

Nepal Youth Foundation

Financial Statements

Year ended June 30, 2012

with

Report of Independent Auditors

**WILSON
MARKLE
STUCKEY
HARDESTY
& BOTT LLP**

CERTIFIED PUBLIC
ACCOUNTANTS

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

Report of Independent Auditors

Board of Directors
Nepal Youth Foundation

We have audited the accompanying statement of financial position of the Nepal Youth Foundation as of June 30, 2012, 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 the 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 the Nepal Youth Foundation in Nepal, which statements reflect total assets of \$87,533 as of June 30, 2012, and total support and revenue of \$14,045 and expenses of \$1,757,442 for the year ended June 30, 2012. 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 the Nepal Youth Foundation in Nepal, solely on the report of the other auditors.

The Nepal Youth Foundation derived the prior year summarized comparative information from its June 30, 2011 financial statements and, in our report dated February 1, 2012, 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 the Nepal Youth Foundation as of June 30, 2012, 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
November 12, 2012

Nepal Youth Foundation
Statement of Financial Position
June 30, 2012 with comparative totals only as of June 30, 2011

	United States	Nepal	2012 Totals	2011 Totals only
Assets				
Current assets				
Cash and cash equivalents	\$ 288,861	\$ 55,381	\$ 344,242	\$ 365,585
Investments, at fair value	2,874,460	-	2,874,460	3,237,453
Grants receivable, net	60,000	-	60,000	-
Inter-agency receivable/payable	9,736	(9,736)	-	-
Other receivables	-	-	-	10,000
Grants advanced	-	30,899	30,899	45,527
Prepaid expenses	4,832	1,025	5,857	10,035
Total current assets	3,237,889	77,569	3,315,458	3,668,600
Property and equipment, net	13,144	-	13,144	3,120
Deposits	2,410	228	2,638	2,686
Total assets	\$ 3,253,443	\$ 77,797	\$ 3,331,240	\$ 3,674,406
Liabilities and net assets				
Current liabilities				
Accounts payable	\$ 5,464	\$ 52,282	\$ 57,746	\$ 18,756
Accrued compensation	10,980	-	10,980	22,242
Total current liabilities	16,444	52,282	68,726	40,998
Net assets				
Unrestricted				
Undesignated	1,262,901	25,515	1,288,416	1,437,447
Board designated	561,045	-	561,045	561,045
Total unrestricted net assets	1,823,946	25,515	1,849,461	1,998,492
Temporarily restricted	1,413,053	-	1,413,053	1,634,916
Total net assets	3,236,999	25,515	3,262,514	3,633,408
Total liabilities and net assets	\$ 3,253,443	\$ 77,797	\$ 3,331,240	\$ 3,674,406

See accompanying notes.

Nepal Youth Foundation
Statement of Activities and Changes in Net Assets
Year ended June 30, 2012 with comparative totals only for the year ended June 30, 2011

	<u>Unrestricted</u>		Temporarily restricted United States	2012 Totals	2011 Totals only
	United States	Nepal			
Support and revenue					
Grants and contributions	\$ 895,771	\$ 14,045	\$964,068	\$1,873,884	\$1,502,592
Investment income (loss)	(75,598)	-	-	(75,598)	510,843
Other income	210	-	-	210	-
Net assets released from activity restrictions	1,185,931	-	(1,185,931)	-	-
Total support and revenue	2,006,314	14,045	(221,863)	1,798,496	2,013,435
Expenses					
Program services	14,933	1,766,234	-	1,781,167	1,664,646
Supporting services					
Management and general	361,405	-	-	361,405	351,723
Fundraising	29,911	944	-	30,855	29,245
Total expenses	406,249	1,767,178	-	2,173,427	2,045,614
Change in net assets	1,600,065	(1,753,133)	(221,863)	(374,931)	(32,179)
Transfers of net assets	(1,678,098)	1,678,098	-	-	-
Currency translation gain (loss)	-	4,037	-	4,037	(3,381)
Net assets, beginning of year	1,901,979	96,513	1,634,916	3,633,408	3,668,968
Net assets, end of year	\$1,823,946	\$ 25,515	\$1,413,053	\$3,262,514	\$3,633,408

See accompanying notes.

