

International Youth Foundation and Affiliates

Consolidated Financial Report
December 31, 2014

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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, 2014, 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, 2014, 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 2013 combined financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 23, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited combined financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2015, 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.

McGladrey LLP

McLean, Virginia
April 29, 2015

International Youth Foundation and Affiliates

**Consolidated Statement of Financial Position
December 31, 2014
(With Comparative Totals for 2013)**

Assets	2014	2013
Current Assets		
Cash and cash equivalents	\$ 8,236,402	\$ 8,222,323
Investments (Notes 2 and 10)	5,699,343	5,593,352
Grants receivable, net (Note 3)	10,835,676	24,354,738
Pledges receivable, net	156,201	182,747
Prepaid expenses and other current assets	480,544	467,766
Total current assets	25,408,166	38,820,926
Property and Equipment, Net (Note 4)	563,435	556,128
Noncurrent Assets		
Cash and cash equivalents held for endowment	352,325	228,388
Investments held for endowment (Notes 2 and 10)	4,054,182	3,926,912
Investments – long term, net (Notes 2 and 10)	209,406	213,058
Grants receivable, net of current maturities (Note 3)	2,914,543	2,976,460
Total noncurrent assets	7,530,456	7,344,818
Total assets	\$ 33,502,057	\$ 46,721,872

See Notes to Consolidated Financial Statements.

International Youth Foundation and Affiliates

**Consolidated Statement of Financial Position
December 31, 2014
(With Comparative Totals for 2013)**

Liabilities and Net Assets	2014	2013
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,287,426	\$ 1,051,244
Accrued salaries and related benefits	558,679	558,515
Deferred revenue	75,381	24,523
Grants payable	163,863	91,008
Total current liabilities	2,085,349	1,725,290
Total liabilities	2,085,349	1,725,290
Contingency (Note 9)		
Net Assets (Note 7)		
Unrestricted		
Undesignated	2,070,173	2,725,650
Designated for reserve (Note 5)	6,867,329	6,867,329
Designated for endowment (Notes 5 and 11)	2,862,053	2,752,856
Total unrestricted net assets	11,799,555	12,345,835
Temporarily restricted (Note 6)	18,435,119	31,502,413
Permanently restricted (Note 11)	1,182,034	1,148,334
Total net assets	31,416,708	44,996,582
Total liabilities and net assets	\$ 33,502,057	\$ 46,721,872

See Notes to Consolidated Financial Statements.

International Youth Foundation and Affiliates

Consolidated Statement of Activities
 Year Ended December 31, 2014
 (With Comparative Totals for 2013)

	2014			Total	2013 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Support and Revenue					
Grants and contracts	\$ 1,596,957	\$ 11,589,216	\$ -	\$ 13,186,173	\$ 23,127,910
Contributions	188,527	-	33,700	222,227	258,688
De-obligations	-	(81,791)	-	(81,791)	(329,338)
Investment income, net of investment fees (Note 2)	138,355	13,904	-	152,259	176,276
Sales and fees	96,006	-	-	96,006	-
Other revenue	21,422	50,000	-	71,422	705,140
Net assets released from donor restrictions – program restriction accomplished (Note 6)	24,668,482	(24,668,482)	-	-	-
Total support and revenue	26,709,749	(13,097,153)	33,700	13,646,296	23,938,676
Expenses					
Program services:					
Grants	7,613,865	-	-	7,613,865	9,350,362
Salaries and benefits	10,088,068	-	-	10,088,068	10,621,791
Consultants	2,897,026	-	-	2,897,026	6,294,629
Travel	1,737,660	-	-	1,737,660	2,179,645
Office expenses	712,133	-	-	712,133	976,520
Other	451,804	-	-	451,804	1,160,010
Total program services	23,500,556	-	-	23,500,556	30,582,957
Fundraising:					
Salaries and benefits	152,436	-	-	152,436	119,167
Consultants	-	-	-	-	50,400
Travel	3,310	-	-	3,310	4,364
Office expenses	15,062	-	-	15,062	13,929
Other	235	-	-	235	-
Total fundraising	171,043	-	-	171,043	187,860
General and administrative:					
Salaries and benefits	2,579,292	-	-	2,579,292	2,346,848
Consultants	377,633	-	-	377,633	173,272
Travel	44,242	-	-	44,242	113,064
Office expenses	121,371	-	-	121,371	503,016
Other	715,529	-	-	715,529	727,863
Total general and administrative	3,838,067	-	-	3,838,067	3,864,063
Total expenses	27,509,666	-	-	27,509,666	34,634,880

