

International Youth Foundation And Resources For Youth, Inc.

Combined Financial Statements
December 31, 2012

Contents

Independent Auditor's Report On The Financial Statements	1
Financial Statements	
Combined Statement Of Financial Position	2 – 3
Combined Statement Of Activities	4 – 5
Combined Statement Of Cash Flows	6
Notes To Combined Financial Statements	7 – 17
Independent Auditor's Report On The Supplementary Information	18
Supplementary Information	
Combining Statement Of Financial Position	19 – 20
Combining Statement Of Activities	21 – 22
Combining Statement Of Changes In Net Assets	23



Independent Auditor's Report

To the Board of Directors
International Youth Foundation
and Resources for Youth, Inc.
Baltimore, Maryland

Report on the Financial Statements

We have audited the accompanying combined financial statements of International Youth Foundation (IYF) and Resources for Youth, Inc. (RFY) (collectively, the Organization), which comprise the combined statement of financial position as of December 31, 2012, and the related combined statements of activities and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of International Youth Foundation and Resources for Youth, Inc. as of December 31, 2012, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report On Summarized Comparative Information

We have previously audited the Organization's 2011 combined financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 9, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2013, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "McGladrey LLP". The signature is written in a cursive, flowing style.

Vienna, Virginia
April 24, 2013

**International Youth Foundation
And Resources For Youth, Inc.**

**Combined Statement Of Financial Position
December 31, 2012
(With Comparative Totals For 2011)**

Assets	2012	2011
Current Assets		
Cash and cash equivalents	\$ 12,761,983	\$ 6,385,645
Investments (Notes 2 and 12)	8,205,593	7,503,193
Grants receivable, net (Note 3)	27,349,131	18,435,423
Pledges receivable, net	130,023	206,891
Prepaid expenses and other current assets	285,634	524,861
Total current assets	48,732,364	33,056,013
Property And Equipment, net (Note 4)	734,836	934,652
Noncurrent Assets		
Investments – long term, net (Notes 2 and 12)	232,547	270,124
Grants receivable, net of current maturities (Note 3)	5,928,960	4,411,861
Pledges receivable, net of current maturities	-	32,051
Loans receivable (Note 5)	471,934	523,417
Total noncurrent assets	6,633,441	5,237,453
Total assets	\$ 56,100,641	\$ 39,228,118

See Notes To Combined Financial Statements.

Liabilities And Net Assets	2012	2011
Current Liabilities		
Accounts payable and accrued liabilities	\$ 624,200	\$ 515,181
Accrued salaries and related benefits	517,424	525,844
Deferred revenue	94,022	511,061
Grants payable	216,573	237,241
Loan payable (Note 6)	200,000	-
Total current liabilities	1,652,219	1,789,327
Noncurrent Liabilities		
Loan payable (Note 6)	-	200,000
Total liabilities	1,652,219	1,989,327
Contingency (Note 11)		
Net Assets (Note 9)		
Unrestricted		
Undesignated	2,192,816	1,670,498
Designated for reserve (Note 7)	6,867,329	6,867,329
Designated for endowment (Notes 7 and 13)	2,264,170	2,000,000
Total unrestricted net assets	11,324,315	10,537,827
Temporarily restricted (Note 8)	42,158,773	25,736,758
Permanently restricted (Note 13)	965,334	964,206
Total net assets	54,448,422	37,238,791
Total liabilities and net assets	\$ 56,100,641	\$ 39,228,118