Nepal Youth Foundation

Statement of Functional Expenses

Year ended June 30, 2012 with comparative totals only for the year ended June 30, 2011

Expenses	Program services		Management		Supporting services		2012 Totals	2011 Totals only
	United States	Nepal	Nepal and general	Fundraising	Allocated indirect	2012 Totals		
Salaries	\$ 9,018	\$ 57,959	\$ 204,562	\$ 196	\$ -	\$ -	\$ 271,735	\$ 265,478
Payroll taxes and benefits	722	-	20,202	15	7,333	-	28,272	44,075
Professional fees	-	17,806	38,668	3,625	13,517	-	73,616	40,853
Occupancy	-	3,080	210	-	27,425	-	30,715	21,624
Communications	-	3,209	-	-	4,942	-	8,151	6,270
Postage and shipping	132	-	-	6	6,635	-	6,773	2,473
Supplies	-	1,705	1,900	141	2,644	-	6,390	5,915
Equipment rental and maintenance	-	3,009	-	769	919	-	4,697	6,244
Insurance	-	828	-	-	5,715	-	6,543	3,710
Taxes, licenses and dues	-	-	39	-	53	-	92	634
Bank fees	-	75	439	11,734	722	-	12,970	14,050
Printing and publications	-	1,099	10	499	24,339	-	25,947	36,340
Travel	372	30,741	740	2,566	2,701	-	37,120	32,916
Promotion	-	-	6,850	621	1,787	-	9,258	914
Training	-	-	103	1,856	413	-	2,372	7,744
Grants	-	1,580,830	-	-	-	-	1,580,830	1,482,830
Direct client support	-	3,549	-	-	-	-	3,549	4,132
Depreciation	-	-	-	-	1,150	-	1,150	553
Miscellaneous	458	62,344	-	445	-	-	63,247	68,859
Allocated	4,231	-	87,682	8,382	(100,295)	-	-	-
Total expenses	\$ 14,933	\$ 1,766,234	\$ 361,405	\$ 30,855	\$ -	\$ -	\$ 2,173,427	\$ 2,045,614

See accompanying notes.

Nepal Youth Foundation
Statement of Cash Flows
Years ended June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Change in net assets	\$ (374,931)	\$ (32,179)
Adjustments to reconcile change in net assets to net cash used by operating activities		
Contributed investments	(124,225)	(116,372)
Net gain on investments	123,304	(436,738)
Depreciation	1,150	553
Changes in current assets and liabilities		
Grants receivable	(60,000)	73,576
Other receivables	10,000	(10,000)
Grants advanced	14,628	(26,602)
Prepaid expenses	4,178	(1,884)
Accounts payable	38,990	841
Accrued compensation	<u>(11,262)</u>	<u>(45,711)</u>
Net cash used by operating activities	(378,168)	(594,516)
Cash flows from investing activities		
Sale of investments, net	363,914	627,630
Purchase of property and equipment	(11,174)	(2,952)
Net change in deposits	<u>48</u>	<u>(1,173)</u>
Net cash provided by investing activities	352,788	623,505
Currency translation gain (loss)	<u>4,037</u>	<u>(3,381)</u>
Change in cash and cash equivalents	(25,380)	28,989
Cash and cash equivalents, beginning of year	<u>365,585</u>	<u>339,977</u>
Cash and cash equivalents, end of year	<u>\$ 344,242</u>	<u>\$ 365,585</u>

See accompanying notes.

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2012

Basis of presentation and programs

The Nepal Youth Foundation (the 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, the Foundation provides 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 rural Nepal, some families are so impoverished that they sell their daughters to be virtual slaves. Many of these girls are abused, almost none attend school, and some are forced into prostitution. After spending their childhoods as servants, the girls face great challenges learning to support themselves.

