

International Youth Foundation and Affiliates

Consolidated Financial Report
December 31, 2015

Contents

Independent auditor's report	1-2
------------------------------	-----

Financial statements	
Consolidated statement of financial position	3-4
Consolidated statement of activities	5-6
Consolidated statement of cash flows	7
Notes to consolidated financial statements	8-18

Independent auditor's report on the supplementary information	19
---	----

Supplementary information	
Consolidating statement of financial position	20-21
Consolidating statement of activities	22-23
Consolidating statement of changes in net assets	24

Independent Auditor's Report

To the Board of Directors
International Youth Foundation and Affiliates
Baltimore, Maryland

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of International Youth Foundation and Affiliates (collectively, IYF), which comprise the consolidated statement of financial position as of December 31, 2015, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of International Youth Foundation and Affiliates as of December 31, 2015, 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 IYF's 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 29, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited consolidated 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 May 31, 2016, on our consideration of IYF'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 IYF's internal control over financial reporting and compliance.

RSM US LLP

McLean, Virginia
May 31, 2016

International Youth Foundation and Affiliates

**Consolidated Statement of Financial Position
December 31, 2015
(With Comparative Totals for 2014)**

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,522,148	\$ 8,236,402
Investments (Notes 2 and 10)	6,117,200	5,699,343
Accounts receivable	1,165,633	414,534
Grants receivable, net (Note 3)	8,568,791	10,835,676
Pledges receivable, net	310,536	156,201
Prepaid expenses and other current assets	182,852	66,010
Total current assets	29,867,160	25,408,166
Property and equipment, net (Note 4)	135,836	563,435
Noncurrent assets:		
Cash and cash equivalents held for endowment	409,562	352,325
Investments held for endowment (Notes 2 and 10)	4,003,906	4,054,182
Investments – long term, net (Notes 2 and 10)	115,744	209,406
Grants receivable, net of current maturities (Note 3)	2,009,230	2,914,543
Pledges receivable, net of current maturities	138,755	-
Total noncurrent assets	6,677,197	7,530,456
Total assets	\$ 36,680,193	\$ 33,502,057

	2015	2014
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 736,579	\$ 1,287,426
Accrued salaries and related benefits	497,951	558,679
Deferred revenue	564,875	75,381
Grants payable	138,034	163,863
Total current liabilities	1,937,439	2,085,349
Total liabilities	1,937,439	2,085,349
Commitments and contingency (Notes 9 and 11)		
Net assets (Note 7):		
Unrestricted:		
Undesignated	2,389,729	2,070,173
Designated for reserve (Note 5)	5,934,230	6,867,329
Designated for endowment (Notes 5 and 12)	2,867,019	2,862,053
Total unrestricted net assets	11,190,978	11,799,555
Temporarily restricted (Note 6)	22,168,742	18,435,119
Permanently restricted (Note 12)	1,383,034	1,182,034
Total net assets	34,742,754	31,416,708
Total liabilities and net assets	\$ 36,680,193	\$ 33,502,057

See notes to consolidated financial statements.

International Youth Foundation and Affiliates

Consolidated Statement of Activities Year Ended December 31, 2015 (With Comparative Totals for 2014)

	2015			2014 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and revenue:				
Grants and contracts	\$ 2,617,386	\$ 18,750,359	\$ -	\$ 21,367,745
Contributions	213,044	188,755	201,000	602,799
De-obligations	-	(115,582)	-	(115,582)
Investment income, net of investment fees (Note 2)	158,532	13,046	-	171,578
Sales and fees	207,608	-	-	207,608
Gain on sale of building	942,940	-	-	942,940
Other revenue	9,329	-	-	9,329
Net assets released from donor restrictions – program restriction accomplished (Note 6)	15,090,126	(15,090,126)	-	-
Total support and revenue	19,238,965	3,746,452	201,000	23,186,417
Expenses:				
Program services:				
Grants	4,426,711	-	-	4,426,711
Salaries and benefits	8,398,566	-	-	8,398,566
Consultants	1,511,032	-	-	1,511,032
Travel	1,155,629	-	-	1,155,629
Office expenses	469,050	-	-	469,050
Other	655,309	-	-	655,309
Total program services	16,616,297	-	-	16,616,297
Fundraising:				
Salaries and benefits	77,546	-	-	77,546
Travel	1,599	-	-	1,599
Office expenses	3	-	-	3
Other	614	-	-	614
Total fundraising	79,762	-	-	79,762
General and administrative:				
Salaries and benefits	2,057,872	-	-	2,057,872
Consultants	368,910	-	-	368,910
Travel	57,743	-	-	57,743
Office expenses	238,439	-	-	238,439
Other	401,591	-	-	401,591
Total general and administrative	3,124,555	-	-	3,124,555
Total expenses	19,820,614	-	-	19,820,614

