

LITTLE SISTERS FUND, INC.

**Financial Statements and
Independent Auditors' Report**

December 31, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Little Sisters Fund, Inc.
Ketchum, Idaho

Report on the Financial Statements

We have audited the accompanying financial statements of Little Sisters Fund, Inc. (a nonprofit organization), which are comprised of the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free of material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Little Sisters Fund, Inc., as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Tri-Cities, Washington
June 23, 2014

Northwest CPA Group PLLC

Little Sisters Fund, Inc.

Statements of Financial Position

	December 31,	
	2013	2012
ASSETS		
<i>CURRENT ASSETS:</i>		
Cash and cash equivalents	\$ 197,682	\$ 261,043
Pledges receivable, <i>current</i>	69,398	56,311
Total current assets	267,080	317,354
<i>PROPERTY AND EQUIPMENT:</i>		
Equipment	3,571	3,571
Less accumulated depreciation	2,607	2,105
	964	1,466
<i>OTHER ASSETS:</i>		
Restricted cash and cash equivalents	-	150,000
Restricted certificates of deposit	400,000	200,000
Investments	692,452	628,972
Pledges receivable, <i>noncurrent</i>	18,000	63,398
	1,110,452	1,042,370
	\$ 1,378,496	\$ 1,361,190
 LIABILITIES AND NET ASSETS		
<i>CURRENT LIABILITIES:</i>		
Accounts payable	\$ 475	\$ 345
Payroll liabilities	2,113	1,999
Total current liabilities	2,588	2,344
<i>NET ASSETS:</i>		
Unrestricted	532,696	493,705
Temporarily restricted	393,212	415,141
Permanently restricted	450,000	450,000
	1,375,908	1,358,846
	\$ 1,378,496	\$ 1,361,190

Little Sisters Fund, Inc.
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<i>REVENUES AND SUPPORT:</i>				
Contributions	\$ 271,068	\$ 73,771	\$ -	\$ 344,839
Investment gain, <i>net</i>	71,420	-	-	71,420
Net assets released from restrictions	95,700	(95,700)	-	-
	<u>438,188</u>	<u>(21,929)</u>	<u>-</u>	<u>416,259</u>
<i>EXPENSES:</i>				
Program services	335,687	-	-	335,687
Management and general	38,321	-	-	38,321
Fundraising	25,189	-	-	25,189
	<u>399,197</u>	<u>-</u>	<u>-</u>	<u>399,197</u>
<i>CHANGES IN NET ASSETS</i>	38,991	(21,929)	-	17,062
<i>NET ASSETS, BEGINNING OF YEAR</i>	<u>493,705</u>	<u>415,141</u>	<u>450,000</u>	<u>1,358,846</u>
<i>NET ASSETS, END OF YEAR</i>	<u>\$ 532,696</u>	<u>\$ 393,212</u>	<u>\$ 450,000</u>	<u>\$ 1,375,908</u>

Little Sisters Fund, Inc.
Statement of Activities and Changes in Net Assets
Year Ended December 31, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<i>REVENUES AND SUPPORT:</i>				
Contributions	\$ 331,315	\$ 125,000	\$ -	\$ 456,315
Investment gain, <i>net</i>	73,591	-	-	73,591
Net assets released from restrictions	66,102	(66,102)	-	-
	<u>471,008</u>	<u>58,898</u>	<u>-</u>	<u>529,906</u>
<i>EXPENSES:</i>				
Program services	268,718	-	-	268,718
Management and general	36,393	-	-	36,393
Fundraising	25,504	-	-	25,504
	<u>330,615</u>	<u>-</u>	<u>-</u>	<u>330,615</u>
<i>CHANGES IN NET ASSETS</i>	140,393	58,898	-	199,291
<i>NET ASSETS, BEGINNING OF YEAR</i>	<u>353,312</u>	<u>356,243</u>	<u>450,000</u>	<u>1,159,555</u>
<i>NET ASSETS, END OF YEAR</i>	<u>\$ 493,705</u>	<u>\$ 415,141</u>	<u>\$ 450,000</u>	<u>\$ 1,358,846</u>

Little Sisters Fund, Inc.
Statement of Functional Expenses
Year Ended December 31, 2013