**International Youth Foundation
And Resources For Youth, Inc.**

**Combined Statement Of Activities
Year Ended December 31, 2012
(With Comparative Totals For 2011)**

	2012				2011
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenue:					
Grants and contributions	\$ 570,970	\$ 42,150,058	\$ 1,128	\$ 42,722,156	\$ 28,260,159
De-obligations	-	(434,688)	-	(434,688)	(1,317,924)
Investment income, net of investment fees (Note 2)	156,969	11,622	-	168,591	163,958
Other revenue	612,721	-	-	612,721	426,148
Net assets released from donor restrictions – program restriction accomplished (Note 8)	25,390,848	(25,390,848)	-	-	-
Total support and revenue	26,731,508	16,336,144	1,128	43,068,780	27,532,341
Expenses:					
Program services:					
Grants	6,301,346	-	-	6,301,346	7,674,388
Salaries and benefits	8,632,957	-	-	8,632,957	7,253,256
Consultants	4,716,402	-	-	4,716,402	2,961,768
Travel	1,733,139	-	-	1,733,139	1,450,011
Office expenses	1,053,937	-	-	1,053,937	742,890
Other	668,341	-	-	668,341	808,082
Total program services	23,106,122	-	-	23,106,122	20,890,395
Fundraising:					
Salaries and benefits	10,851	-	-	10,851	54,436
Travel	-	-	-	-	188
Office expenses	23	-	-	23	5,048
Other	2,750	-	-	2,750	345
Total fundraising	13,624	-	-	13,624	60,017
General and administrative:					
Salaries and benefits	2,152,657	-	-	2,152,657	2,161,947
Consultants	164,705	-	-	164,705	157,296
Travel	81,453	-	-	81,453	104,828
Office expenses	331,418	-	-	331,418	270,764
Other	682,067	-	-	682,067	698,188
Total general and administrative	3,412,300	-	-	3,412,300	3,393,023
Total expenses	26,532,046	-	-	26,532,046	24,343,435

(Continued)

**International Youth Foundation
And Resources For Youth, Inc.**

**Combined Statement Of Activities (Continued)
Year Ended December 31, 2012
(With Comparative Totals For 2011)**

	2012				2011
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Change in net assets before other items	\$ 199,462	\$ 16,336,144	\$ 1,128	\$ 16,536,734	\$ 3,188,906
Other items:					
Realized gains on sales of investments	323,179	33,346	-	356,525	346,425
Unrealized gains (losses) on investments	262,665	57,695	-	320,360	(485,318)
Currency (loss) gain	1,182	(5,170)	-	(3,988)	(124,995)
Change in net assets	786,488	16,422,015	1,128	17,209,631	2,925,018
Net assets:					
Beginning	10,537,827	25,736,758	964,206	37,238,791	34,313,773
Ending	\$ 11,324,315	\$ 42,158,773	\$ 965,334	\$ 54,448,422	\$ 37,238,791

See Notes To Combined Financial Statements.

**International Youth Foundation
And Resources For Youth, Inc.**

**Combined Statement Of Cash Flows
Year Ended December 31, 2012
(With Comparative Totals For 2011)**

	2012	2011
Cash Flows From Operating Activities		
Change in net assets	\$ 17,209,631	\$ 2,925,018
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	215,409	242,714
Realized losses (gains) on sales of investments	356,037	(346,425)
Unrealized losses on investments	320,849	485,318
Contributions restricted to long-term investment	(1,128)	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Grants receivable	(10,430,807)	(1,635,576)
Pledges receivable	108,919	97,962
Prepaid expenses and other current assets	239,227	(388,007)
Translation adjustment on loans receivable	49,976	52,970
Increase (decrease) in:		
Accounts payable and accrued liabilities	109,019	66,444
Accrued salaries and related benefits	(8,420)	111,024
Deferred revenue	(417,039)	511,061
Grants payable	(20,668)	(1,419,864)
Net cash provided by operating activities	7,731,005	702,639
Cash Flows From Investing Activities		
Purchase of property and equipment	(15,593)	(10,990)
Purchase of investments	(5,570,000)	(3,374,688)
Proceeds from sale of investments	4,228,291	3,574,527
Collections on loans receivable	1,507	85,255
Net cash (used in) provided by investing activities	(1,355,795)	274,104
Cash Flows From Financing Activities		
Proceeds from contributions restricted to long-term investment	1,128	-
Net cash provided by financing activities	1,128	-
Net increase in cash and cash equivalents	6,376,338	976,743
Cash And Cash Equivalents		
Beginning	6,385,645	5,408,902
Ending	\$ 12,761,983	\$ 6,385,645

See Notes To Combined Financial Statements.

