

International Youth Foundation And Resources For Youth, Inc.

Combined Financial Statements
December 31, 2011

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Independent Auditor's Report

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

We have audited the accompanying combined statement of financial position of International Youth Foundation (IYF) and Resources for Youth, Inc. (RFY) (collectively, the Organization) as of December 31, 2011, and the related combined statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information has been derived from the 2010 combined financial statements, and in our report dated March 24, 2011, we expressed an unqualified opinion on those combined financial statements.

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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2011 combined financial statements referred to above present fairly, in all material respects, the financial position of International Youth Foundation and Resources for Youth, Inc. as of December 31, 2011, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated April 9, 2012, 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 those reports 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 the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

McGladrey & Pullen, LLP

Baltimore, Maryland
April 9, 2012

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

**Combined Statement Of Financial Position
December 31, 2011
(With Comparative Totals For 2010)**

Assets	2011	2010
Current Assets		
Cash and cash equivalents	\$ 6,385,645	\$ 5,408,902
Investments (Notes 2 and 13)	7,503,193	7,802,031
Grants receivable, net (Note 3)	18,435,423	17,950,625
Pledges receivable, net (Note 4)	206,891	332,096
Prepaid expenses and other current assets	524,861	136,854
Total current assets	33,056,013	31,630,508
Property And Equipment, net (Note 5)	934,652	1,166,376
Noncurrent Assets		
Investments – long term, net (Notes 2 and 13)	270,124	310,018
Grants receivable, net of current maturities (Note 3)	4,411,861	3,261,083
Pledges receivable, net of current maturities (Note 4)	32,051	4,808
Loans receivable (Note 6)	523,417	661,642
Total noncurrent assets	5,237,453	4,237,551
Total assets	\$ 39,228,118	\$ 37,034,435

See Notes To Combined Financial Statements.

Liabilities And Net Assets	2011	2010
Current Liabilities		
Accounts payable and accrued liabilities	\$ 515,181	\$ 448,737
Accrued salaries and related benefits	525,844	414,820
Deferred revenue	511,061	-
Grants payable	237,241	1,546,221
Total current liabilities	1,789,327	2,409,778
Noncurrent Liabilities		
Loan payable (Note 7)	200,000	200,000
Grants payable, net of current maturities	-	110,884
Total liabilities	1,989,327	2,720,662
Contingency (Note 12)		
Net Assets (Note 10)		
Unrestricted		
Undesignated	1,670,498	1,413,698
Designated for reserve (Note 8)	6,867,329	6,867,329
Designated for endowment (Notes 8 and 14)	2,000,000	2,000,000
Total unrestricted net assets	10,537,827	10,281,027
Temporarily restricted (Note 9)	25,736,758	23,200,784
Permanently restricted (Note 14)	964,206	831,962
Total net assets	37,238,791	34,313,773
Total liabilities and net assets	\$ 39,228,118	\$ 37,034,435

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

**Combined Statement Of Activities
Year Ended December 31, 2011
(With Comparative Totals For 2010)**

	2011				2010
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Support and revenue:					
Grants and contributions	\$ 2,730,053	\$ 25,397,862	\$ 132,244	\$ 28,260,159	\$ 29,787,529
De-obligations	-	(1,317,924)	-	(1,317,924)	(575,000)
Investment income, net of investment fees (Note 2)	101,950	62,008	-	163,958	167,693
Other revenue	426,148	-	-	426,148	213,555
Net assets released from donor restrictions – program restriction accomplished (Note 9)	21,394,090	(21,394,090)	-	-	-
Total support and revenue	24,652,241	2,747,856	132,244	27,532,341	29,593,777
Expenses:					
Program services:					
Grants	7,674,388	-	-	7,674,388	9,347,655
Salaries and benefits	7,253,256	-	-	7,253,256	5,714,205
Consultants	2,961,768	-	-	2,961,768	1,937,365
Travel	1,450,011	-	-	1,450,011	1,070,733
Office expenses	742,890	-	-	742,890	446,518
Other	808,082	-	-	808,082	383,797
Total program services	20,890,395	-	-	20,890,395	18,900,273
Fundraising:					
Salaries and benefits	54,436	-	-	54,436	66,005
Travel	188	-	-	188	676
Office expenses	5,048	-	-	5,048	7,373
Other	345	-	-	345	802
Total fundraising	60,017	-	-	60,017	74,856
General and administrative:					
Salaries and benefits	2,161,947	-	-	2,161,947	2,052,630
Consultants	157,296	-	-	157,296	137,049
Travel	104,828	-	-	104,828	92,398
Office expenses	270,764	-	-	270,764	291,928
Other	698,188	-	-	698,188	649,351
Total general and administrative	3,393,023	-	-	3,393,023	3,223,356
Total expenses	24,343,435	-	-	24,343,435	22,198,485