	Program Services	Management and General	Fundraising	Total
Grants to other organizations	\$ 282,867	\$ -	\$ -	\$ 282,867
Payroll expenses	41,074	20,537	20,537	82,148
Travel	8,804	2,201	1,731	12,736
Professional services	-	11,381	-	11,381
Insurance	1,848	1,859	923	4,630
Telephone and communications	1,075	1,075	538	2,688
Meals and entertainment	-	-	577	577
Supplies	-	125	439	564
Depreciation	-	251	251	502
Office expenses	-	240	60	300
Donor appreciation	-	-	133	133
Miscellaneous	19	652	-	671
	<u>\$ 335,687</u>	<u>\$ 38,321</u>	<u>\$ 25,189</u>	<u>\$ 399,197</u>

Little Sisters Fund, Inc.
Statement of Functional Expenses
Year Ended December 31, 2012

	Program Services	Management and General	Fundraising	Total
Grants to other organizations	\$ 221,021	\$ -	\$ -	\$ 221,021
Payroll expenses	39,628	19,813	19,813	79,254
Travel	6,474	1,618	2,106	10,198
Professional services	-	11,488	-	11,488
Insurance	1,026	1,420	513	2,959
Telephone and communications	569	569	284	1,422
Meals and entertainment	-	-	54	54
Depreciation	-	259	260	519
Office expenses	-	180	45	225
Donor appreciation	-	-	429	429
Contract labor	-	-	2,000	2,000
Miscellaneous	-	1,046	-	1,046
	<u>\$ 268,718</u>	<u>\$ 36,393</u>	<u>\$ 25,504</u>	<u>\$ 330,615</u>

Little Sisters Fund, Inc. Statements of Cash Flows

	Years Ended December 31,	
	2013	2012
<i>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</i>		
<i>CASH FLOWS FROM OPERATING ACTIVITIES:</i>		
Cash received from donors	\$ 369,552	\$ 515,683
Cash paid to other nonprofit organizations, suppliers, and employees	(398,451)	(329,328)
Interest and dividends received	18,137	16,135
Net cash provided by (used in) operating activities	(10,762)	202,490
<i>CASH FLOWS FROM INVESTING ACTIVITIES:</i>		
Purchases of investments	(43,255)	(97,397)
Proceeds from sale of investments	40,656	4,977
Purchases of certificates of deposit	(550,000)	(400,000)
Proceeds from redemption of certificates of deposit	350,000	500,000
Purchases of equipment	-	(1,508)
Change in restricted cash and cash equivalents	150,000	(150,000)
Net cash used in investing activities	(52,599)	(143,928)
<i>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</i>	(63,361)	58,562
<i>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</i>	261,043	202,481
<i>CASH AND CASH EQUIVALENTS, END OF YEAR</i>	\$ 197,682	\$ 261,043
<i>Reconciliation of Changes in Net Assets to Net Cash Provided by (Used in) Operating Activities:</i>		
Changes in net assets	\$ 17,062	\$ 199,291
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	502	519
Realized gain on investments	(3,069)	(2,061)
Unrealized gain on investments	(50,214)	(55,395)
In-kind stock donation	(7,598)	(793)
In-kind grant to other organization	-	954
Decrease in assets:		
Pledges receivable	32,311	58,761
Other receivable	-	1,400
Increase (decrease) in liabilities:		
Accounts payable	130	(267)
Payroll liabilities	114	81
Total adjustments	(27,824)	3,199
Net cash provided by (used in) operating activities	\$ (10,762)	\$ 202,490

Little Sisters Fund, Inc.

Notes to Financial Statements

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Organization:

Little Sisters Fund, Inc. (the Organization), was organized to provide and promote education, alleviate poverty, and foster family stability and cultural preservation in Nepal and throughout the world. The Organization currently provides long-term scholarships for economically disadvantaged girls in Nepal through relationships with non-governmental organizations (NGOs) in Nepal. The Organization has working relationships with these NGOs, but does not have a formal agreement with them or exercise control over them.