(Continued)

International Youth Foundation and Affiliates

Consolidated Statement of Activities (Continued)
Year Ended December 31, 2015
(With Comparative Totals for 2014)

	2015			Total	2014 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Change in net assets before other items	\$ (581,649)	\$ 3,746,452	\$ 201,000	\$ 3,365,803	\$(13,863,370)
Other items:					
Realized gains on sales of investments, net	732,415	58,985	-	791,400	183,556
Unrealized (losses) gains on investments, net	(769,245)	(66,205)	-	(835,450)	101,763
Currency gains (losses), net	9,902	(5,609)	-	4,293	(1,823)
Change in net assets	(608,577)	3,733,623	201,000	3,326,046	(13,579,874)
Net assets:					
Beginning	11,799,555	18,435,119	1,182,034	31,416,708	44,996,582
Ending	<u>\$ 11,190,978</u>	<u>\$ 22,168,742</u>	<u>\$ 1,383,034</u>	<u>\$ 34,742,754</u>	<u>\$ 31,416,708</u>

See notes to consolidated financial statements.

International Youth Foundation and Affiliates

**Consolidated Statement of Cash Flows
Year Ended December 31, 2015
(With Comparative Totals for 2014)**

	2015	2014
Cash flows from operating activities:		
Change in net assets	\$ 3,326,046	\$ (13,579,874)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	28,587	79,222
Realized gains on sales of investments	(791,400)	(183,556)
Unrealized losses (gains) on investments	835,450	(101,763)
Contributions restricted to long-term investment	(210,000)	(33,700)
Gain on disposal of fixed assets	(942,940)	-
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(751,099)	-
Grants receivable	3,172,198	13,580,979
Pledges receivable	(293,090)	26,546
Prepaid expenses and other current assets	(116,842)	(12,778)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(550,847)	236,182
Accrued salaries and related benefits	(60,728)	164
Deferred revenue	489,494	50,858
Grants payable	(25,829)	72,855
Net cash provided by operating activities	4,109,000	135,135
Cash flows from investing activities:		
Proceeds from sale of building	1,405,764	-
Purchase of property and equipment	(63,813)	(86,529)
Purchase of investments	(6,451,763)	(4,409,727)
Proceeds from sale of investments	6,133,795	4,465,437
Net cash provided by (used in) investing activities	1,023,983	(30,819)
Cash flows from financing activities:		
Proceeds from contributions restricted to long-term investment	210,000	33,700
Net cash provided by financing activities	210,000	33,700
Net increase in cash and cash equivalents	5,342,983	138,016
Cash and cash equivalents:		
Beginning	8,588,727	8,450,711
Ending	\$ 13,931,710	\$ 8,588,727

See notes to consolidated financial statements.

International Youth Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: International Youth Foundation and Affiliates (collectively, IYF) are described as follows:

International Youth Foundation: The International Youth Foundation is a nonprofit organization, incorporated in the state of Illinois. Founded in April 1990, International Youth Foundation is an independent, international nongovernmental organization, dedicated to improving the conditions and prospects of youth. Working with national and regional organizations, International Youth Foundation works to identify, strengthen and expand existing programs that have proven effective in meeting young people's needs. In addition to supporting existing programs, International Youth Foundation 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, International Youth Foundation incorporated Resources for Youth, Inc. (RFY) as a supporting organization. RFY owns the office building which is leased to International Youth Foundation. RFY sold the building during 2015. See details of the sale in Note 11.