(Continued)

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

**Combined Statement Of Activities (Continued)
Year Ended December 31, 2011
(With Comparative Totals For 2010)**

	2011				2010
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Change in net assets before other items	\$ 308,806	\$ 2,747,856	\$ 132,244	\$ 3,188,906	\$ 7,395,292
Other items:					
Realized gains on sales of investments	231,474	114,951	-	346,425	215,798
Unrealized (losses) gains on investments	(282,557)	(202,761)	-	(485,318)	809,830
Currency (loss) gain	(923)	(124,072)	-	(124,995)	124,566
Change in net assets	256,800	2,535,974	132,244	2,925,018	8,545,486
Net assets:					
Beginning	10,281,027	23,200,784	831,962	34,313,773	25,768,287
Ending	\$ 10,537,827	\$ 25,736,758	\$ 964,206	\$ 37,238,791	\$ 34,313,773

See Notes To Combined Financial Statements.

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

**Combined Statement Of Cash Flows
Year Ended December 31, 2011
(With Comparative Totals For 2010)**

	2011	2010
Cash Flows From Operating Activities		
Change in net assets	\$ 2,925,018	\$ 8,545,486
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	242,714	249,219
Realized gains on sales of investments	(346,425)	(215,798)
Unrealized losses (gains) on investments	485,318	(810,861)
Changes in assets and liabilities:		
(Increase) decrease in:		
Grants receivable	(1,635,576)	(4,600,183)
Pledges receivable	97,962	(42,061)
Prepaid expenses and other current assets	(388,007)	(65,560)
Translation adjustment on loans receivable	52,970	(19,186)
Increase (decrease) in:		
Accounts payable and accrued liabilities	66,444	37,957
Accrued salaries and related benefits	111,024	48,303
Deferred revenue	511,061	(410,709)
Grants payable	(1,419,864)	(2,907,548)
Net cash provided by (used in) operating activities	702,639	(190,941)
Cash Flows From Investing Activities		
Purchase of property and equipment	(10,990)	(24,611)
Purchase of investments	(3,374,688)	(3,458,195)
Proceeds from sale of investments	3,574,527	3,601,428
Issuance of loans receivable	-	(200,000)
Collections on loans receivable	85,255	60,343
Net cash provided by (used in) investing activities	274,104	(21,035)
Net increase (decrease) in cash and cash equivalents	976,743	(211,976)
Cash And Cash Equivalents:		
Beginning	5,408,902	5,620,878
Ending	\$ 6,385,645	\$ 5,408,902

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 \$561,473 at December 31, 2011, 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, 2011.

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. There was no allowance for doubtful promises at December 31, 2011.

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 percent.

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 balance sheet 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 percent 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 2008.

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, 2010, from which the summarized information was derived.

New accounting standard: In May 2011, FASB issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* (ASU 2011-04). ASU 2011-04 clarifies existing fair value measurement requirements, changes certain fair value measurement principles, and expands disclosure requirements that will be effective for the fiscal year ending December 31, 2012. Management has not yet determined the impact that ASU 2011-04 will have on the Organization's financial statements.

Subsequent events: IYF evaluated subsequent events through April 9, 2012, which is the date combined financial statements were available to be issued.

Note 2. Investments

Investments consist of the following at December 31, 2011:

	Market Value
Current:	
U.S. Government bonds and municipal bonds	\$ 1,476,746
Corporate debt securities	673,144
Corporate equity securities	846,038
Fixed-income mutual funds	843,224
Equity mutual funds	3,652,998
Fixed-income annuities	11,043
	<hr/> 7,503,193
Long term:	
Private equity investments	270,124
	<hr/> <hr/> \$ 7,773,317

Interest and dividend income of \$163,958 is net of investment expenses totaling \$35,121.

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 4.0 percent at December 31, 2011. Total discount for the year ended December 31, 2011, was \$211,027.

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

Notes To Combined Financial Statements

Note 3. Grants Receivable (Continued)

Following is a summary, by years, of grants receivable as of December 31, 2011:

Years Ending December 31,

2012	\$ 18,435,423
2013	3,581,279
2014	830,582
	<u>22,847,284</u>
Less current maturities	<u>18,435,423</u>
	<u><u>\$ 4,411,861</u></u>

Note 4. Pledges Receivable

All pledges receivable are considered to be collectible within one year, unless otherwise stated by the donor. Pledges that will not be paid within one year have been discounted at December 31, 2011, using current discount rates of 4.0 percent. Total discount for the year ended December 31, 2011, was \$1,282.