The Foundation is eradicating this inhumane tradition. The Foundation's Indentured Daughters Program rescues girls from virtual slavery, brings them home to be educated, and empowers them to be self-sufficient. The pioneering program uses a multifaceted approach to free girls who were sold into servitude. For only \$100, the Foundation liberates a bonded servant, brings her home, gives her family a piglet, goat, or sheep as compensation for her wages, and ensures she can go to school – often for the first time in her life.

The Foundation is eliminating the inhumane practice of enslaving girls in Nepal through a vigorous public awareness campaign that turns communities against the practice, as well as by rescuing bonded servants. The Foundation has freed over 12,000 girls since the program began in 2000 and continues to benefit around 11,000 of them in diverse ways. 7,433 of the former servants are currently receiving scholarships. The Foundation has now liberated more than 90% of the bonded girls and is close to its goal of ending the custom. The program has been so effective that schools in the area began to overflow with former indentured servants. To ensure the girls have access to quality education, the Foundation constructs classrooms in poorly funded schools. The organization has built 58 classrooms to date. Some of the children the Foundation rescues are orphans and others are rejected or abused by their families. The organization has placed 367 of these girls in children's homes where they are surrounded by other former bonded servants and feel a sense of family. Due to the success of the project, wealthy families began buying boys instead of girls. A recent survey estimated that 1,814 boys younger than 14 were indentured in Nepal.

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2012

Basis of presentation and programs (continued)

Liberating Girls from Indentured Servitude (continued)

The Foundation began to address this in 2011–2012 by liberating 650 of them. 547 are currently attending school.

Now that the vast majority of the bonded girls are free, the Foundation has shifted its focus from rescuing them to empowering them to be independent and successful. In 2011-2012, almost 500 former bonded servants participated in trainings about topics such as cooperative management, marketing, self-employment, and small business management. These programs develop their confidence as well as their skills and enable them to start their own businesses. The Foundation arranged training in political activism and human rights for about 100 of the most dynamic girls who show the greatest potential to become leaders of the movement against bonding. Under the auspices of the Foundation, many of the girls have been given incentives to form cooperatives that create financial opportunities for themselves and their families. The Foundation provides seed money for the girls to invest in the coops in order to get started. The Coop members collectively decide how to manage their business and how to use the money to generate income. They also borrow money from the cooperative profits to start individual business ventures. Due to the girls' determination and newfound confidence, as well as the trainings provided, the coops have been extremely successful. To date, liberated girls have established 16 cooperatives and are in the process of forming 19 more.

Furthermore, under the auspices of the Foundation, former indentured servants have formed an NGO called the Freed Kamlari Development Forum (FKDF). The Foundation trains its members to carry out the awareness campaign against servitude, which the Foundation started, and since June 2010, all of the Foundation's work in the public outreach area has been conducted through FKDF. FKDF is now organizing marches and public speeches, as well as mobilizing youth clubs, community leaders, and the media in the campaign to oppose bonded servitude. The Foundation convinced the government of Nepal to fund the education and vocational training of all formerly bonded girls. In 2011-2012, the Foundation arranged for the leaders of FKDF to meet repeatedly with Nepal's President, Prime Minister, Education Minister, and other high-ranking government officials. The Prime Minister promised that the government funding for the liberated girls would get to where it was needed. Through FKDF and the cooperatives, former indentured daughters have established an extensive network throughout Western Nepal that empowers them to fulfill their dreams.

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2012

Basis of presentation and programs (continued)

Children's Homes

The government of Nepal has virtually no resources for homeless children and nearly one third of children younger than 15 perform child labor. J House and K House are the Foundation's excellent homes for Nepali children who are orphans, disabled, neglected, or abandoned. In these loving environments, kids are empowered to excel and fulfill their dreams. Since the Foundation opened J House (for boys) in 1992 and K House (for girls) in 1995, the homes have provided housing, high-quality educations, and loving support for 203 of the most disadvantaged girls and boys in Nepal. They currently house 22 boys and 19 girls, ranging in age from two to 12. The Foundation provides children with not only living, educational, and medical expenses, but also love, personal attention, and a truly home-like environment – something many of them have never known before. The Foundation commits to them for the long term, from childhood through college, and provides what is usually the first real sense of security in their lives. Most of the children endured unimaginable traumatic situations before coming to the houses.