**International Youth Foundation
And Resources For Youth, Inc.**

Notes To Combined Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activities: International Youth Foundation (IYF) and Resources for Youth, Inc. (RFY) (collectively, the Organization) are described as follows:

International Youth Foundation – The International Youth Foundation (IYF) is a non-profit organization, incorporated in the state of Illinois. Founded in April 1990, IYF is an independent, international nongovernmental organization, dedicated to improving the conditions and prospects of children and youth. Working with national and regional organizations, IYF works to identify, strengthen, and expand existing programs that have proven effective in meeting young people's needs. In addition to supporting existing programs, IYF works to increase global awareness of children and youth issues, strengthen the organizational skills of youth program leaders, and increase international philanthropy in support of children and youth.

Resources for Youth, Inc. – In 1998, IYF incorporated Resources for Youth, Inc. (RFY) as a supporting organization. RFY owns the office building which is leased to IYF.

A summary of the Organization's significant accounting policies follows:

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The Organization follows the Not-for-Profit Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). Under this topic, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Principles of combination: The combined financial statements include the accounts of IYF and RFY. All significant intercompany transactions have been eliminated.

Cash and cash equivalents: IYF considers investments in money market funds of \$715,362 at December 31, 2012, to be cash equivalents.

At times during the year, IYF and RFY maintain cash balances at financial institutions in excess of the federally insured limits. Management believes the risk in these institutions to be minimal.

Investments: Investments are recorded at market value. Dividend and interest income, net of investment fees, is included in investment income in the accompanying combined statement of activities. Net realized and unrealized gains and losses on investments are excluded from investment income and are presented separately as other items in the combined statement of activities.

The Organization invests in professionally managed portfolios that contain U.S. Government bonds, corporate equities, corporate debt securities and mutual funds. Such investments are exposed to various risks, such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

**International Youth Foundation
And Resources For Youth, Inc.**

Notes To Combined Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Grants receivable: Grants receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a quarterly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using the historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. There was no provision for doubtful promises, based on management's evaluation of the collection of grants receivable, at December 31, 2012.

Pledges receivable: Pledges receivable are recognized as revenue in the year a commitment is received from the donor. They are reported as increases in the appropriate revenue category of net assets. In regards to allowance for doubtful promises, management's evaluation is based on experience with the donors and collections. All pledges receivable are due within one year at December 31, 2012, and therefore, there was no allowance for doubtful promises at December 31, 2012.

Property and equipment: Property and equipment with cost in excess of \$5,000 are capitalized and stated at cost. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, which are 30 years for the building and related improvements and three to five years for furniture, equipment and software. The cost of maintenance and repairs is recorded as expenses are incurred.

Valuation of long-lived assets: The Organization accounts for the valuation of long-lived assets under the *Accounting for the Impairment or Disposal of Long-Lived Assets* Topic of the Codification. The Codification requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Grants and contributions: Grants received by IYF are recognized as receivables and revenue when the grant commitment has been received and all significant conditions of the grant have been met. Grant revenue is classified as unrestricted or temporarily restricted, based upon the existence of donor-imposed restrictions. Temporarily restricted net assets are reclassified to unrestricted net assets at the time the restrictions are satisfied.

Grants and pledges receivable due after one year are recorded at the estimated present value of amounts to be received, using an average discount rate of 4.0 %.

Grants payable: Grants obligated by IYF are recognized as payables and expenses when the request is received from the subrecipient.

Functional allocation of expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the combined statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**International Youth Foundation
And Resources For Youth, Inc.**

Notes To Combined Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Net asset classification: The net assets are reported in three self-balancing groups, as follows:

Unrestricted net assets include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of IYF and RFY and include both internally designated and undesignated resources.

Temporarily restricted net assets include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of IYF and RFY and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of activities as net assets released from restrictions.

Permanently restricted net assets represent funds restricted by the donor to be maintained in perpetuity by IYF.