Following is a summary, by years, of pledges receivable as of December 31, 2011:

Year Ending December 31,

2012	\$ 206,891
2013	32,051
	<u>238,942</u>
Less current maturities	<u>206,891</u>
	<u><u>\$ 32,051</u></u>

Note 5. Property And Equipment

Property and equipment consist of the following at December 31, 2011:

Land	\$ 324,980
Building and improvements	3,186,352
Furniture and equipment	429,977
	<u>3,941,309</u>
Less depreciation and amortization	<u>(3,006,657)</u>
	<u><u>\$ 934,652</u></u>

Total depreciation expense for the year ended December 31, 2011, was \$242,714.

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

Notes To Combined Financial Statements

Note 6. Loans Receivable

The loans receivable are between IYF and the non-profit organizations set forth below. Funding for the first three 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 fourth 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)	\$	256,852
Center for Community Development and Education (due October 2011)		49,381
Hambantota District Chamber of Commerce (due October 2011)		17,184
Fundación León 2000 (due December 2013)		200,000
	\$	<u>523,417</u>

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

Note 7. 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.

Note 8. 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 12), to create a sustainable income stream for future years.

Note 9. 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, 2011, due to the purpose restriction being accomplished, or the time restriction being met.

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

Notes To Combined Financial Statements

Note 9. Temporarily Restricted Net Assets (Continued)

Temporarily restricted net assets at December 31, 2011, are available for the following programs:

	Balance December 31, 2010	Additions	De-Obligated	Released	Balance December 31, 2011
Purpose restricted:					
Education	\$ 8,293,574	\$ 3,632,154	\$ 741,823	\$ 5,207,533	\$ 5,976,372
Employability	13,179,974	17,163,204	19,024	13,559,813	16,764,341
Health education	125,923	42,952	139,471	29,404	-
Leadership and engagement	1,380,012	4,349,703	417,606	2,381,127	2,930,982
Other	212,301	59,975	-	209,213	63,063
Time restricted – general support	9,000	-	-	7,000	2,000
	<u>\$ 23,200,784</u>	<u>\$ 25,247,988</u>	<u>\$ 1,317,924</u>	<u>\$ 21,394,090</u>	<u>\$ 25,736,758</u>

Note 10. Net Assets

Net assets at December 31, 2011, of the combined financial statements consist of the following:

	IYF	RFY	Total
Unrestricted			
Undesignated	\$ 1,581,208	\$ 89,290	\$ 1,670,498
Designated for reserve	6,867,329	-	6,867,329
Designated for endowment	2,000,000	-	2,000,000
Total unrestricted net assets	<u>10,448,537</u>	<u>89,290</u>	<u>10,537,827</u>
Temporarily restricted	25,736,758	-	25,736,758
Permanently restricted	964,206	-	964,206
Total net assets	<u>\$ 37,149,501</u>	<u>\$ 89,290</u>	<u>\$ 37,238,791</u>

Note 11. 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 2011 was \$519,999.

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 \$4,673 in 2011. This contribution was calculated as a percentage of employees’ salaries in excess of IRC limitations.

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

Notes To Combined Financial Statements

Note 12. Contingency

IYF received approximately 69 percent 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 13. 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 13. 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, 2011:

Asset Category	Level 1	Level 2	Level 3	Total
Equity Mutual Funds				
Domestic large cap growth	\$ 500,185	\$ -	\$ -	\$ 500,185
Domestic small cap value	901,601	-	-	901,601
Domestic small cap growth	637,148	-	-	637,148
Domestic large cap value	1,107,576	-	-	1,107,576
International developed large cap	83,859	-	-	83,859
Emerging markets	303,869	-	-	303,869
International developed small cap	118,760	-	-	118,760
U.S. Government Bonds	-	1,423,130	-	1,423,130
Municipal Bonds	-	53,616	-	53,616
Corporate Equity Securities				
Consumer discretionary	58,223	-	-	58,223
Consumer staples	47,994	-	-	47,994
Energy	113,818	-	-	113,818
Finance	19,480	-	-	19,480
Healthcare	139,704	-	-	139,704
Industrials	122,872	-	-	122,872
Information technology	343,947	-	-	343,947
Fixed-Income Mutual Funds	843,224	-	-	843,224
Corporate Debt Securities				
Finance	-	358,784	-	358,784
Automotive	-	-	-	-
Basic industry	-	124,373	-	124,373
Energy	-	110,306	-	110,306
Media	-	55,848	-	55,848
Telecom	-	-	-	-
Utilities	-	23,833	-	23,833
Private Equity Investments				
Buyout	-	-	53,839	53,839
Venture capital	-	-	173,119	173,119
Real estate	-	-	43,166	43,166
Fixed-Income Annuities	-	11,043	-	11,043
Total	\$ 5,342,260	\$ 2,160,933	\$ 270,124	\$ 7,773,317