International Youth Foundation Inc., S.A.R.L.A.U.: In 2014, International Youth Foundation incorporated International Youth Foundation Inc., S.A.R.L.A.U. (IYF-MOR), a Limited Liability Company (LLC), in Morocco to support IYF programs and activities in that region. International Youth Foundation is the sole shareholder of the LLC.

A summary of IYF's significant accounting policies follows:

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

Basis of presentation: IYF follows the Not-for-Profit Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (the Codification). Under this topic, IYF 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 consolidation: The consolidated financial statements include the accounts of International Youth Foundation, RFY and IYF-MOR. All significant intercompany transactions have been eliminated.

Cash and cash equivalents: IYF considers investments in money market funds of \$873,495 at December 31, 2015, to be cash equivalents.

At times during the year, IYF maintains cash balances at financial institutions in excess of the federally insured limits. At December 31, 2015, cash balances totaling \$13,663,850 exceeded the limit. However, management believes the risk in these institutions to be minimal. At December 31, 2015, cash totaling \$1,050,928 was held in numerous financial institutions outside the United States, which are not insured by FDIC.

Investments: Investments in equity securities with readily determinable fair values and all investments in debt securities are reflected at fair market value. Dividend and interest income, net of investment fees, is included in investment income in the accompanying consolidated 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 consolidated statement of activities.

International Youth Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

IYF invests in professionally managed portfolios that contain U.S. Government and municipal bonds, corporate equities, corporate debt securities, mutual funds and private equity investments. 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 consolidated financial statements.

Grants receivable: Grants receivable are carried at the original or amended grant amount less cash receipts and are further reduced by 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, 2015.

Pledges receivable: Pledges are recognized as revenue in the year an unconditional commitment is received from the donor; pledges receivable are carried at the original pledge amount less cash received on the pledge. They are reported as increases in support and revenue in the appropriate 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 deemed collectible within one year at December 31, 2015; therefore, there was no allowance for doubtful promises at December 31, 2015.

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, 15 years for related improvements and 3 to 7 years for furniture, equipment and software. The cost of maintenance and repairs is recorded as an expense as expenses are incurred.

Valuation of long-lived assets: IYF accounts for the valuation of long-lived assets by reviewing such assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset 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. There were no impairments of long-lived assets at December 31, 2015.

Grants and contributions: Grants and contributions received by IYF are recognized as receivables and revenue when the grant or contribution commitment has been received and all significant conditions of the grant or contribution have been met. Grant and contribution revenue is classified as unrestricted or restricted, based upon the existence or lack 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%.

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

International Youth Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

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

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 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/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated 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 translation: The functional currency of IYF is the U.S. dollar. The consolidated financial statements are presented in U. S. dollars. The transactions of IYF's foreign operations are generally maintained in the relevant local currency and so assets and liabilities are translated into U.S. dollars at the consolidated statement of financial position date at the exchange rate in effect at year-end.

Foreign currency transactions: Transaction gains or losses arise from changes in the exchange rates between the functional currency (U.S. dollar) and the local currency in which the transaction is denominated. They represent an increase or decrease in: (a) the actual functional currency cash flows realized upon settlement of foreign currency transactions and (b) the expected functional currency cash flows on unsettled foreign currency transactions.

Income taxes: International Youth Foundation 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 consolidated financial statements. International Youth Foundation and RFY are not considered private foundations.

IYF 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.

Management evaluated IYF's tax positions and concluded that the entity had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. The returns are subject to examination by federal and state taxing authorities generally three and four years, respectively, after they are filed.

Use of estimates: The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated 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 Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Upcoming accounting pronouncement: In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. IYF is currently evaluating the impact of its pending adoption of the new standard on its consolidated financial statements.

Reclassifications: Certain amounts in the 2014 summarized comparative totals have been reclassified to conform to the 2015 presentation. These reclassifications had no effect on previously reported net assets or change in net assets.

Prior year information: The consolidated 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 IYF's financial statements for the year ended December 31, 2014, from which the summarized information was derived.

Subsequent events: IYF evaluated subsequent events through May 31, 2016, which is the date the consolidated financial statements were available to be issued.

