

Nepal Youth Foundation

Financial Statements

Year ended June 30, 2011

with

Report of Independent Auditors

Report of Independent Auditors

Board of Directors
Nepal Youth Foundation

CERTIFIED PUBLIC
ACCOUNTANTS

DONALD WILSON
ALAN MARKLE
CHARLES STUCKEY
DAVID HARDESTY
DAVID BOTT
DAVID BAILEY
MICHAEL SMITH

We have audited the accompanying statement of financial position of Nepal Youth Foundation (formerly the Nepalese Youth Opportunity Foundation) as of June 30, 2011, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the management of Nepal Youth Foundation. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the activities of Nepal Youth Foundation in Nepal, which statements reflect total assets of \$115,788 as of June 30, 2011, and total support and revenue of \$6,638 and expenses of \$1,658,660 for the year ended June 30, 2011. Other auditors audited the assets, support and revenue and expenses and furnished their report to us. We based our opinion, insofar as it relates to the amounts included for the activities of Nepal Youth Foundation in Nepal, solely on the report of the other auditors.

Nepal Youth Foundation derived the prior year summarized comparative information from its June 30, 2010 financial statements and, in our report dated November 2, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Nepal Youth Foundation as of June 30, 2011, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Wilson Markle Stuckey Hardesty & Bott
Wilson Markle Stuckey Hardesty & Bott
February 1, 2012

Nepal Youth Foundation
Statement of Financial Position
June 30, 2011 with comparative totals only as of June 30, 2010

	United States	Nepal	2011 Totals	2010 Totals only
Assets				
Current assets				
Cash and cash equivalents	\$ 295,600	\$ 69,985	\$ 365,585	\$ 339,977
Investments, at fair value	3,237,453	-	3,237,453	3,311,973
Grants receivable, net	-	-	-	73,576
Other receivables	10,000	-	10,000	-
Grants advanced	-	45,527	45,527	18,925
Prepaid expenses	10,035	-	10,035	8,151
Total current assets	3,553,088	115,512	3,668,600	3,752,602
Grants receivable due in over one year	-	-	-	-
Property and equipment, net	3,120	-	3,120	721
Deposits	2,410	276	2,686	1,513
Total assets	\$ 3,558,618	\$ 115,788	\$ 3,674,406	\$ 3,754,836
Liabilities and net assets				
Current liabilities				
Accounts payable	\$ 2,321	\$ 16,435	\$ 18,756	\$ 17,915
Accrued compensation	19,402	2,840	22,242	67,953
Total current liabilities	21,723	19,275	40,998	85,868
Net assets				
Unrestricted				
Undesignated	1,340,934	40,686	1,381,620	1,225,630
Board designated	561,045	55,827	616,872	620,258
Total unrestricted net assets	1,901,979	96,513	1,998,492	1,845,888
Temporarily restricted	1,634,916	-	1,634,916	1,823,080
Total net assets	3,536,895	96,513	3,633,408	3,668,968
Total liabilities and net assets	\$ 3,558,618	\$ 115,788	\$ 3,674,406	\$ 3,754,836

See accompanying notes.

Nepal Youth Foundation
Statement of Activities and Changes in Net Assets
Year ended June 30, 2011 with comparative totals only for the year ended June 30, 2010

	Unrestricted		Temporarily restricted United States	2011 Totals	2010 Totals only
	United States	Nepal			
Support and revenue					
Grants and contributions	\$ 781,081	\$ 6,631	\$714,880	\$1,502,592	\$1,772,379
Investment income, net	510,836	7	—	510,843	151,504
Other income (loss)	—	—	—	—	20
Net assets released from activity restrictions	903,044	—	(903,044)	—	—
Total support and revenue	2,194,961	6,638	(188,164)	2,013,435	1,923,903
Expenses					
Program services	6,283	1,658,363	—	1,664,646	1,471,707
Supporting services					
Management and general	351,723	—	—	351,723	318,681
Fundraising	28,946	299	—	29,245	27,466
Total expenses	386,952	1,658,662	—	2,045,614	1,817,854
Change in net assets	1,808,009	(1,652,024)	(188,164)	(32,179)	106,049
Transfers of net assets	(1,716,986)	1,716,986	—	—	—
Currency translation gain (loss)	—	(3,381)	—	(3,381)	15,724
Net assets, beginning of year	1,810,956	34,932	1,823,080	3,668,968	3,547,195
Net assets, end of year	\$1,901,979	\$ 96,513	\$1,634,916	\$3,633,408	\$3,668,968

See accompanying notes.