Foreign currency transactions: The functional currency of the Organization is the U.S. Dollar. The financial statements and transactions of the Organization's foreign operations are generally maintained in the relevant local currency. Where local currencies are used, assets and liabilities are translated into U.S. Dollars at the statement of financial position date at the exchange rate in effect at year-end.

Foreign currency translation: Monthly expenses that are incurred by field offices and affiliates in foreign countries are translated into U.S. Dollars at the rate of exchange in effect during the month of the transaction. Gains and losses resulting from these translations are recognized as a program activity in the combined statements of activities and are allowable as a direct cost per the United States Agency for International Development (USAID).

Income taxes: IYF and RFY are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC). Accordingly, no provision for income taxes has been made in the accompanying combined financial statements. IYF and RFY are not considered private foundations.

On January 1, 2009, the Organization adopted the accounting standard for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. Generally, the Organization is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2009.

Use of estimates: The preparation of combined financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the combined financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**International Youth Foundation
And Resources For Youth, Inc.**

Notes To Combined Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Prior year information: The combined financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

Subsequent events: IYF evaluated subsequent events through April 24, 2013, which is the date combined financial statements were available to be issued.

Note 2. Investments

Investments consist of the following at December 31, 2012:

	Market Value
Current:	
Equity mutual funds	\$ 3,413,271
Fixed income	2,165,953
Corporate equity securities	1,798,609
Fixed-income mutual funds	777,948
Preferred stock	49,812
	<u>8,205,593</u>
Long term:	
Private equity investments	232,547
	<u><u>\$ 8,438,140</u></u>

Interest and dividend income of \$168,591 is net of investment expenses totaling \$30,381.

Note 3. Grants Receivable

All grants receivable are considered to be collectible within one year, unless otherwise stated by the donor. Grants receivable that will not be collected within one year have been discounted using a current interest rate of 4% at December 31, 2012. Total discount at December 31, 2012, was \$237,158.

Following is a summary, by years, of grants receivable as of December 31, 2012:

Years Ending December 31,	
2013	\$ 27,349,131
2014	5,928,960
	<u>33,278,091</u>
Less current maturities	27,349,131
	<u><u>\$ 5,928,960</u></u>

**International Youth Foundation
And Resources For Youth, Inc.**

Notes To Combined Financial Statements

Note 4. Property And Equipment

Property and equipment consist of the following at December 31, 2012:

Land	\$ 324,980
Building and improvements	3,186,352
Furniture and equipment	445,569
	<hr/>
	3,956,901
Less depreciation and amortization	(3,222,065)
	<hr/>
	<u>\$ 734,836</u>

Total depreciation expense for the year ended December 31, 2012, was \$215,409.

Note 5. Loans Receivable

The loans receivable are between IYF and the non-profit organizations set forth below. Funding for the first two loans was provided by Nokia as part of the Tsunami Reconstruction Initiative and is intended to provide micro-finance loans to victims of the 2004 Tsunami in South Asia. Funding for the third loan was provided by the Argidius Foundation as part of the entra 21 program and is intended to provide micro finance loans to youths who have successfully completed the program.

The loans are noninterest bearing with payments commencing on January 31, 2010:

Community Collective Society for Integrated Development (due December 2014)	\$ 254,959
Hambantota District Chamber of Commerce (due October 2011)	16,975
Fundación León 2000 (due December 2013)	200,000
	<hr/>
	<u>\$ 471,934</u>

Loans receivable due in October 2011 have been extended by IYF to aid in continuing the program.

Note 6. Loan Payable

In September 2009, IYF received an award to conduct program activities in Nicaragua. This award included a \$200,000 loan fund to facilitate access to entrepreneurial activities for participants in the program. The funds are to be returned to the donor, less contingencies noted in the award agreement, on December 31, 2013.

