investments	(288,976)	30,205
Changes in		
Due to/from Kiwanis International	380,599	(323,408)
Prepaid expenses and other	72,284	(122,883)
Other liabilities	4,606	1,272
Net cash provided by (used in) operating activities	579,672	(313,061)
Investing Activity - purchases of investments held by Kiwanis International	(17,213)	(23,408)
Net Increase (Decrease) in Cash and Cash Equivalents	562,459	(336,469)
Cash and Cash Equivalents, Beginning of Year	438,504	774,973
Cash and Cash Equivalents, End of Year	\$ 1,000,963	\$ 438,504
Supplemental Cash Flows Information		
Cash paid for interest	\$ -	\$ 539

Key Club International

Notes to Financial Statements

September 30, 2012 and 2011

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

General

Key Club International (Organization) was organized in 1946 and incorporated as a not-for-profit organization in August 1947 under the laws of the State of Illinois. Subsequently, in December 1997, the Organization was incorporated under the laws of the State of Indiana. The Organization provides supporting services to Key Club clubs, which are service clubs for students between ages of 14 and 19 years and whose purpose is to provide personal growth in its members through community service and leadership development.

The financial statements are comprised of the accounts of the international Organization. The accounts of districts and member clubs are not part of the financial statements. The primary sources of revenue for the Organization are membership dues, contributions, registration fees and subsidies from Kiwanis International.

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 and Cash Equivalents

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2012 and 2011, cash equivalents consisted primarily of investments in an overnight sweep account.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At September 30, 2012, the Organization's cash accounts held in the United States were fully insured by the FDIC.

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.

Investments Held By Kiwanis International and Investment Return

Investments held by Kiwanis International 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.

Key Club International

Notes to Financial Statements

September 30, 2012 and 2011

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose.

Membership Dues and Service Fee Revenues

Membership dues and fees are collected from clubs and recognized when earned.

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.

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. The Organization is no longer subject to U.S. federal examinations by tax authorities for years before 2009.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis. Certain costs have been allocated among the program services and general and administrative services based on cost allocations estimated by the Organization's personnel.

Key Club International

Notes to Financial Statements

September 30, 2012 and 2011

Note 2: Affiliated Organizations

The Organization 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.

Kiwanis International Foundation - This is a not-for-profit organization exempt from taxation under Section 501(c)(3) of the U.S. Internal Revenue Code. The Foundation was created to form, promote, sponsor or assist related and qualified charitable, benevolent, educational, religious, or scientific enterprises.

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 Key Club International, and are issued under a separate cover.

Note 3: Investments Held by Kiwanis International

During November 1999, the Organization contributed \$750,000 to Kiwanis International's pooled investment fund. The investments held within this pooled investment fund are managed by professional investment managers and are carried at fair value based on quoted market prices or other observable inputs. Net investment income is allocated on a monthly basis. At September 30, 2012 and 2011, the Organization's investment in the pooled investment fund was valued at \$1,309,629 and \$1,003,440, respectively, and comprised approximately 6% and 5% of the total pooled investment fund, respectively. These investments can be redeemed on demand with no required notice period. There are no unfunded commitments related to the Organization's investment held by Kiwanis International.

Key Club International

Notes to Financial Statements

September 30, 2012 and 2011

Kiwanis International's investment allocation at September 30, 2012 and 2011 was as follows:

	Percent of Total Pooled Fund	
	2012	2011
Cash equivalents and money market funds	5.0%	5.3%
U.S. Government and related agency securities	18.6%	22.5%
Corporate bonds	11.9%	13.9%
International bonds	0.0%	1.1%
Common and preferred stocks		
Small Cap	11.9%	10.2%
Large Cap	40.3%	36.1%
Emerging	4.2%	3.5%
International	8.1%	7.4%
Total common and preferred stocks	64.5%	57.2%
Total	100.0%	100.0%

Note 4: Net Assets

Temporarily Restricted Net Assets

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

	2012		2011	
Trick-or-Treat	\$	22,288	\$	23,313
Friend-a-Gorilla		7,273		7,273
Key Leader		3,625		8,000
Total	\$	33,186	\$	38,586

Net Assets Released From Restrictions

Net assets were released from donor restrictions during the years ended September 30, 2012 and 2011 by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2012		2011	
Trick-or-Treat	\$	-	\$	766,072
Key Leader		54,375		50,000
Total	\$	54,375	\$	816,072

Key Club International

Notes to Financial Statements

September 30, 2012 and 2011

Note 5: 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 Held by Kiwanis International

Fair value is estimated at the Organization's pro-rata share of the Kiwanis International pooled investment fund and is classified within Level 2 of the fair value hierarchy. All of the underlying investments in the pooled investment fund are carried at fair value based on Level 1 and Level 2 inputs. As a practical expedient, the fair value of the Organization's investment in the pooled investment fund is determined using the net asset value (or its equivalent) provided by Kiwanis International. The Organization's investment held by Kiwanis International can be redeemed at the net asset value at September 30, or within a reasonable period of time.