Nepal Youth Foundation

Statement of Functional Expenses

Year ended June 30, 2011 with comparative totals only for the year ended June 30, 2010

Expenses	Program services		Management		Supporting services		2011 Totals	2010 Totals only
	United States	Nepal	Nepal and general	Fundraising	Allocated indirect	2010		
Salaries	\$ 192	\$ 74,123	\$ 190,893	\$ 270	\$ -	\$ -	\$ 262,215	
Payroll taxes and benefits	15	-	44,039	21	-	-	35,825	
Professional fees	-	5,590	35,263	-	-	-	35,572	
Occupancy	-	4,067	-	-	17,557	21,624	19,255	
Communications	-	2,810	-	-	3,460	6,270	6,303	
Postage and shipping	-	-	-	15	2,458	2,473	3,611	
Supplies	-	1,170	135	58	4,552	5,915	8,670	
Equipment rental and maintenance	-	2,862	-	-	3,382	6,244	8,607	
Insurance	-	993	-	-	2,717	3,710	3,604	
Taxes, licenses and dues	-	-	209	-	425	634	739	
Bank fees	-	64	987	12,999	-	14,050	19,301	
Printing and publications	-	4,113	854	299	31,074	36,340	22,624	
Travel	2,327	17,578	5	8,851	4,155	32,916	26,516	
Promotion	-	-	-	21	893	914	5,542	
Training	-	-	-	-	7,744	7,744	836	
Grants	-	1,482,830	-	-	-	1,482,830	1,301,325	
Scholarships	-	-	-	-	-	-	348	
Direct client support	-	4,132	-	-	-	4,132	3,871	
Depreciation	-	-	-	-	553	553	730	
Miscellaneous	3,669	58,031	559	6,600	-	68,859	52,360	
Allocated	80	-	78,779	111	(78,970)	-	-	
Total expenses	\$ 6,283	\$ 1,658,363	\$ 351,723	\$ 29,245	\$ -	\$ 2,045,614	\$ 1,817,854	

See accompanying notes.

Nepal Youth Foundation
Statement of Cash Flows
Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Change in net assets	\$ (32,179)	\$ 106,049
Adjustments to reconcile change in net assets to cash from operating activities		
Contributed investments	(116,372)	(101,252)
Net gain on investments	(436,738)	(84,612)
Depreciation	553	730
Changes in current assets and liabilities		
Grants receivable	73,576	208,243
Other receivables	(10,000)	10,085
Grants advanced	(26,602)	(4,762)
Prepaid expenses	(1,884)	(1,115)
Accounts payable	841	(41,129)
Accrued compensation	<u>(45,711)</u>	<u>19,472</u>
Net cash provided (used) by operating activities	(594,516)	111,709
Cash flows from investing activities		
Sale (Purchase) of investments, net	627,630	(854,090)
Purchase of property and equipment	(2,952)	-
Net change in deposits	<u>(1,173)</u>	<u>(10)</u>
Net cash provided (used) by investing activities	623,505	(854,100)
Currency translation gain (loss)	<u>(3,381)</u>	<u>15,724</u>
Change in cash and cash equivalents	28,989	(742,391)
Cash and cash equivalents, beginning of year	<u>339,977</u>	<u>1,066,644</u>
Cash and cash equivalents, end of year	<u>\$ 365,585</u>	<u>\$ 339,977</u>

See accompanying notes.

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2011

Basis of presentation and programs

Nepal Youth Foundation (Foundation) incorporated in California on June 26, 1990, and operates as a nonprofit public charity through offices in Sausalito, California and Kathmandu, Nepal. In June 2010, the Foundation changed its name from the Nepalese Youth Opportunity Foundation. The Foundation is devoted to bringing hope to the most destitute children in the beautiful but impoverished country of Nepal. With a personal touch, we provide them with what should be every child's birthright – education, housing, medical care and loving support. The programs of the Foundation include:

Liberating Girls from Indentured Servitude

In the Dang District in western Nepal, many indigenous families from the Tharu ethnic group subsist as farm laborers. Economic conditions force them into a desperate trade—selling their daughters to work far from home as bonded servants in private homes or as dishwashers in teahouses. Some of these children are as young as five years old. Alone and far from home, these "indentured daughters" have no knowledge of the ways of city people or of other cultures, and most speak only the local dialect. Their living conditions are entirely at the discretion of their employers. The girls seldom attend school and have no prospects for a decent future. Some employers ultimately force the girls into prostitution. The situation is tailor-made for abuse. For \$100, the Foundation rescues a girl from indentured servitude, gives her family a piglet or goat as compensation for her wages, and enables her to go to school, probably for the first time in her life. The Foundation pays all of expenses of educating the girls, including providing them with school supplies, books, and a kerosene lamp and kerosene, so they may study at night. In the past year, the Foundation liberated more than 4,000 indentured children. Overall, the Foundation has freed over 10,000 girls, and tens of thousands more have not been sold as a result of the Foundation's public awareness campaign.

Children's Homes

The Foundation has created two of the best children's homes in Nepal. J House (for boys) and K House (for girls) each hold up to 30 children. These children are the most vulnerable in the country. Some of them are orphans, abandoned by their parents, beggars or disabled. Many of them have endured more suffering at a young age than some of us have experienced in a lifetime, but they have found ways to triumph over their difficulties. We give these children not only all living, educational and medical expenses, but also love and personal attention—just as a good parent would do. We commit to them for the long term, from childhood through college, and provide what is usually the first real sense of security in their lives.

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2011

Basis of presentation and programs (continued)

Schools and scholarships

Education is the only real ticket out of poverty for destitute or orphaned children in Nepal. However, education in Nepal is not the same as it is in Western countries. Imagine not even being able to go to school and thus being unable to learn the basic skills needed to participate in society, get a job, understand the changing world or create a better life for oneself. Without an education, a child in Nepal is destined to lead a life of extreme poverty and backbreaking labor. Children at risk of living such a life are the beneficiaries of our program. An education is the only way to break the bonds of poverty, low caste and disability. This is especially true of girls, who are often illiterate, married before they are 14 years old, and spend the rest of their lives bearing children and working endless hours. The Foundation intervenes at critical points to make education possible for children who have no other hope. Each year, we give scholarships to approximately 4,000 youngsters, from kindergarten through medical school. Our students attend day school in Kathmandu and rural villages a day's walk from the nearest road, boarding school and college. Some of the children we sponsor are "untouchables," shut out from education for centuries. Others are disabled. We also help train teachers, build and improve classrooms and schools.

Nutritional Rehabilitation Home (NRH)

We have all seen the horrific images of severely malnourished children with huge bellies, glassy eyes and sticks for arms and legs. The problem can seem overwhelming. How can we truly help such children? The Foundation has found a simple, effective way that transforms these heartrending children into bouncy, active little people within a month or two. Moreover, our approach keeps the problem from recurring. Nepal is not the Sudan, yet half the children under five are malnourished, and poor nourishment is one of the leading causes of death for young children. Often, the problem is less one of poverty than of ignorance. In 1998, the Foundation opened the doors of the Nutritional Rehabilitation Home (NRH) in Kathmandu to nurse severely malnourished children back to health. Child and mother live together at the NRH during the course of treatment, usually about five to six weeks. While we rehabilitate the children, we educate their mothers in how to prepare nutritious meals using foods readily available in rural Nepal. We also instruct the mothers in how to pass on their knowledge to other mothers after they return to their villages. The program has served over 5,000 mother-child pairs to date. Each year, more than 1,000 children's lives are transformed by this project.

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2011

Basis of presentation and programs (continued)

Psychological counseling

Nepal is in its infancy as far as psychological counseling is concerned. There is much trauma among children because of the insurgency, which has raged in the country for the past 14 years. Disabled children, orphans, and homeless youth also suffer from oppression and discrimination, and they, too, are in need of counseling. In order to meet this need, the Foundation has established a counseling center aimed at training Nepali counselors to provide professional services to the many children who need it and to others whose job entails dealing with children and their problems. The Nepali counselors will also provide direct therapy to children. The center has introduced sand play therapy to Nepal – a form of therapy that transcends language and is therefore particularly suitable to the needs of children.