**International Youth Foundation
And Resources For Youth, Inc.**

Notes To Combined Financial Statements

Note 7. Board Designated Net Assets

The Board of IYF has designated certain amounts of net assets, as follows:

- *Board designated for reserve:* The net assets designated for reserve are funds set aside by the Board of Directors as a reserve against current operating losses or for future programs.
- *Board designated for endowment:* In 2007, the Board of Directors designated \$2,000,000 from its reserve funds to establish an endowment. It is the Board's intention to invest the funds in perpetuity, combining them with permanently restricted donor contributions (see Note 13), to create a sustainable income stream for future years. The balance of board designated for endowment net assets includes \$230,657 of accumulated earnings on the original designation.

Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets include donor-restricted and other funds, which are only available for program activities or general support designated for future years. Temporarily restricted net assets were released from restrictions during the year ended December 31, 2012, due to the purpose restriction being accomplished, or the time restriction being met.

Temporarily restricted net assets at December 31, 2012, are available for the following programs:

	Balance December 31, 2011	Additions	De-Obligated	Released	Balance December 31, 2012
Purpose restricted:					
Education	\$ 5,976,372	\$ 3,325,602	\$ -	\$ 4,491,623	\$ 4,810,351
Employability	16,764,341	35,677,152	-	17,544,885	34,896,608
Health education	-	79,989	-	65,664	14,325
Leadership and engagement	2,930,982	2,967,837	434,688	3,125,557	2,338,574
Other	63,063	196,971	-	161,119	98,915
Time restricted – general support	2,000	-	-	2,000	-
	<u>\$ 25,736,758</u>	<u>\$ 42,247,551</u>	<u>\$ 434,688</u>	<u>\$ 25,390,848</u>	<u>\$ 42,158,773</u>

Note 9. Net Assets

Net assets at December 31, 2012, of the combined financial statements consist of the following:

	IYF	RFY	Total
Unrestricted			
Undesignated	\$ 2,117,191	\$ 75,625	\$ 2,192,816
Designated for reserve	6,867,329	-	6,867,329
Designated for endowment	2,264,170	-	2,264,170
Total unrestricted net assets	<u>11,248,690</u>	<u>75,625</u>	<u>11,324,315</u>
Temporarily restricted	42,158,773	-	42,158,773
Permanently restricted	965,334	-	965,334
Total net assets	<u>\$ 54,372,797</u>	<u>\$ 75,625</u>	<u>\$ 54,448,422</u>

**International Youth Foundation
And Resources For Youth, Inc.**

Notes To Combined Financial Statements

Note 10. Retirement Plans

Retirement benefits are provided to all employees under a defined contribution plan, the Retirement Savings Plan. All participants have a fully vested interest in the employee contributions made to their accounts. Employer contributions include a variable matching contribution and non-matching contribution, and a defined "safe-harbor" non-matching contribution. IYF has no liability under the plan, other than its annual contribution, which is calculated as a percentage of employees' salaries. The contribution in 2012 was \$543,191.

Additional retirement benefits have been provided to one executive under a 457(b) deferred compensation plan. IYF has no expense under the plan, other than its annual contribution, which was \$5,025 in 2012. This contribution was calculated as a percentage of the employee's salary in excess of IRC limitations.

Note 11. Contingency

IYF received approximately 55% of its revenue from grants from the U.S. Government that are subject to audit. The ultimate determination of amounts received under these programs is generally based upon allowable costs incurred, required to be reported to and subject to audit by the government. Until such audits have been completed and final settlements reached, there exists a contingent liability to refund any amounts received in excess of allowable costs. The Organization's management is of the opinion that no significant adjustment to these combined financial statements, if any, would result from audit findings.

Note 12. Fair Value Measurements

In accordance with the FASB Codification statement, *Fair Value Measurements*, the Organization has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the combined statement of financial position are categorized based on the inputs to valuation techniques, as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of investments included in Level 1 include listed equities and mutual funds.

Level 2 – Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate loans, less liquid, restricted equity securities and certain corporate bonds, government obligations and over-the-counter derivatives.

Level 3 – These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. These investments include non-readily marketable securities that do not have an active market.