In 2011-2012, almost all of them received therapy at the Foundation's Ankur Counseling Center. The kids have developed close relationships with Ankur's psychologists and many showed marked improvements in their behavior due to the counseling.

Not only do the children at J and K Houses receive excellent care for their wide-ranging physical and psychological problems, they also receive quality educations at private schools. They attend five schools in the area, depending on their age and appropriate school placement. In 2011-2012, all children passed their first term examinations and all but one boy passed the second term exams. The Foundation arranges tutoring and remedial classes for students who need additional academic support. The children enjoy plenty of recreational and enrichment activities, including celebrating holidays and Nepali festivals, an annual combined birthday party for all of the kids, and field trips to go hiking, bicycling and to the zoo. In 2011-2012, the Foundation rescued four boys and one little girl from deeply disturbing circumstances and placed them in J and K House. They are settling in happily and the other children have warmly welcomed the newcomers, as always. After children at the homes reach age 12, they move to the Foundation's youth hostels, structured specifically for adolescents. The children learn to be more self-sufficient, while the Foundation continues to provide quality education, emotional support, and all of their other needs. There are currently 12 girls and 16 boys living in the youth hostels and all are thriving academically. They often visit J and K House on weekends and holidays, to maintain their relationships with the members of their "families." To ensure that the impact of the Foundation's programs endures, the

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2012

Basis of presentation and programs (continued)

Children's Homes (continued)

organization focuses on education. Education gives children opportunities for the rest of their lives, enhancing the society in which they live, and thus improving the world we all share. Additionally, we imbue the children we serve with a strong sense of social responsibility and encourage them to choose paths that enable them to uplift other people of disadvantaged backgrounds. Many of the graduates of J and K House are pursuing careers that enable them to give back to the needy, such as medicine and nursing, social service, and journalism (to raise awareness about social issues). Others are giving back to the Foundation financially, or helping put their younger siblings through school.

Schools and Scholarships

Education is the key to breaking free from poverty for destitute, orphaned and disabled children in Nepal. This is especially true for girls, who are often illiterate, married off before they are teenagers, and spend the rest of their lives bearing children and working endless hours. The Foundation makes education and independence possible for Nepali youngsters who have no other hope. The Foundation is one of the largest non-governmental providers of scholarships in Nepal, giving scholarships to impoverished children from grade school to graduate school, including disabled children. The organization supplies far more than financial aid – it gives students guidance, housing, medical care, psychological counseling, and loving support. The Foundation currently runs eight categories of scholarship programs depending on the needs of the children and youth. To date, over 7,000 children ranging from kindergarten through college have received scholarships. The program also supports physical school infrastructure, educational materials, and teacher training.

In 2011-2012, the Foundation's scholarship programs made it possible for 631 Nepali children to get an education in day school, boarding school, and college, including many disabled students. These 405 girls and 226 boys are some of the most disadvantaged children on earth. Without the opportunities they can derive from attending school, most would be relegated to a lifetime of backbreaking labor or even begging on the streets.

Nutritional Rehabilitation Home (NRH)

In Nepal, about half the children under five are malnourished and this is a leading cause of death in young children. The Foundation's Nutritional Rehabilitation Homes (NRHs) are small home-like hospitals throughout Nepal that use an innovative method to restore severely malnourished children to good health while educating their mothers in nutrition

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2012

Basis of presentation and programs (continued)

Nutritional Rehabilitation Home (NRH) (continued)

and childcare. Mothers share their new parenting skills with family and neighbors after they leave the NRH, multiplying the impact of the program.

The Foundation opened the first Nutritional Rehabilitation Home in 1998. Since then, the program has treated 8,443 severely malnourished children and educated 7,528 of their parents and guardians. In 2011-2012 alone, the NRHs rescued 1,374 children and trained 1,249 caretakers.