Vocational Education and Career Counseling (VECC)

Another major deficit in Nepal is vocational counseling. The unemployment rate in Nepal hovers around 50%. High education is not the same stepping stone to job opportunities that it is in most Western Countries; even people with advanced university degrees have difficulty finding jobs. Some sectors have a demand for skilled employees, but most young people lack the necessary training in these fields. For some children, guidance and training in a specific career path is far more helpful than years of higher education. The VECC has sponsored children in training programs for 20 different careers, such as electrician, lab technician, cook, and midwife, and the number continues to grow. The decision for a child to pursue job training rather than higher education is reached by the child and staff together, after several discussions and a number of assessments and tests. The Foundation has conducted extensive research into vocational schools throughout Nepal. In addition to vocational training, VECC provides career counseling to needy children. Many of the children supported by the Foundation, particularly those at J and K House, are orphans or were abandoned by their families. VECC teaches these kids general life skills such as compromise and negotiation, as well as specific skills for searching for employment. VECC also helps children explore their strengths and interests in order to identify careers where they can excel.

Empowering Dalit Daughters

In Nepali, the word "Dalit" denotes the untouchable caste. By any measure, the members of this caste are among the most downtrodden people anywhere. For hundreds of years, these occupation-based castes (e.g., tailors, metal and leather workers, basket weavers, potters, musicians and street cleaners), have endured social exclusion, discrimination, food shortages, lack of education and violence. About 70%

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2011

Basis of presentation and programs (continued)
Empowering Dalit Daughters (continued)

live below the poverty line. Many must endure work as bonded laborers. There are about 5 million Dalits in Nepal. Their life expectancy is seven years lower than the rest of the Nepali population, their female literacy rate shockingly low (12%) and their per capita income far less than the rest of the citizens of Nepal. The child and maternal mortality rates are twice as high as that of the rest of the population. Most of them are deprived of an education, and those who do go to school often suffer segregation and discrimination in the classroom.

The Foundation gives special attention to the members of this community by providing scholarships for 400 Dalit girls in remote villages in the lower grades and giving some preference in college scholarships to Dalits. Nevertheless, their status remains at the very bottom of Nepali society. This new program seeks to promote education of young, able Dalit women by granting them special college scholarships. In the summer of 2006, our staff fanned out throughout the country to interview scholarship candidates. We chose 20 young women who did well on their college entrance examinations; some of them are extraordinary. They are now in Kathmandu, and we are providing them with leadership training, counseling and communications skills, and have placed them in good colleges. A female student from the Dalit community who can finish 10th grade (the end of high school in Nepal) and even qualify to take the college entrance examination is a rare thing, and those who pass with good marks are even rarer. In a recent year's college entrance examinations, only 112 Dalit women passed in First Division, whereas almost 11,000 non-Dalit women achieved these high marks. Although the government has a set-aside program for Dalits in medical school, the places often go begging because there are so few students who qualify for medical school. The Foundation hopes to even the playing field in this regard. It is our goal to provide these young women with an education that will motivate them to give back to their community some of the benefits they received from these scholarships. The Foundation hopes that some will qualify to enter the professions – medical school, law school, engineering college and business school, so that they will become the leaders of their communities. It is difficult to see how these beleaguered populations can raise themselves from their abject status without such help. Already, the program has had success: Two young Dalit women in the program are an exception to the rule - one just graduated from medical school and another has just started. They plan to go back to their communities to practice medicine.

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2011

Basis of presentation and programs (continued)

Random Acts of Kindness

One of the most satisfying aspects of the work of the Foundation is providing timely, strategic help—instantly and without red tape—to many desperate people. These small acts of assistance make a crucial difference. Here is a very partial list of good works the Foundation has been able to do, with help from our supporters:

Subsidized heart surgeries for 50 patients at Nepal's only heart hospital. Most of these were children. Interestingly, all these life-saving procedures were the result of contributions made by a single donor. The donor has helped to save 50 lives! The average contribution of the Foundation to each surgery is about \$300. The heart hospital donates some of the cost of the surgery and hospitalization, a foundation established with funds from the estate of a member of the Nepali royal family donates a share, and some of the children's families, all completely impoverished, are able to raise funds in their communities.

Paid for surgery for a young boy who was seriously injured when he was run over by a tractor. The accident happened when the boy, in his excitement at seeing a vehicle for the first time after a new road to his village opened, ran beside the tractor and fell under it.

Paid a number of times for destitute families who were stranded in Kathmandu to return to their villages.

Pay the room rent for the alcoholic parents of some of the children at K House who would otherwise live on the street.

Provide life-saving support for children with leukemia, cancer and kidney failure. One of them is a very bright and sweet-natured 14-year-old orphan boy with leukemia. His two sisters, 10 and 12 years old, are both working as child servants. The Foundation finances his chemotherapy treatments.