**International Youth Foundation
And Resources For Youth, Inc.**

Notes To Combined Financial Statements

Note 12. Fair Value Measurements (Continued)

Financial assets recorded in the combined statement of financial position are categorized based on the inputs to the valuation technique as follows for the year ended December 31, 2012:

Asset Category	Level 1	Level 2	Level 3	Total
Equity Mutual Funds				
Domestic large cap growth	\$ 291,088	\$ -	\$ -	\$ 291,088
Domestic small cap value	477,339	-	-	477,339
Domestic small cap growth	115,343	-	-	115,343
Domestic large cap value	419,949	-	-	419,949
Domestic growth equity	967,726	-	-	967,726
Emerging markets	675,352	-	-	675,352
International developed small cap	466,474	-	-	466,474
Fixed Income				
U.S. Government Bonds	-	1,346,327	-	1,346,327
Municipal Bonds	-	112,865	-	112,865
Corporate Bonds	-	706,761	-	706,761
Corporate Equity Securities				
Consumer discretionary	203,884	-	-	203,884
Consumer staples	220,389	-	-	220,389
Energy	155,750	-	-	155,750
Finance	140,285	-	-	140,285
Health care	227,164	-	-	227,164
Industrials	137,604	-	-	137,604
Information Technology	581,914	-	-	581,914
Materials	70,464	-	-	70,464
Telecommunication services	45,183	-	-	45,183
Utilities	15,972	-	-	15,972
Preferred Stock	49,812	-	-	49,812
Fixed Income Mutual Fund	777,948	-	-	777,948
Private Equity Investments				
Buyout	-	-	57,134	57,134
Venture capital	-	-	131,275	131,275
Real estate	-	-	44,138	44,138
Total	\$ 6,039,640	\$ 2,165,953	\$ 232,547	\$ 8,438,140

The following table provides a summary of changes in fair value of the Organization's Level 3 financial assets for the year ended December 31, 2012:

	Private Equity Investments
Beginning balance as of December 31, 2011	\$ 270,124
Unrealized losses	(37,577)
Balance as of December 31, 2012	\$ 232,547

**International Youth Foundation
And Resources For Youth, Inc.**

Notes To Combined Financial Statements

Note 12. Fair Value Measurements (Continued)

The following table provides additional information about the investments by major category:

Investment	Fair Value At 12/31/12	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity investments	<u>\$ 232,547</u>	\$ -	None	Locked into a 10-year period

Note 13. Permanently Restricted Net Assets And Endowment

IYF's endowment consists of donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by accounting principles generally accepted in the United States of America (GAAP), net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary.

As a result of this interpretation, IYF classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets, until those amounts are appropriated for expenditure by IYF in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, IYF considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purpose of IYF and the donor-restricted endowment fund
- General economic conditions and the possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Investment policies of IYF

Endowment net asset composition by type of fund as of December 31, 2012, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 112,180	\$ 965,334	\$ 1,077,514
Board designated endowment funds	2,264,170	-	-	2,264,170
Total	<u>\$ 2,264,170</u>	<u>\$ 112,180</u>	<u>\$ 965,334</u>	<u>\$ 3,341,684</u>

**International Youth Foundation
And Resources For Youth, Inc.**

Notes To Combined Financial Statements

Note 13. Permanently Restricted Net Assets And Endowment (Continued)

Changes in endowment net assets for the year ended December 31, 2012, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,000,000	\$ 47,744	\$ 964,206	\$ 3,011,950
Contributions	-	-	1,128	1,128
Investment earnings:				
Interest and dividends	52,834	12,887	-	65,721
Unrealized and realized gains	211,336	51,549	-	262,885
Total	264,170	64,436	1,128	329,734
Endowment net assets, end of year	\$ 2,264,170	\$ 112,180	\$ 965,334	\$ 3,341,684