In Nepal, the most common cause of malnourishment is lack of awareness of nutrition, rather than poverty. Severely malnourished children come to NRHs with their caretakers (who, in Nepal, are usually their mothers). Many of these children arrive emaciated and lifeless. The NRHs' nurses, dieticians, and cooks provide medical care and healthy food to restore the youngsters to full weight and health. More than 80% of the patients are younger than five -years -old. At the same time, the staff trains the youngsters' guardians about a wide range of topics including preparing nutritious meals using locally available, inexpensive food; sanitation and hygiene; preventive health care; and how to share this knowledge with others. The daily hands-on training sessions and practical demonstrations are very effective with illiterate and uneducated parents. After an average of five weeks, a happy, healthy child and a newly educated mother return to their home. The mother provides better nutrition for her entire family and shares her knowledge with her relatives and neighbors, extending the effects of the program far beyond the children who receive treatment at the facilities.

After returning home, NRH field staff visit every child at least twice to ensure they are retaining their health and weight. They also provide additional training to the caretakers and refer the children to hospitals or NRHs if they suffer from health problems. In 2011-2012, NRH staff conducted 1,490 follow-up visits and found that the small number of children who were still malnourished were generally suffering from chronic diseases or were from deeply impoverished families.

This program has been extremely successful. At the request of the government of Nepal, the Foundation has built Nutritional Rehabilitation Homes throughout the country. With the exception of the flagship facility in Kathmandu, the Foundation constructs each NRH on or next to the grounds of a large government hospital. Through an agreement with the government, the Foundation builds the facilities, hires and trains staff, and gradually transfers management and funding of the operation to the government hospital. After five years, the government is fully responsible for the NRH.

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2012

Basis of presentation and programs (continued)

Nutritional Rehabilitation Home (NRH) (continued)

The Foundation has built 12 NRHs, which can treat 143 children at a time. In 2011-2012, the organization transferred two NRHs to the government. The Foundation's staff inspected all five NRHs that have crossed the five-year threshold and found that all are adequately funded and effectively managed.

The program continues to expand across the country to rescue children from malnutrition in remote areas. In 2011-2012, NRHs were in all stages of development: a newly built one began operation, the Foundation completed construction of another, and the Foundation made plans to begin one more. The Foundation also secured funding to construct three more facilities in rural and remote areas of Nepal. In early 2012, the Foundation's flagship NRH moved to a new and much larger facility. In addition to its functions as an NRH, it serves as a nutritional education center for training dietitians and health care professionals.

Psychological Counseling –Ankur Counseling Center

Emotional health is largely neglected in Nepal and psychology is only beginning to gain acceptance despite the many people, especially disabled children, orphans, and homeless youth, who suffer from emotional trauma. The Foundation's Ankur Counseling Center is a pioneer in psychological therapy for disadvantaged children in Nepal. Ankur also offers a wide range of training for people who work with youth.

Since the Ankur Counseling Center began in 2006, its counselors, who hold master's degrees in clinical psychology, have provided psychological counseling to over 8,000 underprivileged children. In 2011-2012, 604 people benefited from therapy at the Center in Kathmandu, and 783 girls who were rescued from bonded servitude received peer counseling in Western Nepal. Altogether, the program brought therapy, counseling, and training to 1,802 people in 2011-2012. This counseling is enabling children who have endured unimaginable hardships at very young ages to fulfill their potential. In addition to individual counseling, Ankur's therapists run group therapy sessions and workshops for youth. These are particularly beneficial to the boys and girls who live at J and K House, the Foundation's children's homes, many of whom face similar emotional and behavioral challenges. The therapy sessions teach children about interpersonal relationships, self-esteem, and leadership, and the workshops cover topics such as stress management and drug abuse. Ankur is the first center in Nepal to use Sand Play Therapy, a form of psychological therapy that transcends language and is especially suitable to the needs of children. Ankur's counselors now train other psychologists to use sand play therapy.