On regular visits to remote areas where the Foundation has programs, our field workers identify children in need and bring them to Kathmandu with their parents for medical care or other assistance they may require.

Suffering abounds in a poor country like Nepal; conversely, it takes so little, in developed-country terms, to make a big difference.

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2011

Note 1 - Summary of significant accounting policies

Basis of accounting

The Foundation prepares its financial statements using the accrual basis of accounting. The Foundation records revenues when earned and expenses when incurring the related obligations.

Cash and cash equivalents

Cash and cash equivalents consist of amounts on hand and on deposit with commercial banks, available within 90 days of demand. The carrying amount of cash approximates fair value due to its short-term nature.

The Government of Nepal requires entities that operate homes for children to reserve 5% of annual expenditures in separate cash accounts. As of June 30, 2011, the Foundation set aside \$55,827, included with cash and cash equivalents, investments and board designated net assets herein, which the management of the Foundation believes to meet the requirements of the Government of Nepal.

Investments

Investments consist principally of debt securities of the U. S. Government and its agencies, equity securities of corporations, shares of registered investment companies (mutual and money market funds) and bank term deposits. The Foundation records investments at their fair market value and reports interest, dividends, gains, losses and changes in fair market value (unrealized gains and losses), net of custodial fees, as net investment income herein.

Grants receivable

Grants receivable consist principally of promises to give made by individuals and private foundations. The Foundation records grants receivable at their fair value, net of an estimated allowance for uncollectible grants. Fair value of grants receivable is the present value of expected future cash flows. The Foundation amortizes the discount, using the collection method, to grant support herein.

Property and equipment

Property and equipment consist of furniture, office and computer equipment. The Foundation records property and equipment at cost or fair value for donated items. The Foundation expenses property and equipment with a cost or fair value under \$1,000 and the cost of maintenance and repairs that does not improve or extend the lives of the property and equipment. The Foundation computes depreciation using the straight-line

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2011

Note 1 - Summary of significant accounting policies (continued)

Property and equipment (continued)

method over the estimated useful lives of the property and equipment, ranging from three to five years.

Under a General Agreement with the Social Welfare Council (Council) of the Government of Nepal, last renewed for five years effective October 23, 2007, property and equipment acquired by the Foundation in Nepal shall become the property of the Council or another entity of its choosing at the termination of the Agreement. Accordingly, the Foundation will expense subsequent acquisitions.

Contributions in-kind

The Foundation records donated property, equipment and other tangible goods at their estimated fair value as of the date of the donation. The Foundation records contributed services, which require a specialized skill and which the Foundation would have paid for if not donated, at the estimated fair market at the time it receives benefit of the services. The Foundation also receives donated services that do not require specific expertise, but which are nonetheless central to the operations of the Foundation.

Contributions and net assets

The Foundation recognizes contributions when a donor makes an unconditional promise to provide support. Net assets include cumulative unrestricted, temporarily restricted and permanently restricted net assets, net of cumulative expenses. Unrestricted net assets consist of revenue and contributions not restricted to a particular purpose or time by the donor, net of expenses. Temporarily restricted net assets consist of contributions restricted by the donor to a particular purpose or time. Temporarily restricted net assets become unrestricted net assets when the Foundation meets the donor purpose or time restriction. The policy of the Foundation is to classify as unrestricted revenues all donor restricted amounts that the Foundation receives and meets the purpose or time restriction within the same fiscal period. Permanently restricted net assets, of which the Foundation has none, would consist of contributions restricted by the donor for the Foundation to hold permanently, allowing for only use of the income generated by the contribution.

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2011

Note 1 - Summary of significant accounting policies (continued)

Allocation of functional expenses

The Foundation summarized the costs of providing its programs and other activities on a functional basis herein. Accordingly, the Foundation allocated certain costs between program and supporting services based on estimates of time and usage. The Foundation bases indirect expense allocations on the employee time expended on an activity.

The Foundation operates most of its supporting activities in California and program activities in Nepal. Accordingly, calculation of certain financial statement ratios may skew unfavorably due to significant cost differences between California and Nepal.

Foreign currency translation

The Foundation translates the financial statements of its activities in Nepal from their functional currencies into U. S. Dollars in conformity with accounting principles generally accepted in the United States. Accordingly, the Foundation translates all assets and liabilities based on current (year-end) exchange rates and all revenues and expenses based on the average exchange rate during the period. The Foundation records the resulting translation adjustment as currency translation gain or loss herein.