Return objectives and risk parameters: IYF has adopted an investment policy for endowment assets that attempts to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that IYF must hold in perpetuity or for a donor-specified period, as well as board designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is long-term oriented and include assets which are not intended for current use. The primary objective is to provide for consistent long-term growth of principal, without undue exposure to risk. Investment performance is measured on a rolling five-year basis. The total return will be expected to exceed the return of a Blended Market Index that represents the target asset allocation. The total return shall exceed the U.S. Consumer Price Index +3 %. The investment manager shall rank in the top 50 % versus the appropriate manager universe with a similar equity exposure and with a similar investment philosophy. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives: To satisfy its long-term rate-of-return objectives, IYF relies on a total return strategy, in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The objectives shall be accomplished utilizing a strategy of fixed income, equities and cash equivalents in a mix which is conducive to participation in rising markets while allowing for protection in falling markets within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy: Currently, IYF does not have a spending policy. Spending is in accordance with any donor-imposed restrictions. Accordingly, over the long term, IYF expects to allow its endowment to grow annually. This is consistent with IYF's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.



Independent Auditor's Report On The Supplementary Information

To the Board of Directors
International Youth Foundation
and Resources for Youth, Inc.
Baltimore, Maryland

We have audited the combined statements of financial statements of the International Youth Foundation (IYF) and Resources for Youth, Inc. (RFY) (collectively, the Organization) as of December 31, 2012, and issued our report thereon which contains an unqualified opinion on those financial statements. See pages 1 and 2. Our audit was conducted for the purpose of forming an opinion on the 2012 combined financial statements as a whole. The combining information is presented for purposes of additional analysis rather than to present the financial position, results of activities and changes in net assets of the individual companies and is not a required part of the combined 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 combined financial statements. The combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined 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 combined financial statements as a whole.

McGladrey LLP

Vienna, Virginia
April 24, 2013

**International Youth Foundation
And Resources For Youth, Inc.**

**Combining Statement Of Financial Position
December 31, 2012**

Assets	IYF	RFY	Eliminations	Total
Current Assets				
Cash and cash equivalents	\$ 12,736,983	\$ 25,000	\$ -	\$ 12,761,983
Investments	8,205,593	-	-	8,205,593
Grants receivable, net	27,349,131	-	-	27,349,131
Pledges receivable, net	130,023	-	-	130,023
Prepaid expenses and other current assets	276,808	8,826	-	285,634
Intercompany receivables	663,176	-	(663,176)	-
Total current assets	49,361,714	33,826	(663,176)	48,732,364
Property And Equipment, net	29,861	704,975	-	734,836
Noncurrent Assets				
Investments – long term, net	232,547	-	-	232,547
Grants receivable, net of current maturities	5,928,960	-	-	5,928,960
Loans receivable	471,934	-	-	471,934
Total noncurrent assets	6,633,441	-	-	6,633,441
Total assets	\$ 56,025,016	\$ 738,801	\$ (663,176)	\$ 56,100,641

Liabilities And Net Assets	IYF	RFY	Eliminations	Total
Current Liabilities				
Accounts payable and accrued liabilities	\$ 624,200	\$ -	\$ -	\$ 624,200
Accrued salaries and related benefits	517,424	-	-	517,424
Deferred revenue	94,022	-	-	94,022
Grants payable	216,573	-	-	216,573
Loan payable	200,000	-	-	200,000
Intercompany payables	-	663,176	(663,176)	-
Total liabilities	1,652,219	663,176	(663,176)	1,652,219
Net Assets				
Unrestricted				
Undesignated	2,117,191	75,625	-	2,192,816
Designated for reserve	6,867,329	-	-	6,867,329
Designated for endowment	2,264,170	-	-	2,264,170
Total unrestricted net assets	11,248,690	75,625	-	11,324,315
Temporarily restricted	42,158,773	-	-	42,158,773
Permanently restricted	965,334	-	-	965,334
Total net assets	54,372,797	75,625	-	54,448,422
Total liabilities and net assets	\$ 56,025,016	\$ 738,801	\$ (663,176)	\$ 56,100,641