Note 2. Investments

Investments consist of the following at December 31, 2015:

	<u>Market Value</u>
Current:	
U.S. government bonds and municipal bonds	\$ 2,280,190
Corporate bonds and notes	1,217,182
Equity mutual funds	1,184,678
Fixed income mutual funds	848,069
Common stock	577,971
Preferred stock	9,110
	<u>6,117,200</u>
Long-term:	
Equity mutual funds	2,769,480
Fixed income mutual funds	793,374
Common stock	342,324
Nontaxable mutual funds	89,618
Preferred stock	9,110
	<u>4,003,906</u>
Private equity investments	115,744
	<u>\$ 10,236,850</u>

Interest and dividend income of \$171,578 is net of investment expenses totaling \$31,280.

International Youth Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 3. Grants Receivable

As of December 31, 2015, grants receivable are due as follows:

Due within one year	\$ 8,568,791
Due within two years	2,089,599
	<u>10,658,390</u>
Less present value discount	(80,369)
	<u><u>\$ 10,578,021</u></u>

Note 4. Property and Equipment

Property and equipment consist of the following at December 31, 2015:

Leasehold improvements	\$ 54,139
Furniture, equipment and software	399,462
	<u>453,601</u>
Less depreciation and amortization	(317,765)
	<u><u>\$ 135,836</u></u>

Total depreciation expense for the year ended December 31, 2015, was \$28,587.

Note 5. 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, consolidating them with permanently restricted donor contributions (see Note 12), to create a sustainable income stream for future years.

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets include donor-restricted 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, 2015, due to the purpose restriction being accomplished.

Changes in temporarily restricted net assets during the year ended December 31, 2015, were as follows:

	Balance December 31, 2014	Additions	De-Obligated	Released	Balance December 31, 2015
Purpose restricted	\$ 18,070,046	\$ 18,737,336	\$ (115,582)	\$ (15,010,126)	\$ 21,681,674
Time restricted	-	200,000	-	-	200,000
Endowment earnings	365,073	1,995	-	(80,000)	287,068
	<u>\$ 18,435,119</u>	<u>\$ 18,939,331</u>	<u>\$ (115,582)</u>	<u>\$ (15,090,126)</u>	<u>\$ 22,168,742</u>

International Youth Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 7. Net Assets

Net assets at December 31, 2015, consist of the following by entity:

	IYF	RFY	IYF-MOR	Total
Unrestricted:				
Undesignated	\$ 2,518,387	\$ (128,658)	\$ -	\$ 2,389,729
Designated for reserve	5,942,329	-	(8,099)	5,934,230
Designated for endowment	2,867,019	-	-	2,867,019
Total unrestricted net assets	11,327,735	(128,658)	(8,099)	11,190,978
Temporarily restricted	22,168,742	-	-	22,168,742
Permanently restricted	1,383,034	-	-	1,383,034
Total net assets	\$ 34,879,511	\$ (128,658)	\$ (8,099)	\$ 34,742,754

Note 8. 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 2015 was \$510,214.

Additional retirement benefits have been provided to certain executives under a 457(b) deferred compensation plan. IYF has no expense under the plan, other than its annual contribution, which was \$4,500 in 2015. This contribution was calculated as a percentage of employees' salaries in excess of IRC limitations.

Note 9. Contingency

IYF received approximately 20% 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, which are 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. IYF's management believes that no significant adjustment to these consolidated financial statements, if any, would result from audit findings.

Note 10. Fair Value Measurements

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

International Youth Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 10. Fair Value Measurements (Continued)

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 consolidated 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 and certain bonds and government obligations.

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 Affiliates

Notes to Consolidated Financial Statements

Note 10. Fair Value Measurements (Continued)

Financial assets recorded in the consolidated statement of financial position are categorized based on the inputs to the valuation technique as follows as of December 31, 2015:

Asset Category	Level 1	Level 2	Level 3	Total
Investments included in				
cash and cash equivalents:				
Money market funds	\$ 873,495	\$ -	\$ -	\$ 873,495
Total cash and cash equivalents	873,495	-	-	873,495
Investments:				
Equity mutual funds:				
Domestic large cap value	1,011,532	-	-	1,011,532
Domestic large cap growth	397,637	-	-	397,637
Domestic small cap value	655,381	-	-	655,381
Domestic small cap growth	333,858	-	-	333,858
Domestic growth equity	343,052	-	-	343,052
Emerging markets	647,197	-	-	647,197
International	565,501	-	-	565,501
U.S. treasury and agency obligations:				
U.S. Treasury and agency bonds	-	1,555,079	-	1,555,079
Asset and mortgage backed bonds	-	725,111	-	725,111
Corporate bonds and notes	-	1,217,182	-	1,217,182
Corporate equity securities:				
Consumer discretionary	136,917	-	-	136,917
Consumer staples	69,259	-	-	69,259
Energy	39,472	-	-	39,472
Finance	153,821	-	-	153,821
Health care	158,637	-	-	158,637
Industrials	109,874	-	-	109,874
Information technology	215,486	-	-	215,486
Materials	15,832	-	-	15,832
Real Estate Investment Trust	20,997	-	-	20,997
Preferred stock	18,220	-	-	18,220
Fixed income mutual fund	1,641,443	-	-	1,641,443
Non taxable mutual funds	89,618	-	-	89,618
Private equity investments:				
Buyout	-	-	5,356	5,356
Venture capital	-	-	88,119	88,119
Real estate	-	-	22,269	22,269
Total investments	6,623,734	3,497,372	115,744	10,236,850
Total assets at fair value	\$ 7,497,229	\$ 3,497,372	\$ 115,744	\$ 11,110,345

International Youth Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 10. Fair Value Measurements (Continued)

The following table provides a summary of changes in fair value of IYF's Level 3 financial assets for the year ended December 31, 2015:

	<u>Private Equity Investments</u>
Beginning balance as of December 31, 2014	\$ 209,406
Realized and unrealized losses, net	(93,662)
Balance as of December 31, 2015	<u>\$ 115,744</u>

The following table provides additional information about the Level 3 investments by major category:

Investment	Fair Value at December 31, 2015	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity investments	\$ 115,744	\$ -	None	Locked into a 10-year period

Note 11. Leases and Sale of Building

During the year ended December 31, 2015, IYF sold its building at 32 South Street for a sales price of \$1,600,000. A resulting gain of \$942,940 has been recorded in the accompanying consolidated statement of activities. IYF entered into a lease to rent its current office space from the purchaser of the building. The term of the lease was 16 months and ended on May 31, 2016.

IYF entered into a lease agreement on October 26, 2015 for new office space. The lease commenced on March 24, 2016. The term of the lease is for ten years. IYF received nine months of free rent as a lease incentive. As of December 31, 2015, there was no deferred rent related to this lease recorded as the lease did not commence until subsequent to year end.

Total future minimum lease payments are as follows:

Years ending December 31:	
2016	\$ -
2017	399,432
2018	409,418
2019	419,653
2020	430,145
2021-thereafter	2,816,342
	<u>\$ 4,474,990</u>

International Youth Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 12. 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, 2015, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 287,068	\$ 1,383,034	\$ 1,670,102
Board designated endowment funds	2,867,019	-	-	2,867,019
	<u>\$ 2,867,019</u>	<u>\$ 287,068</u>	<u>\$ 1,383,034</u>	<u>\$ 4,537,121</u>

International Youth Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 12. Permanently Restricted Net Assets and Endowment (Continued)

Changes in endowment net assets for the year ended December 31, 2015, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,862,053	\$ 365,073	\$ 1,182,034	\$ 4,409,160
Contributions	-	-	201,000	201,000
Investment earnings:				
Interest and dividends, net of investment fees	22,935	9,215	-	32,150
Unrealized and realized gains	(17,969)	(7,220)	-	(25,189)
Releases from restriction	-	(80,000)	-	(80,000)
	<u>4,966</u>	<u>(78,005)</u>	<u>201,000</u>	<u>127,961</u>
Endowment net assets, end of year	<u>\$ 2,867,019</u>	<u>\$ 287,068</u>	<u>\$ 1,383,034</u>	<u>\$ 4,537,121</u>

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: The current spending policy allows International Youth Foundation to take an annual distribution of up to 4% of the fair market value of the endowment fund, calculated based on the average of the calendar year-end market values of the rolling prior three years.