Estimated fair value of financial instruments

The Foundation estimates that the aggregate net fair value of financial instruments recognized on the statement of financial position (including receivables, payables and accrued expenses) approximates their carrying value as such financial instruments are short-term in nature, bear interest at current market rates or are stated at their fair value.

Income taxes

The Internal Revenue Service (IRS) and State of California Franchise Tax Board approved the Foundation as exempt from federal income tax under the Internal Revenue Code (IRC) and from California bank and corporation taxes under the California Revenue and Taxation Code. In addition, the IRS approved the Foundation to receive contributions that qualify for the charitable contribution deduction under the IRC and as a publicly supported organization as described in the IRC. Accordingly, donors are entitled to the maximum charitable contribution deduction allowed by law. Management of the Foundation concluded that no activities of the Foundation jeopardized its exemption from income taxes, its classification as a "public charity" or

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2011

Note 1 - Summary of significant accounting policies (continued)

Income taxes (continued)

subjected the Foundation to taxes on unrelated business income. Consequently, the Foundation did not provide for any income taxes.

The Foundation follows accounting principles generally accepted in the United States relating to the accounting for uncertainty in income taxes. Adoption of these provisions did not have any impact on the Foundation's liability for unrecognized tax liabilities. Management believes that the Foundation has adequately addressed all tax positions and that there are no unrecorded tax liabilities. Tax years 2007 to 2010 are open for examination by the Internal Revenue Service and years 2006 to 2010 by the California Franchise Tax Board.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported herein. Actual results could differ from those estimated.

Concentrations, credit and market risk

Cash and cash equivalents held by one commercial bank exceeded federal deposit insurance limits at various times during the year ended June 30, 2011. Investments are subject to credit and market risks. Credit risk is the probability that parties holding or supporting an investment will default or otherwise fail to perform. Market risk is the inherent change in the fair value of an investment due to changes in conditions.

Comparative totals

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or location. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, read such information in conjunction with the financial statements of the Foundation as of and for the year ended June 30, 2010, from which the Foundation derived the summarized information. The Foundation reclassified certain prior year amounts to conform to the current year presentation.

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2011

Note 1 - Summary of significant accounting policies (continued)

Fair value measurements

The Foundation uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority. Level 2 inputs consist of observable inputs other than quoted prices for identical assets. Level 3 inputs consist of unobservable inputs that reflect internal judgments and have the lowest priority. The Foundation uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Foundation measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. The Foundation only uses Level 3 inputs when Level 1 or Level 2 inputs are not available.

The Foundation values all contributions at fair value when promised. The Foundation only revalues debt and marketable equity securities at least as often as it presents financial statements. For contributions valued initially at fair value but not revalued, the Foundation treats the initial fair value as cost in subsequent financial statements.

Management of the Foundation estimates that the aggregate net fair value of reported financial instruments (including receivable, payables and accrued expenses) approximates their carrying value, as such financial instruments are short-term in nature or bear interest at current market rates.

Subsequent events

The Foundation evaluated subsequent events for recognition and disclosure through February 1, 2012. Management concluded that no material subsequent events have occurred since June 30, 2011 that required recognition or disclosure herein.

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2011

Note 2 – Investments

As of June 30, 2011 and 2010, investments totaled as follows:

	<u>Level 1</u>	<u>2011</u> <u>Fair value</u>	<u>2010</u> <u>Fair value</u>
Debt securities			
U.S. Government and securities	\$ 315,494	\$ 315,494	\$ 519,101
Municipal bonds	45,005	45,005	50,027
Equity securities			
Corporate	1,021,919	1,021,919	955,688
Pooled investment funds			
Mutual funds and others	1,676,896	1,676,896	1,596,820
Money market funds	178,139	178,139	190,337
Total investments	<u>\$ 3,237,453</u>	<u>\$ 3,237,453</u>	<u>\$ 3,311,973</u>

Investments for long-term purposes include donor contributions and amounts designated by the board of directors into an emergency fund, which shall remain intact until the Foundation's founder no longer raises funds for the Foundation.