(Continued)

International Youth Foundation and Affiliates

Consolidated Statement of Activities (Continued)

Year Ended December 31, 2014

(With Comparative Totals for 2013)

	2014			Total	2013 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Change in net assets before other items	\$ (799,917)	\$ (13,097,153)	\$ 33,700	\$ (13,863,370)	\$ (10,696,204)
Other Items					
Realized gains on sales of investments	155,746	27,810	-	183,556	552,304
Unrealized gains on investments	98,129	3,634	-	101,763	690,578
Currency gains (losses)	(238)	(1,585)	-	(1,823)	1,482
Change in net assets	(546,280)	(13,067,294)	33,700	(13,579,874)	(9,451,840)
Net Assets					
Beginning	12,345,835	31,502,413	1,148,334	44,996,582	54,448,422
Ending	\$ 11,799,555	\$ 18,435,119	\$ 1,182,034	\$ 31,416,708	\$ 44,996,582

See Notes to Consolidated Financial Statements.

International Youth Foundation and Affiliates

Consolidated Statement of Cash Flows
Year Ended December 31, 2014
(With Comparative Totals for 2013)

	2014	2013
Cash Flows From Operating Activities		
Change in net assets	\$ (13,579,874)	\$ (9,451,840)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	79,222	214,134
Realized gains on sales of investments	(183,556)	(552,304)
Unrealized gains losses on investments	(101,763)	(690,578)
Contributions restricted to long-term investment	(33,700)	(183,000)
Loss on disposal of fixed assets	-	10,592
Changes in assets and liabilities:		
(Increase) decrease in:		
Grants receivable	13,580,979	5,946,894
Pledges receivable	26,546	(52,724)
Prepaid expenses and other current assets	(12,778)	(182,132)
Increase (decrease) in:		
Accounts payable and accrued liabilities	236,182	427,044
Accrued salaries and related benefits	164	41,091
Deferred revenue	50,858	(69,499)
Grants payable	72,855	(125,565)
Net cash provided by (used in) operating activities	135,135	(4,667,887)
Cash Flows From Investing Activities		
Purchase of property and equipment	(86,529)	(46,018)
Purchase of investments	(4,409,727)	(6,071,354)
Proceeds from sale of investments	4,465,437	6,019,053
Collections on loans receivable	-	471,934
Net cash provided by (used in) investing activities	(30,819)	373,615
Cash Flows From Financing Activities		
Principal payments of loan payable	-	(200,000)
Proceeds from contributions restricted to long-term investment	33,700	183,000
Net cash provided by (used in) financing activities	33,700	(17,000)
Net increase (decrease) in cash and cash equivalents	138,016	(4,311,272)
Cash and Cash Equivalents		
Beginning	8,450,711	12,761,983
Ending	\$ 8,588,727	\$ 8,450,711

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 (IYF) and Affiliates (collectively, IYF) 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 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.

International Youth Foundation Inc, S.A.R.L.A.U. – In 2014, IYF 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. IYF 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 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 IYF, RFY and IYF-MOR. All significant intercompany transactions have been eliminated.

Cash and cash equivalents: IYF considers investments in money market funds of \$1,028,036 at December 31, 2014, 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, 2014, cash balances totaling \$8,091,736 exceeded the limit. However, management believes the risk in these institutions to be minimal. At December 31, 2014, cash totaling \$1,011,668 was held in numerous financial institutions outside the United States, which are not insured by FDIC.

International Youth Foundation and Affiliates

Notes to Consolidated Financial Statements

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

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.