Independent Auditor's Report on the Supplementary Information

To the Board of Directors
International Youth Foundation and Affiliates
Baltimore, Maryland

We have audited the consolidated financial statements of International Youth Foundation and Affiliates (collectively, IYF) as of and for the year ended December 31, 2015, and have issued our report thereon which contains an unmodified opinion on those consolidated financial statements (see pages 1 and 2). Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating 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 organizations and is not a required part of the consolidated 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

RSM US LLP

McLean, Virginia
May 31, 2016

International Youth Foundation and Affiliates
Consolidating Statement of Financial Position
December 31, 2015

	IYF	RFY	IYF-MOR	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 13,409,412	\$ 17,830	\$ 94,906	\$ -	\$ 13,522,148
Investments	6,117,200	-	-	-	6,117,200
Grants receivable, net	8,568,791	-	-	-	8,568,791
Pledges receivable, net	310,536	-	-	-	310,536
Accounts receivable	981,019	-	184,614	-	1,165,633
Prepaid expenses and other current assets	182,852	-	-	-	182,852
Intercompany receivable	405,213	-	-	(405,213)	-
Total current assets	29,975,023	17,830	279,520	(405,213)	29,867,160
Property and equipment, net	135,836	-	-	-	135,836
Noncurrent assets:					
Cash and cash equivalents held for endowment	409,562	-	-	-	409,562
Investments held for endowment	4,003,906	-	-	-	4,003,906
Investments – long term, net	121,683	-	-	(5,939)	115,744
Grants receivable, net of current maturities	2,009,230	-	-	-	2,009,230
Pledges receivable, net of current maturities	138,755	-	-	-	138,755
Total noncurrent assets	6,683,136	-	-	(5,939)	6,677,197
Total assets	\$ 36,793,995	\$ 17,830	\$ 279,520	\$ (411,152)	\$ 36,680,193

	IYF	RFY	IYF-MOR	Eliminations	Total
Liabilities					
Current liabilities:					
Accounts payable and accrued liabilities	\$ 722,931	\$ -	\$ 13,648	\$ -	\$ 736,579
Accrued salaries and related benefits	488,644	-	9,307	-	497,951
Deferred revenue	564,875	-	-	-	564,875
Grants payable	138,034	-	-	-	138,034
Intercompany payables	-	146,488	258,725	(405,213)	-
Total current liabilities	1,914,484	146,488	281,680	(405,213)	1,937,439
Total liabilities	1,914,484	146,488	281,680	(405,213)	1,937,439
Net assets:					
Unrestricted:					
Undesignated	2,518,387	(128,658)	5,939	(5,939)	2,389,729
Designated for reserve	5,942,329	-	(8,099)	-	5,934,230
Designated for endowment	2,867,019	-	-	-	2,867,019
Total unrestricted net assets	11,327,735	(128,658)	(2,160)	(5,939)	11,190,978
Temporarily restricted	22,168,742	-	-	-	22,168,742
Permanently restricted	1,383,034	-	-	-	1,383,034
Total net assets	34,879,511	(128,658)	(2,160)	(5,939)	34,742,754
Total liabilities and net assets	\$ 36,793,995	\$ 17,830	\$ 279,520	\$ (411,152)	\$ 36,680,193