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

Notes To Combined Financial Statements

Note 13. Fair Value Measurements (Continued)

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, 2011:

	Private Equity Investments
Beginning balance as of December 31, 2010	\$ 310,018
Unrealized and realized losses	(39,894)
Balance as of December 31, 2011	\$ 270,124

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

Investment	Fair Value At 12/31/11	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private equity investments	<u>\$ 270,124</u>	\$ -	None	Locked into a 10-year period

Note 14. 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

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

Notes To Combined Financial Statements

Note 14. Permanently Restricted Net Assets And Endowment (Continued)

Endowment net asset composition by type of fund as of December 31, 2011, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 47,744	\$ 964,206	\$ 1,011,950
Board designated endowment funds	2,000,000	-	-	2,000,000
Total	\$ 2,000,000	\$ 47,744	\$ 964,206	\$ 3,011,950

Changes in endowment net assets for the year ended December 31, 2011, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,000,000	\$ 106,484	\$ 831,962	\$ 2,938,446
Contributions	-	-	133,333	133,333
Investment earnings:				
Interest and dividends	-	29,070	-	29,070
Total	-	29,070	133,333	162,403
Net present value adjustment for pledges receivable	-	-	(1,089)	(1,089)
Net unrealized/realized losses	-	(87,810)	-	(87,810)
	-	(87,810)	(1,089)	(88,899)
Endowment net assets, end of year	\$ 2,000,000	\$ 47,744	\$ 964,206	\$ 3,011,950

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 percent. The investment manager shall rank in the top 50 percent 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.

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

Notes To Combined Financial Statements

Note 14. Permanently Restricted Net Assets And Endowment (Continued)

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

Our audit was conducted for the purpose of forming an opinion on the 2011 combined financial statements as a whole. The combining information is presented for purposes of additional analysis rather than to present the financial position and results of activities of the individual entities 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 information has been subjected to the auditing procedures applied in the audits 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 & Pullen, LLP

Baltimore, Maryland
April 9, 2012

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

**Combining Statement Of Financial Position
December 31, 2011**

Assets	IYF	RFY	Eliminations	Total
Current Assets				
Cash and cash equivalents	\$ 6,360,645	\$ 25,000	\$ -	\$ 6,385,645
Investments	7,503,193	-	-	7,503,193
Grants receivable, net	18,435,423	-	-	18,435,423
Pledges receivable, net	206,891	-	-	206,891
Prepaid expenses and other current assets	516,036	8,825	-	524,861
Intercompany receivables	858,705	-	(858,705)	-
Total current assets	33,880,893	33,825	(858,705)	33,056,013
 Property And Equipment, net	 20,482	 914,170	 -	 934,652
Noncurrent Assets				
Investments – long term, net	270,124	-	-	270,124
Grants receivable, net of current maturities	4,411,861	-	-	4,411,861
Pledges receivable, net of current maturities	32,051	-	-	32,051
Loans receivable	523,417	-	-	523,417
Total noncurrent assets	5,237,453	-	-	5,237,453
 Total assets	 \$ 39,138,828	 \$ 947,995	 \$ (858,705)	 \$ 39,228,118

Liabilities And Net Assets	IYF	RFY	Eliminations	Total
Current Liabilities				
Accounts payable and accrued liabilities	\$ 515,181	\$ -	\$ -	\$ 515,181
Accrued salaries and related benefits	525,844	-	-	525,844
Deferred revenue	511,061	-	-	511,061
Grants payable	237,241	-	-	237,241
Intercompany payables	-	858,705	(858,705)	-
Total current liabilities	<u>1,789,327</u>	<u>858,705</u>	<u>(858,705)</u>	<u>1,789,327</u>
Noncurrent Liabilities				
Loan payable	200,000	-	-	200,000
Total liabilities	<u>1,989,327</u>	<u>858,705</u>	<u>(858,705)</u>	<u>1,989,327</u>
Net Assets				
Unrestricted				
Undesignated	1,581,208	89,290	-	1,670,498
Designated for reserve	6,867,329	-	-	6,867,329
Designated for endowment	2,000,000	-	-	2,000,000
Total unrestricted net assets	<u>10,448,537</u>	<u>89,290</u>	<u>-</u>	<u>10,537,827</u>
Temporarily restricted	25,736,758	-	-	25,736,758
Permanently restricted	964,206	-	-	964,206
Total net assets	<u>37,149,501</u>	<u>89,290</u>	<u>-</u>	<u>37,238,791</u>
Total liabilities and net assets	<u>\$ 39,138,828</u>	<u>\$ 947,995</u>	<u>\$ (858,705)</u>	<u>\$ 39,228,118</u>