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, 2014.

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 the appropriate revenue category of net assets. In regards to allowance for doubtful promises, management's evaluation is based on experience with the donors and collections. All pledges receivable are deemed collectible within one year at December 31, 2014; therefore, there was no allowance for doubtful promises at December 31, 2014.

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, 2014.

International Youth Foundation and Affiliates

Notes to Consolidated Financial Statements

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

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 4.0 %.

Grants payable: Grants obligated by IYF are recognized as payables and expenses when the reimbursement 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 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 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: 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 consolidated financial statements. IYF and RFY are not considered private foundations.

International Youth Foundation and Affiliates

Notes to Consolidated Financial Statements

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

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. In 2015, IYF-MOR will file its first tax return in Morocco.

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.

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, 2013, from which the summarized information was derived.

Subsequent events: IYF evaluated subsequent events through April 29, 2015, which is the date the consolidated financial statements were available to be issued.

International Youth Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 2. Investments

Investments consist of the following at December 31, 2014:

	<u>Market Value</u>
Current	
U.S. government bonds and municipal bonds	\$ 794,644
Corporate bonds and notes	553,375
Common stock	1,686,199
Fixed income mutual funds	720,502
Equity mutual funds	1,901,372
Preferred stock	43,251
	<u>5,699,343</u>
Long Term	
Common stock	362,191
Fixed income mutual funds	829,515
Equity mutual funds	2,846,976
Preferred stock	15,500
	<u>4,054,182</u>
Private equity investments	<u>209,406</u>
	<u>\$ 9,962,931</u>

Interest and dividend income of \$152,259 is net of investment expenses totaling \$39,525.

Note 3. Grants Receivable

All grants receivable are considered to be collectible within one year, unless otherwise stated by the grantor. Grants receivable that will not be collected within one year have been discounted using a current interest rate of 4% at December 31, 2014. Total discount for the year ended December 31, 2014, was \$116,582.

Following is a summary, by years, of grants receivable as of December 31, 2014:

<u>Year Ending December 31,</u>	
2015	\$ 10,835,676
2016	2,914,543
	<u>13,750,219</u>
Less current maturities	10,835,676
	<u>\$ 2,914,543</u>

International Youth Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 4. Property and Equipment

Property and equipment consist of the following at December 31, 2014:

Land	\$ 324,980
Building and improvements	3,227,930
Furniture and equipment	385,832
	<u>3,938,742</u>
Less depreciation and amortization	(3,375,307)
	<u><u>\$ 563,435</u></u>

Total depreciation expense for the year ended December 31, 2014, was \$79,222.

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 11), 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, 2014, due to the purpose restriction being accomplished.

Changes in temporarily restricted net assets, during the year ended December 31, 2014, were as follows:

	Balance December 31, 2013	Additions	De-Obligated	Released	Balance December 31, 2014
Purpose restricted	\$ 31,179,982	\$ 11,640,337	\$ (81,791)	\$ (24,668,482)	\$ 18,070,046
Endowment earnings	322,431	42,642	-	-	365,073
	<u>\$ 31,502,413</u>	<u>\$ 11,682,979</u>	<u>\$ (81,791)</u>	<u>\$ (24,668,482)</u>	<u>\$ 18,435,119</u>

International Youth Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 7. Net Assets

Net assets at December 31, 2014, consist of the following by entity:

	IYF	RFY	IYF-MOR	Total
Unrestricted				
Undesignated	\$ 1,973,527	\$ 96,646	\$ -	\$ 2,070,173
Designated for reserve	6,867,329	-	-	6,867,329
Designated for endowment	2,862,053	-	-	2,862,053
Total unrestricted net assets	11,702,909	96,646	-	11,799,555
Temporarily restricted	18,435,119	-	-	18,435,119
Permanently restricted	1,182,034	-	-	1,182,034
Total net assets	\$ 31,320,062	\$ 96,646	\$ -	\$ 31,416,708

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 2014 was \$617,610.

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 \$5,350 in 2014. This contribution was calculated as a percentage of employees' salaries in excess of IRC limitations.