**International Youth Foundation
And Resources For Youth, Inc.**

**Combining Statement Of Activities
Year Ended December 31, 2012**

	IYF	RFY	Eliminations	Total
Unrestricted revenue:				
Grants and contributions	\$ 570,970	\$ -	\$ -	\$ 570,970
Investment income, net of investment fees	156,969	-	-	156,969
Other revenue	587,921	529,679	(504,879)	612,721
Net assets released from donor restrictions	25,390,848	-	-	25,390,848
Total unrestricted revenue	26,706,708	529,679	(504,879)	26,731,508
Expenses:				
Program services:				
Grants	6,301,346	-	-	6,301,346
Salaries and benefits	8,632,957	-	-	8,632,957
Consultants	4,716,402	-	-	4,716,402
Travel	1,733,139	-	-	1,733,139
Office expenses	1,053,937	-	-	1,053,937
Other	668,341	-	-	668,341
Total program services	23,106,122	-	-	23,106,122
Fundraising:				
Salaries and benefits	10,851	-	-	10,851
Office expenses	23	-	-	23
Other	2,750	-	-	2,750
Total fundraising	13,624	-	-	13,624
General and administrative:				
Salaries and benefits	2,152,657	-	-	2,152,657
Consultants	164,705	-	-	164,705
Travel	81,453	-	-	81,453
Office expenses	292,953	543,344	(504,879)	331,418
Other	682,067	-	-	682,067
Total general and administrative	3,373,835	543,344	(504,879)	3,412,300
Total expenses	26,493,581	543,344	(504,879)	26,532,046
Change in unrestricted net assets before other items	213,127	(13,665)	-	199,462
Other items:				
Realized gains on sales of investments	323,179	-	-	323,179
Unrealized losses on investments	262,665	-	-	262,665
Currency gains (losses)	1,182	-	-	1,182
Change in unrestricted net assets	\$ 800,153	\$ (13,665)	\$ -	\$ 786,488

(Continued)

**International Youth Foundation
And Resources For Youth, Inc.**

**Combining Statement Of Activities (Continued)
Year Ended December 31, 2012**

	IYF	RFY	Eliminations	Total
Temporarily restricted revenue:				
Grants and contributions	\$ 42,150,058	\$ -	\$ -	\$ 42,150,058
De-obligations	(434,688)	-	-	(434,688)
Dividends and interest income, net of investment fees	11,622	-	-	11,622
Other revenue	-	-	-	-
Net assets released from donor restrictions	(25,390,848)	-	-	(25,390,848)
Change in temporarily restricted net assets before other items	16,336,144	-	-	16,336,144
Other items:				
Realized gains on sales of investments	33,346	-	-	33,346
Unrealized gains on investments	57,695	-	-	57,695
Currency (losses)	(5,170)	-	-	(5,170)
Change in temporarily restricted net assets	<u>\$ 16,422,015</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,422,015</u>
Permanently restricted revenue:				
Grants and contributions	\$ 1,128	\$ -	\$ -	\$ 1,128
Change in permanently restricted net assets	<u>\$ 1,128</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,128</u>
Change in net assets	<u>\$ 17,223,296</u>	<u>\$ (13,665)</u>	<u>\$ -</u>	<u>\$ 17,209,631</u>

**International Youth Foundation
And Resources For Youth, Inc.**

**Combining Statement Of Changes In Net Assets
Year Ended December 31, 2012**

	IYF	RFY	Eliminations	Total
Unrestricted net assets:				
Net assets at beginning of year	\$ 10,448,537	\$ 89,290	\$ -	\$ 10,537,827
Change in unrestricted net assets	800,153	(13,665)	-	786,488
Net assets at end of year	\$ 11,248,690	\$ 75,625	\$ -	\$ 11,324,315
Temporarily restricted net assets:				
Net assets at beginning of year	\$ 25,736,758	\$ -	\$ -	\$ 25,736,758
Change in temporarily restricted net assets	16,422,015	-	-	16,422,015
Net assets at end of year	\$ 42,158,773	\$ -	\$ -	\$ 42,158,773
Permanently restricted net assets:				
Net assets at beginning of year	\$ 964,206	\$ -	\$ -	\$ 964,206
Change in permanently restricted net assets	1,128	-	-	1,128
Net assets at end of year	\$ 965,334	\$ -	\$ -	\$ 965,334