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2012

Basis of presentation and programs (continued)

Psychological Counseling –Ankur Counseling Center (continued)

The Center complements its psychosocial counseling with a wide range of trainings and workshops for hundreds of people every year. Ankur held 28 training sessions and workshops in 2011-2012 for 415 participants. The participants, who come from throughout Nepal to attend the trainings, include professionals and students in the field of psychology, childcare workers, teachers, and parents, as well as children. Ankur also provides trainings for childcare professionals, such as are therapists, teachers, and staff of orphanages. Some of the topics are Peer Counseling, Parenting skills, Creative Movement Therapy, Positive Discipline, and Motivational Communication Skills.

Additionally, Ankur offers internships to college students in Nepal who are pursuing degrees in social work. These interns actively participate in many of the activities at the Center and gain a greater understanding of the importance of psychosocial care.

Ankur has established a second counseling center in Western Nepal for girls the Foundation has freed from childhoods spent in indentured servitude. Many of these girls were severely traumatized by their experiences and need professional help to recover emotionally. The Foundation trained 45 rescued girls to be peer counselors, and in 2011-2012, the girls formed 75 support groups with a total of 783 members. Ankur's counselors traveled throughout the program area to monitor the support groups and arrange further training for the peer counselors.

The Ankur Counseling Center has made its counseling and other programs available to everyone in the Kathmandu area, with an emphasis on children. The income generated through this counseling partially funds the free treatment for disadvantaged children, helping the Center to eventually become sustainable. The counselors use television and radio to raise awareness about the importance of psychological counseling and encourage people to come to Ankur.

Some of the programs that generate income include a Psychological Care Camp for children and teens during their winter vacation from school, parenting classes that teach parents and teachers how to create child-friendly environments in schools and homes, and specialized training programs for childcare staff.

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2012

Basis of presentation and programs (continued)

Vocational Education and Career counseling (VEEC)

Vocational counseling is severely lacking in Nepal, and the country's unemployment rate hovers around a staggering 50%. Higher 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 employment.

The Foundation's pioneering Vocational Education and Career Counseling center (VECC) enables disadvantaged youth to explore their strengths and identify rewarding careers where they can excel. The Foundation also sponsors children in vocational courses and help them find jobs so they can become self-sufficient.

Since VECC started in 2007, it has provided vocational training to 357 underprivileged youth, 82% of whom are now employed. Additionally, VECC's staff gives career counseling to hundreds of children every year. In 2011-2012, the program sponsored more than 150 needy youth in vocational training and provided career counseling to several hundred more, in many areas of rural Nepal as well as Kathmandu.

Some young people in Nepal spend years pursuing higher education, only to graduate and find they are unable to find a job. Some employment 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 higher education.

The innovative VECC center sponsors children in training programs for dozens of different careers, such as website designer, hotel manager, nurse-midwife, electrician, cook, and lab technician, and the number continues to grow. The child and staff together reach the decision for a child to pursue job training rather than higher education, after discussions, structured counseling, and a number of assessments and tests. The Foundation has conducted extensive research into vocational schools throughout Nepal. VECC staff identifies the best training program for the child's chosen field, pays for the cost of training, and helps them to find employment following the completion of their course. VECC gives them guidance, helps them network, and sometimes does more – for example, three graduates of a fashion design training course started their own tailoring center with partial financial support from the Foundation.

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2012

Basis of presentation and programs (continued)

Vocational Education and Career counseling (VEEC)

In addition to vocational training, VEEC provides individual career counseling to needy children. Many of the children supported by the Foundation are orphans or abandoned by their families. Not only do they lack the family connections that are necessary for getting many jobs in Nepal, they do not know how to go about finding jobs, and many feel insecure about this. VEEC teaches them general life skills such as compromise and negotiation, as well as specific skills for searching for employment. Furthermore, many children are not gifted academically but have other abilities, which they can use to get jobs, if only they knew how. VEEC helps children explore their strengths and interests in order to identify careers where they can excel. The program also runs a computer-learning center where underprivileged youth can learn basic computer skills, either independently or in training courses.

One challenge that the program has faced is that vocational training is looked down upon in Nepal. VEEC staff provides group career counseling and orientation programs about job training to high school students, many of whom are daunted by their bleak employment prospects. The staff describes the wide range of trainings that are available and explains that many trades pay more than the office jobs that college graduates compete for. As a result, more youth are becoming interested in pursuing vocational training.