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

**Combining Statement Of Activities
Year Ended December 31, 2011**

	IYF	RFY	Eliminations	Total
Unrestricted revenue:				
Grants and contributions	\$ 2,730,053	\$ -	\$ -	\$ 2,730,053
Investment income, net of investment fees	101,950	-	-	101,950
Other revenue	401,188	534,844	(509,884)	426,148
Net assets released from donor restrictions	21,394,090	-	-	21,394,090
Total unrestricted revenue	24,627,281	534,844	(509,884)	24,652,241
Expenses:				
Program services:				
Grants	7,674,388	-	-	7,674,388
Salaries and benefits	7,253,256	-	-	7,253,256
Consultants	2,961,768	-	-	2,961,768
Travel	1,450,011	-	-	1,450,011
Office expenses	742,890	-	-	742,890
Other	808,082	-	-	808,082
Total program services	20,890,395	-	-	20,890,395
Fundraising:				
Salaries and benefits	54,436	-	-	54,436
Travel	188	-	-	188
Office expenses	5,048	-	-	5,048
Other	345	-	-	345
Total fundraising	60,017	-	-	60,017
General and administrative:				
Salaries and benefits	2,161,947	-	-	2,161,947
Consultants	157,296	-	-	157,296
Travel	104,828	-	-	104,828
Office expenses	273,248	507,400	(509,884)	270,764
Other	698,188	-	-	698,188
Total general and administrative	3,395,507	507,400	(509,884)	3,393,023
Total expenses	24,345,919	507,400	(509,884)	24,343,435
Change in unrestricted net assets before other items	281,362	27,444	-	308,806
Other items:				
Realized gains on sales of investments	231,474	-	-	231,474
Unrealized losses on investments	(282,557)	-	-	(282,557)
Currency loss	(923)	-	-	(923)
Change in unrestricted net assets	\$ 229,356	\$ 27,444	\$ -	\$ 256,800

(Continued)

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

**Combining Statement Of Activities (Continued)
Year Ended December 31, 2011**

	IYF	RFY	Eliminations	Total
Temporarily restricted revenue:				
Grants and contributions	\$ 25,397,862	\$ -	\$ -	\$ 25,397,862
De-Obligations	(1,317,924)	-	-	(1,317,924)
Dividends and interest income, net of investment fees	62,008	-	-	62,008
Other revenue	-	-	-	-
Net assets released from donor restrictions	(21,394,090)	-	-	(21,394,090)
Change in temporarily restricted net assets before other items	2,747,856	-	-	2,747,856
Other items:				
Realized losses on sales of investments	114,951	-	-	114,951
Unrealized losses on investments	(202,761)	-	-	(202,761)
Currency loss	(124,072)	-	-	(124,072)
Change in temporarily restricted net assets	\$ 2,535,974	\$ -	\$ -	\$ 2,535,974
Permanently restricted revenue:				
Grants and contributions	\$ 132,244	\$ -	\$ -	\$ 132,244
Change in permanently restricted net assets	\$ 132,244	\$ -	\$ -	\$ 132,244
Change in net assets	\$ 2,897,574	\$ 27,444	\$ -	\$ 2,925,018

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

**Combining Statement Of Changes In Net Assets
Year Ended December 31, 2011**

	IYF	RFY	Eliminations	Total
Unrestricted net assets:				
Net assets at beginning of year	\$ 10,219,181	\$ 61,846	\$ -	\$ 10,281,027
Change in unrestricted net assets	229,356	27,444	-	256,800
Net assets at end of year	\$ 10,448,537	\$ 89,290	\$ -	\$ 10,537,827
Temporarily restricted net assets:				
Net assets at beginning of year	\$ 23,200,784	\$ -	\$ -	\$ 23,200,784
Change in temporarily restricted net assets	2,535,974	-	-	2,535,974
Net assets at end of year	\$ 25,736,758	\$ -	\$ -	\$ 25,736,758
Permanently restricted net assets:				
Net assets at beginning of year	\$ 831,962	\$ -	\$ -	\$ 831,962
Change in permanently restricted net assets	132,244	-	-	132,244
Net assets at end of year	\$ 964,206	\$ -	\$ -	\$ 964,206