During the years ended June 30, 2011 and 2010, investment income totaled as follows:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ 108,507	\$ 86,575
Net realized gain (loss) and unrealized appreciation (depreciation)	436,738	84,612
Custodial fees	<u>(34,402)</u>	<u>(19,683)</u>
Investment income, net	<u>\$510,843</u>	<u>\$151,504</u>

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2011

Note 3 – Temporarily restricted net assets

As of and during the year ended June 30, 2011, temporarily restricted net assets reconcile as follows:

<u>Activity</u>	<u>2010</u>	<u>Additions</u>	<u>Releases</u>	<u>2011</u>
Children's Homes	\$ 57,125	\$ 100,906	\$ (127,981)	\$ 30,050
Liberating Girls from Indentured Servitude	431,103	283,837	(332,383)	382,557
Nutritional Rehabilitation Homes	334,154	69,520	(194,184)	209,490
Schools and Scholarships	84,586	207,349	(229,112)	62,823
Vocational Counseling	-	43,268	(13,288)	29,980
Other programs	1,096	-	(1,096)	-
General	<u>915,016</u>	<u>10,000</u>	<u>(5,000)</u>	<u>920,016</u>
 Total	 <u>\$1,823,080</u>	 <u>\$ 714,880</u>	 <u>\$ (903,044)</u>	 <u>\$1,634,916</u>

Note 4 – Retirement plan

The Foundation maintains a retirement plan for its employees in Nepal and certain employees of a related organization in Nepal. Eligible employees are entitled to a lump sum, totaling 0.5 to 1.5 months of their then current salary per year of service, depending on the total number of years of service, which the Foundation pays upon termination, retirement or death. Eligible employees vest in their share of the retirement plan benefit after completing five years of service. As of June 30, 2011, the estimated retirement plan benefit's liability totaled \$2,840 (2010 - \$46,464). The Foundation did not calculate the liability in accordance with accounting principles generally accepted in the United States; however, the management of the Foundation believes that any differences between the liabilities reported herein and calculated using accounting principles generally accepted in the United States to be immaterial to the financial position of the Foundation.

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2011

Note 5 – Commitments and contingencies

The Foundation rents office space in Sausalito under a non-cancelable operating lease that expires April 30, 2014. Rental expense for office and program facilities for the year ended June 30, 2011 was \$17,557 (2010 - \$15,053). Future minimum payments under non-cancelable operating leases for the years ending June 30 are as follows:

2012	\$ 26,400
2013	26,400
2014	<u>22,000</u>
Total lease commitments	<u>\$ 74,800</u>

Under its Agreement with the Social Welfare Council of the Government of Nepal, the Foundation must invest a minimum of \$750,000 in its programs and projects in Nepal through October 22, 2012.

**WILSON
MARKLE
STUCKEY
HARDESTY
& BOTT LLP**

CERTIFIED PUBLIC
ACCOUNTANTS

DONALD WILSON
ALAN MARKLE
CHARLES STUCKEY
DAVID HARDESTY
DAVID BOTT
DAVID BAILEY
MICHAEL SMITH

To the Board of Directors
Nepal Youth Foundation

We have audited the financial statements of Nepal Youth Foundation for the year ended June 30, 2011, and have issued our report thereon dated February 1, 2012.

We wish to thank the staff of the Foundation for their cooperation and assistance throughout the audit. As stated in the following report, we found no audit adjustments and commend the staff for the accuracy of the accounting records and financial reporting. As in prior years, we continue to observe that the Foundation seems to operate frugally and spend the significant portion of the amounts it raises on its program activities.

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Nepal Youth Foundation are described in Note 1 to the financial statements. No new accounting policies were adopted during the year.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate

level of management. None of the misstatements detected as a result of audit procedures were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

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Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 1, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Nepal Youth Foundation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Nepal Youth Foundation's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Nepal Youth Foundation

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No Material Weaknesses

As part of our audit, we made a study and evaluation of Nepal Youth Foundation's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation, which included obtaining an understanding of the accounting system, was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the financial statements.

The management of Nepal Youth Foundation is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal accounting control procedures or the practices and procedures referred to above, errors or irregularities may nevertheless occur and not be detected. In addition, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the degree of compliance with them may deteriorate.

Our study and evaluation, made for the limited purpose described in the first paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control, taken as a whole. No condition that may be considered a material weakness came to our attention during our study and evaluation.

This information is intended solely for the use of the Board of Directors and management of Nepal Youth Foundation and is not intended to be and should not be used by anyone other than these specified parties.

Wilson Markle Stuckey Hardesty & Bott
Wilson Markle Stuckey Hardesty & Bott

February 1, 2012