In 2011-2012, the Vocational Education and Career Counseling center continued to expand. Dozens of girls who the Foundation rescued from indentured servitude received career counseling and enrolled in vocational training and some are already employed. The program is exploring possibilities for generating income, and now earns money by providing career counseling and orientations about vocational training at a private school in Kathmandu. The Foundation plans to expand this approach to other schools and institutions. Additionally, VEEC was able to obtain funding from foreign aid organizations working to reduce unemployment in Nepal to support training for almost 50 needy children.

The Vocational Education and Career Counseling center enables disadvantaged youth to be self-sufficient. After completing the program, many of the children not only support themselves, but also provide for their destitute families. In a country where unemployment is shockingly high, even among people with university degrees, job counseling and training is a highly effective means to putting young people on a track for life-long success.

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2012

Basis of presentation and programs (continued)

New Life Center

The Foundation's New Life Center is a pioneer in care for children with HIV/AIDS in Nepal. The program provides lifesaving treatment to children while teaching their caretakers, most of whom also have HIV, to live hygienically and cook nutritious meals. This training dramatically reduces the risk of acquiring the illnesses that make HIV develop into AIDS, and allows infected people lead fulfilling lives. During the months that children and their guardians spend at the New Life Center, they receive free food, housing, and all medical treatment.

HIV/AIDS is a rapidly growing problem in Nepal, fueled by ignorance about HIV prevention and brutal discrimination against people with AIDS. Many children with HIV are forced to leave their schools, and husbands often abandon their wives if they are infected with HIV. Because of this stigma, many people avoid being tested and hide their symptoms of AIDS for as long as possible. According to a U.N. study, more than 80% of Nepalis with HIV have not been diagnosed.

Since the New Life Center opened in 2006, it has provided more than 140 HIV-positive children with happy, fulfilling childhoods. Last year, it gave life-saving and life-extending treatment to 63 children and their caretakers.

The New Life Center can house 18 children and their guardians, who live there for several months. It is the only facility in Nepal that uses a comprehensive, holistic approach to helping HIV-positive children. Its nurses, nutritionist, doctor, and other staff provide:

- For the children: education and enriching activities
- For their caretakers: training in nutrition, health, literacy, and income generation
- For both: nutritious meals, 24-hour medical care, and counseling to improve their self-confidence and help them manage the stigma of HIV/AIDS

Most children who are admitted to the Center suffer from health problems such as malnutrition and tuberculosis. Rather than only treating their symptoms, the Center implements a three-pronged approach consisting of clinical therapy, nutritional therapy, and psychological therapy. While the nurses treat the patients' health issues and give anti-retroviral drugs to reduce the effects of HIV infection, the professional nutritionist and cook plan and prepare healthy, meals. Professional psychological counselors help the children and their guardians learn to live with the stigma of HIV/AIDS and improve their self-esteem.

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2012

Basis of presentation and programs (continued)

New Life Center (continued)

The nurses and nutritionist complement the treatment with a series of educational programs for the caretakers. The topics include nutrition, sanitation and hygiene, the dietary needs of children of different ages, reproductive health, and illnesses that commonly afflict people with HIV. This training enables the parents to avoid many of the diseases that are particularly dangerous to HIV-positive people and to eat a balanced diet using inexpensive, locally available foods to keep themselves and their children as healthy as possible. The children also participate in enrichment activities such as celebrating Nepali festivals and taking trips to the zoo.

After several months, when the patients' health problems have been alleviated and the caretakers are fully trained, they return to their homes. Many live productive lives for years by practicing what they learned at the New Life Center. If they need additional treatment or if their health worsens, they can return to the Center for free follow-up care at any time. The program truly gives new life to children with HIV/AIDS.

The Center's staff has taken initiative to raise money for the program. In addition to requesting donations from visitors and supporters, they print and sell t-shirts and notecards. They formed partnership with Heifer International which contributed two cows, who are a source of fresh milk to nourish the children and sell for additional income.