Key Club International

Notes to Financial Statements

September 30, 2012 and 2011

The following tables present the fair value measurements of investments held by Kiwanis International 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:

	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)
September 30, 2012				
Investments held by Kiwanis International	<u>\$ 1,309,629</u>	<u>\$ -</u>	<u>\$ 1,309,629</u>	<u>\$ -</u>
September 30, 2011				
Investments held by Kiwanis International	<u>\$ 1,003,440</u>	<u>\$ -</u>	<u>\$ 1,003,440</u>	<u>\$ -</u>

Note 6: Transactions With Affiliates

Kiwanis International exerts significant managerial influence over the Organization, which shares common office facilities and staff with Kiwanis International, Circle K International and Kiwanis International Foundation.

The amounts due to/from Kiwanis International consist of expenses paid by Kiwanis International on behalf of the Organization. Interest charged on unpaid balances due to Kiwanis International was \$0 and \$539 for the years ended September 30, 2012 and 2011, respectively.

The Organization was subsidized by Kiwanis International for certain administrative expenses, which totaled \$521,432 and \$756,269 for the years ended September 30, 2012 and 2011, respectively.

The Organization received \$50,000 in grant income from Kiwanis International Foundation in both 2012 and 2011.

Note 7: Employee Benefit Plans

Kiwanis International employees who provide services for the Organization participate in the Kiwanis International 401(k) Plan (a defined-contribution retirement savings plan). All employer costs of this plan are included in the employee benefits cost allocation paid to Kiwanis International.

Key Club International

Notes to Financial Statements

September 30, 2012 and 2011

Note 8: 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, declines in membership dues, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Organization.

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 Organization's ability to maintain sufficient liquidity.

Note 9: 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

Key Club International
Schedules of Expenses
September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Salaries and benefits	\$ 1,027,065	\$ 958,952
Office supplies	35,473	24,053
Postage	27,329	33,463
Telephone	3,093	3,585
Promotion materials	470,828	534,592
Travel	130,778	131,542
Printing	81,628	64,835
Magazine	119,414	92,560
Professional fees	57,466	197,388
Outside services	31,261	23,284
Meetings and conferences	883,153	839,568
Interest	-	539
International convention	283,674	217,200
Building costs	123,735	116,856
Grant expense	9,351	773,981
	<u> </u>	<u> </u>
Total expenses	<u>\$ 3,284,248</u>	<u>\$ 4,012,398</u>

Key Club International

Schedules of Revenues and Expenses - Service Leadership Programs Years Ended September 30, 2012 and 2011

	September 30, 2012				
	Key Club International	Key Leader	Builders Club	K-Kids	Total
Revenues					
Membership dues and fees	\$ 1,665,058	\$ -	\$ -	\$ -	\$ 1,665,058
Service Leadership program fees	-	-	209,678	148,023	357,701
Registration fees	261,630	459,334	-	-	720,964
Subsidies from Kiwanis	123,911	250,000	45,836	101,685	521,432
Contributions and grants	(1,025)	50,000	-	-	48,975
Other revenues	37,301	55,000	-	-	92,301
Total revenues	<u>2,086,875</u>	<u>814,334</u>	<u>255,514</u>	<u>249,708</u>	<u>3,406,431</u>
Total expenses	(1,757,887)	(1,021,139)	(255,514)	(249,708)	(3,284,248)
Gains on investments	<u>288,976</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>288,976</u>
Change in net assets	<u>\$ 617,964</u>	<u>\$ (206,805)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 411,159</u>

	September 30, 2011				
	Key Club International	Key Leader	Builders Club	K-Kids	Total
Revenues					
Membership dues and fees	\$ 1,634,045	\$ -	\$ -	\$ -	\$ 1,634,045
Service Leadership program fees	-	-	195,498	137,294	332,792
Registration fees	206,085	424,676	-	-	630,761
Subsidies from Kiwanis	119,176	480,532	43,404	113,157	756,269
Contributions and grants	675,173	50,000	-	-	725,173
Other revenues	65,316	-	-	-	65,316
Total revenues	<u>2,699,795</u>	<u>955,208</u>	<u>238,902</u>	<u>250,451</u>	<u>4,144,356</u>
Total expenses	(2,567,837)	(955,208)	(238,902)	(250,451)	(4,012,398)
Losses on investments	<u>(30,205)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(30,205)</u>
Change in net assets	<u>\$ 101,753</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 101,753</u>