Note 9. Contingency

IYF received approximately 47% 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.

International Youth Foundation and Affiliates

Notes to Consolidated Financial Statements

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.

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, 2014:

Asset Category	Level 1	Level 2	Level 3	Total
Investments Included in				
Cash and Cash Equivalents				
Money market funds	\$ 908,041	\$ -	\$ -	\$ 908,041
U.S. Treasury bill	-	119,995	-	119,995
	908,041	119,995	-	1,028,036
Investments				
Equity Mutual Funds				
Domestic large cap growth	1,381,614	-	-	1,381,614
Domestic small cap value	1,003,616	-	-	1,003,616
Domestic small cap growth	340,362	-	-	340,362
Domestic growth equity	666,542	-	-	666,542
Emerging markets	914,937	-	-	914,937
International	441,277	-	-	441,277
U.S. Treasury and Agency Obligations				
U.S. Treasury and agency bonds	-	542,387	-	542,387
Asset and mortgage backed bonds	-	252,257	-	252,257
Corporate Bonds and Notes	-	553,375	-	553,375
Corporate Equity Securities				
Consumer discretionary	292,446	-	-	292,446
Consumer staples	171,473	-	-	171,473
Energy	239,977	-	-	239,977
Finance	326,346	-	-	326,346
Health care	337,399	-	-	337,399
Industrials	211,225	-	-	211,225
Information technology	414,234	-	-	414,234
Materials	39,940	-	-	39,940
Telecommunication services	15,350	-	-	15,350
Preferred Stock	58,751	-	-	58,751
Fixed Income Mutual Fund	1,550,017	-	-	1,550,017
Private Equity Investments				
Buyout	-	-	15,851	15,851
Venture capital	-	-	152,287	152,287
Real estate	-	-	41,268	41,268
	8,405,506	1,348,019	209,406	9,962,931
	\$ 9,313,547	\$ 1,468,014	\$ 209,406	\$ 10,990,967

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, 2014:

	<u>Private Equity Investments</u>
Beginning balance as of December 31, 2013	\$ 213,058
Realized and unrealized gains, net	9,171
Return of capital	(12,823)
Balance as of December 31, 2014	<u>\$ 209,406</u>

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

<u>Investment</u>	<u>Fair Value at 12/31/14</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Private equity investments	\$ 209,406	\$ -	None	Locked into a 10-year period

Note 11. 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 Affiliates

Notes to Consolidated Financial Statements

Note 11. Permanently Restricted Net Assets and Endowment (Continued)

Endowment net asset composition by type of fund as of December 31, 2014, is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 365,073	\$ 1,182,034	\$ 1,547,107
Board designated endowment funds	2,862,053	-	-	2,862,053
	<u>\$ 2,862,053</u>	<u>\$ 365,073</u>	<u>\$ 1,182,034</u>	<u>\$ 4,409,160</u>

Changes in endowment net assets for the year ended December 31, 2014, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,752,856	\$ 322,431	\$ 1,148,334	\$ 4,223,621
Contributions	-	-	33,700	33,700
Investment earnings:				
Interest and dividends	28,675	11,198	-	39,873
Unrealized and realized gains	80,522	31,444	-	111,966
	<u>109,197</u>	<u>42,642</u>	<u>33,700</u>	<u>185,539</u>
Endowment net assets, end of year	<u>\$ 2,862,053</u>	<u>\$ 365,073</u>	<u>\$ 1,182,034</u>	<u>\$ 4,409,160</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.

International Youth Foundation and Affiliates

Notes to Consolidated Financial Statements

Note 11. Permanently Restricted Net Assets and Endowment (Continued)

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.

Note 12. Subsequent Events

The following subsequent events occurred subsequent to December 31, 2014:

- *Sale of building* – In January 2015, RFY sold the office building that is used by IYF as its offices. The proceeds from the sale were \$1,600,000. On January 30, 2015, IYF entered into a lease agreement to rent its current office facility from the purchaser of the building. The term of the lease is 12 months ending on January 31, 2016.
- *IYF and RFY Restructure* – Effective January 1, 2015, all of IYF's accounting and IT personnel, except for the CFO, became employees of RFY. IYF will purchase IT and accounting services from RFY under a shared services agreement that will be directly charged to all IYF projects.