International Youth Foundation and Affiliates

Consolidating Statement of Activities Year Ended December 31, 2015

	IYF	RFY	IYF-MOR	Eliminations	Total
Unrestricted revenue:					
Grants and contracts	\$ 3,044,696	\$ -	\$ 561,263	\$ (988,573)	\$ 2,617,386
Contributions	213,044	-	-	-	213,044
Investment income, net of investment fees	158,532	-	-	-	158,532
Sales and fees	207,608	-	-	-	207,608
Gain on sale of building	-	942,940	-	-	942,940
Other revenue	5,197	93,495	-	(89,363)	9,329
Net assets released from donor restrictions	15,090,126	-	-	-	15,090,126
Total unrestricted revenue	18,719,203	1,036,435	561,263	(1,077,936)	19,238,965
Expenses:					
Program services:					
Grants	4,411,580	659,669	15,131	(659,669)	4,426,711
Salaries and benefits	8,277,900	-	335,437	(214,771)	8,398,566
Consultants	1,481,711	-	85,985	(56,664)	1,511,032
Travel	1,134,386	-	41,308	(20,065)	1,155,629
Office expenses	459,137	-	22,890	(12,977)	469,050
Other	620,127	-	60,512	(25,330)	655,309
Total program services	16,384,841	659,669	561,263	(989,476)	16,616,297
Fundraising:					
Salaries and benefits	77,546	-	-	-	77,546
Travel	1,599	-	-	-	1,599
Office expenses	3	-	-	-	3
Other	614	-	-	-	614
Total fundraising	79,762	-	-	-	79,762
General and administrative:					
Salaries and benefits	1,547,965	509,907	-	-	2,057,872
Consultants	343,872	25,038	-	-	368,910
Travel	57,743	-	-	-	57,743
Office expenses	236,025	2,414	-	-	238,439
Other	426,243	64,711	-	(89,363)	401,591
Total general and administrative	2,611,848	602,070	-	(89,363)	3,124,555
Total expenses	19,076,451	1,261,739	561,263	(1,078,839)	19,820,614
Change in unrestricted net assets before other items	(357,248)	(225,304)	-	903	(581,649)
Other items:					
Realized gains on sales of investments	732,415	-	-	-	732,415
Unrealized gains on investments	(769,245)	-	-	-	(769,245)
Currency losses	18,904	-	(8,099)	(903)	9,902
Change in unrestricted net assets	\$ (375,174)	\$ (225,304)	\$ (8,099)	\$ -	\$ (608,577)

(Continued)

International Youth Foundation and Affiliates
Consolidating Statement of Activities (Continued)
Year Ended December 31, 2015

	IYF	RFY	IYF-MOR	Eliminations	Total
Temporarily restricted revenue:					
Grants and contracts	\$ 18,750,359	\$ -	\$ -	\$ -	\$ 18,750,359
De-obligations	(115,582)	-	-	-	(115,582)
Contributions	188,755	-	-	-	188,755
Dividends and interest income, net of investment fees	13,046	-	-	-	13,046
Other revenue	-	-	-	-	-
Net assets released from donor restrictions	(15,090,126)	-	-	-	(15,090,126)
Change in temporarily restricted net assets before other items	3,746,452	-	-	-	3,746,452
Other items:					
Realized gains on sales of investments	58,985	-	-	-	58,985
Unrealized gains on investments	(66,205)	-	-	-	(66,205)
Currency losses	(5,609)	-	-	-	(5,609)
Change in temporarily restricted net assets	\$ 3,733,623	\$ -	\$ -	\$ -	\$ 3,733,623
Permanently restricted revenue:					
Contributions	\$ 201,000	\$ -	\$ -	\$ -	\$ 201,000
Change in permanently restricted net assets	\$ 201,000	\$ -	\$ -	\$ -	\$ 201,000
Change in net assets	\$ 3,559,449	\$ (225,304)	\$ (8,099)	\$ -	\$ 3,326,046

International Youth Foundation and Affiliates
Consolidating Statement of Changes in Net Assets
Year Ended December 31, 2015

	IYF	RFY	IYF-MOR	Eliminations	Total
Unrestricted net assets:					
Net assets at beginning of year	\$ 11,702,909	\$ 96,646	\$ -	\$ -	\$ 11,799,555
Change in unrestricted net assets	(375,174)	(225,304)	(8,099)	-	(608,577)
Net assets at end of year	\$ 11,327,735	\$ (128,658)	\$ (8,099)	\$ -	\$ 11,190,978
Temporarily restricted net assets:					
Net assets at beginning of year	\$ 18,435,119	\$ -	\$ -	\$ -	\$ 18,435,119
Change in temporarily restricted net assets	3,733,623	-	-	-	3,733,623
Net assets at end of year	\$ 22,168,742	\$ -	\$ -	\$ -	\$ 22,168,742
Permanently restricted net assets:					
Net assets at beginning of year	\$ 1,182,034	\$ -	\$ -	\$ -	\$ 1,182,034
Change in permanently restricted net assets	201,000	-	-	-	201,000
Net assets at end of year	\$ 1,383,034	\$ -	\$ -	\$ -	\$ 1,383,034