The New Life Center's comprehensive care model is a key to its success. Most children arrive at the Center with full-blown AIDS, including illnesses like tuberculosis, malnutrition, and hepatitis, and return home with only HIV, ready to go to school and enjoy a happy childhood. If children with HIV live hygienically, eat a nutritious diet, and try to avoid infections, they can typically expect to lead full and meaningful lives for around 25 years. By that time, it is likely that additional treatments will be available to extend their lives even further.

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.

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2012

Note 1 - Summary of significant accounting policies (continued)

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, 2012, the Foundation set aside \$59,864, 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 and shares of registered investment companies (mutual and money market funds). 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 method over the estimated useful lives of the property and equipment, ranging from three to five years. During the year ended June 30, 2012, the Foundation added equipment that is still in progress and not subject to depreciation.

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2012

Note 1 - Summary of significant accounting policies (continued)

Property and equipment (continued)

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. The Council is in the process of renewing the agreement.

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.

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.

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2012

Note 1 - Summary of significant accounting policies (continued)

Allocation of functional expenses (continued)

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.

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 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 2008 to 2011 are open for examination by the Internal Revenue Service and years 2007 to 2011 by the California Franchise Tax Board.

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2012

Note 1 - Summary of significant accounting policies (continued)

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, 2012. 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, 2011, from which the Foundation derived the summarized information. The Foundation reclassified certain prior year amounts to conform to the current year presentation.

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.

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2012

Note 1 - Summary of significant accounting policies (continued)

Fair value measurements (continued)

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 November 12, 2012. Management concluded that no material subsequent events have occurred since June 30, 2012 that required recognition or disclosure herein, except as noted under Property and equipment (Note 1) and Commitments and contingencies (Note 5).

Note 2 – Investments

As of June 30, 2012 and 2011, investments totaled as follows:

	Level 1	2012 Fair value	2011 Fair value
Debt securities			
U.S. Government and securities	\$ 250,434	\$ 250,434	\$ 315,494
Municipal bonds	54,926	54,926	45,005
Equity securities			
Corporate	897,643	897,643	1,021,919
Pooled investment funds			
Mutual funds and others	1,366,472	1,366,472	1,676,896
Money market funds	304,985	304,985	178,139
Total investments	\$ 2,874,460	\$ 2,874,460	\$ 3,237,453

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2012

Note 2 – Investments (continued)

During the years ended June 30, 2012 and 2011, investment income totaled as follows:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 71,051	\$108,507
Net realized gain (loss) and unrealized appreciation (depreciation)	(123,304)	436,738
Custodial fees	<u>(23,345)</u>	<u>(34,402)</u>
Investment income, net	<u>\$(75,598)</u>	<u>\$510,843</u>

Note 3 – Temporarily restricted net assets

As of and during the year ended June 30, 2012, temporarily restricted net assets reconcile as follows:

<u>Activity</u>	<u>2011</u>	<u>Additions</u>	<u>Releases</u>	<u>2012</u>
Children's Homes	\$ 30,050	\$ 75,202	\$ (105,252)	\$ -
Liberating Girls from Indentured Servitude	382,557	265,413	(360,666)	287,304
Nutritional Rehabilitation Homes	209,490	331,521	(482,885)	58,126
Schools and Scholarships	62,823	251,942	(212,238)	102,527
Vocational Counseling	29,980	34,990	(24,890)	40,080
General	920,016	5,000	-	925,016
Total	<u>\$1,634,916</u>	<u>\$ 964,068</u>	<u>\$(1,185,931)</u>	<u>\$1,413,053</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, 2012,

Nepal Youth Foundation
Notes to Financial Statements
June 30, 2012

Note 4 – Retirement plan (continued)

the estimated retirement plan benefit was a prepaid of \$1,025. As of June 30, 2011, the estimated retirement plan benefit was a liability of \$2,840. 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.

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, 2012 was \$27,635 (2011 - \$17,557). Future minimum payments under non-cancelable operating leases for the years ending June 30 are as follows:

2013	\$ 26,400
2014	22,000
Total lease commitments	\$ 48,400

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