**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, 2014, 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.

McGladrey LLP

McLean, Virginia
April 29, 2015

International Youth Foundation and Affiliates

**Consolidating Statement of Financial Position
December 31, 2014**

Assets	IYF	RFY	IYF-MOR	Eliminations	Total
Current Assets					
Cash and cash equivalents	\$ 7,844,928	\$ 253,956	\$ 137,518	\$ -	\$ 8,236,402
Investments	5,699,343	-	-	-	5,699,343
Grants receivable, net	10,835,676	-	-	-	10,835,676
Pledges receivable, net	156,201	-	-	-	156,201
Prepaid expenses and other current assets	463,354	8,825	8,365	-	480,544
Intercompany receivable	777,271	-	8,179	(785,450)	-
Total current assets	25,776,773	262,781	154,062	(785,450)	25,408,166
Property and Equipment, Net	93,238	470,197	-	-	563,435
Noncurrent Assets					
Cash and cash equivalents held for endowment	352,325	-	-	-	352,325
Investments held for endowment	4,054,182	-	-	-	4,054,182
Investments – long term, net	209,406	-	-	-	209,406
Grants receivable, net of current maturities	2,914,543	-	-	-	2,914,543
Total noncurrent assets	7,530,456	-	-	-	7,530,456
Total assets	\$ 33,400,467	\$ 732,978	\$ 154,062	\$ (785,450)	\$ 33,502,057

International Youth Foundation and Affiliates

Consolidating Statement of Financial Position
December 31, 2014

Liabilities and Net Assets	IYF	RFY	IYF-MOR	Eliminations	Total
Current Liabilities					
Accounts payable and accrued liabilities	\$ 1,278,712	\$ -	\$ 8,714	\$ -	\$ 1,287,426
Accrued salaries and related benefits	554,270	-	4,409	-	558,679
Deferred revenue	75,381	-	-	-	75,381
Grants payable	163,863	-	-	-	163,863
Intercompany payables	8,179	636,332	140,939	(785,450)	-
Total current liabilities	2,080,405	636,332	154,062	(785,450)	2,085,349
Total liabilities	2,080,405	636,332	154,062	(785,450)	2,085,349
Net Assets					
Unrestricted					
Undesignated	1,973,527	96,646	-	-	2,070,173
Designated for reserve	6,867,329	-	-	-	6,867,329
Designated for endowment	2,862,053	-	-	-	2,862,053
Total unrestricted net assets	11,702,909	96,646	-	-	11,799,555
Temporarily restricted	18,435,119	-	-	-	18,435,119
Permanently restricted	1,182,034	-	-	-	1,182,034
Total net assets	31,320,062	96,646	-	-	31,416,708
Total liabilities and net assets	\$ 33,400,467	\$ 732,978	\$ 154,062	\$ (785,450)	\$ 33,502,057

International Youth Foundation and Affiliates

Consolidating Statement of Activities
Year Ended December 31, 2014

	IYF	RFY	IYF-MOR	Eliminations	Total
Unrestricted Revenue					
Grants and contracts	\$ 1,588,592	\$ -	\$ 61,390	\$ (53,025)	\$ 1,596,957
Contributions	188,527	-	-	-	188,527
Investment income, net of investment fees	138,355	-	-	-	138,355
Sales and fees	96,006	-	-	-	96,006
Other revenue	(3,704)	559,385	-	(534,259)	21,422
Net assets released from donor restrictions	24,668,482	-	-	-	24,668,482
Total unrestricted revenue	26,676,258	559,385	61,390	(587,284)	26,709,749
Expenses					
Program services:					
Grants	7,613,865	-	-	-	7,613,865
Salaries and benefits	10,083,334	-	50,995	(46,261)	10,088,068
Consultants	2,894,521	-	2,621	(116)	2,897,026
Travel	1,737,456	-	1,192	(988)	1,737,660
Office expenses	711,502	-	3,349	(2,718)	712,133
Other	451,513	-	3,233	(2,942)	451,804
Total program services	23,492,191	-	61,390	(53,025)	23,500,556
Fundraising:					
Salaries and benefits	152,436	-	-	-	152,436
Travel	3,310	-	-	-	3,310
Office expenses	15,062	-	-	-	15,062
Other	235	-	-	-	235
Total fundraising	171,043	-	-	-	171,043
General and administrative:					
Salaries and benefits	2,579,292	-	-	-	2,579,292
Consultants	377,633	-	-	-	377,633
Travel	44,242	-	-	-	44,242
Office expenses	217,250	438,380	-	(534,259)	121,371
Other	715,529	-	-	-	715,529
Total general and administrative	3,933,946	438,380	-	(534,259)	3,838,067
Total expenses	27,597,180	438,380	61,390	(587,284)	27,509,666
Change in unrestricted net assets before other items	(920,922)	121,005	-	-	(799,917)
Other Items					
Realized gains on sales of investments	155,746	-	-	-	155,746
Unrealized gains on investments	98,129	-	-	-	98,129
Currency losses	(238)	-	-	-	(238)
Change in unrestricted net assets	\$ (667,285)	\$ 121,005	\$ -	\$ -	\$ (546,280)

(Continued)

International Youth Foundation and Affiliates

Consolidating Statement of Activities (Continued)
Year Ended December 31, 2014

	IYF	RFY	IYF-MOR	Eliminations	Total
Temporarily Restricted Revenue					
Grants and contracts	\$ 11,589,216	\$ -	\$ -	\$ -	\$ 11,589,216
De-obligations	(81,791)	-	-	-	(81,791)
Dividends and interest income, net of investment fees	13,904	-	-	-	13,904
Other revenue	50,000	-	-	-	50,000
Net assets released from donor restrictions	(24,668,482)	-	-	-	(24,668,482)
Change in temporarily restricted net assets before other items	(13,097,153)	-	-	-	(13,097,153)
Other Items					
Realized gains on sales of investments	27,810	-	-	-	27,810
Unrealized gains on investments	3,634	-	-	-	3,634
Currency losses	(1,585)	-	-	-	(1,585)
Change in temporarily restricted net assets	\$ (13,067,294)	\$ -	\$ -	\$ -	\$ (13,067,294)
Permanently Restricted Revenue					
Contributions	\$ 33,700	\$ -	\$ -	\$ -	\$ 33,700
Change in permanently restricted net assets	\$ 33,700	\$ -	\$ -	\$ -	\$ 33,700
Change in net assets	\$ (13,700,879)	\$ 121,005	\$ -	\$ -	\$ (13,579,874)

International Youth Foundation and Affiliates

Consolidating Statement of Changes in Net Assets

Year Ended December 31, 2014

	IYF	RFY	IYF-MOR	Eliminations	Total
Unrestricted Net Assets					
Net assets at beginning of year	\$ 12,370,194	\$ (24,359)	\$ -	\$ -	\$ 12,345,835
Change in unrestricted net assets	(667,285)	121,005	-	-	(546,280)
Net assets at end of year	\$ 11,702,909	\$ 96,646	\$ -	\$ -	\$ 11,799,555
Temporarily Restricted Net Assets					
Net assets at beginning of year	\$ 31,502,413	\$ -	\$ -	\$ -	\$ 31,502,413
Change in temporarily restricted net assets	(13,067,294)	-	-	-	(13,067,294)
Net assets at end of year	\$ 18,435,119	\$ -	\$ -	\$ -	\$ 18,435,119
Permanently Restricted Net Assets					
Net assets at beginning of year	\$ 1,148,334	\$ -	\$ -	\$ -	\$ 1,148,334
Change in permanently restricted net assets	33,700	-	-	-	33,700
Net assets at end of year	\$ 1,182,034	\$ -	\$ -	\$ -	\$ 1,182,034