Summary of Significant Accounting Policies:

Cash and cash equivalents – The Organization considers all highly liquid investments with initial maturity of three months or less to be cash equivalents. Unrestricted cash held in a money market account at Fidelity Investments was \$84,976 and \$79,441 on December 31, 2013 and 2012, respectively.

Pledges receivable – In prior years, the Organization received four unconditional promises to provide future cash payments. The present value of these estimated future cash flows is recorded as pledges receivable. The Organization periodically evaluates the balances in pledges receivable and any amounts significantly past due to determine whether there are any uncollectible amounts. When management determines that a receivable is uncollectible, the balance is removed from the receivables balance and is charged directly against contribution revenue. Subsequent recoveries of amounts previously written off are credited to contribution revenue. Management believes that all pledges were fully collectible at December 31, 2013 and 2012.

Property and equipment – Property and equipment are stated at cost or, if donated, at their approximate fair value at the date of donation. The Organization capitalizes all property and equipment in excess of \$1,000. Depreciation is determined using the straight-line method over the assets' estimated useful lives of three years.

Restricted cash and cash equivalents – As noted above, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. At December 31, 2012, restricted cash and cash equivalents consisted of \$50,000 held in a money market account at Fidelity Investments and certificates of deposit of \$100,000 with original maturity dates of three months. Amounts represent contributions restricted by a donor for long-term purposes. There was no restricted cash and cash equivalents as of December 31, 2013.

Restricted certificates of deposit – The Organization holds certificates of deposit at cost, which approximates fair value. Restricted certificates of deposit represent contributions that have been designated by a donor for long-term purposes. For the year ending December 31, 2013, the restricted certificates of deposit bear interest at 0.35% to 0.45% and mature at various dates from January 2014 to November 2014.

Little Sisters Fund, Inc.

Notes to Financial Statements

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Summary of Significant Accounting Policies (continued):

Investments – The Organization records investments in marketable securities with readily determinable market values at their fair value in the statements of financial position. Investment securities consist of a highly diversified portfolio of stocks, mutual funds, and bond funds. The investments in marketable securities are subject to market risk. Interest, dividends, and realized and unrealized gains and losses are included in investment income in the statements of activities and changes in net assets.

Financial instruments – At December 31, 2013 and 2012, the Organization’s financial instruments approximated fair value.

Contributions – The Organization accounts for contributions received as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

All donor restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a temporary restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Temporarily restricted contributions received in the same period the restrictions are met are recorded as unrestricted contributions.

In-kind contributions – Donated goods are recorded at their estimated fair value when received.

Classification of contributions and net assets – The accompanying financial statements present net assets and revenue based upon the existence or absence of donor-imposed restrictions in these classes: unrestricted, temporarily restricted, and permanently restricted. The donor of the Organization’s endowment fund has stipulated that the amounts in the endowment be maintained in fixed bank accounts, with the income generated from the funds utilized for the mission of the Organization. Based on the donor’s stipulations, the Organization has determined that the Uniform Prudent Management of Institutional Funds Act is not applicable to their current endowment.

Functional expense reporting – Costs of providing program and supporting services have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among program services and supporting services based on estimates of the employee’s time incurred and usage of resources.

Little Sisters Fund, Inc. Notes to Financial Statements

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Summary of Significant Accounting Policies (continued):

Income taxes – The Organization has been granted tax-exempt status under Section 501(c)(3) of the Internal Revenue Code and is, therefore, generally exempt from income taxes. Accordingly, no tax provision has been provided for in the accompanying financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to 2010.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

NOTE 2 – PLEDGES RECEIVABLE:

The Organization’s pledges receivable consisted of unconditional promises to give and are due as follows:

	Years Ended December 31,	
	2013	2012
Total pledges receivable	\$ 88,000	\$ 122,500
Less discounts to net present value using 3.295% effective interest rate	602	2,791
	\$ 87,398	\$ 119,709
Amounts due in:		
Less than one year	\$ 69,398	\$ 56,311
One to five years	18,000	63,398
	\$ 87,398	\$ 119,709

Little Sisters Fund, Inc.

Notes to Financial Statements

NOTE 3 – INVESTMENTS:

Assets and liabilities are recorded at fair value and disclosed using a three-level hierarchy. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level I – Quoted prices are available in active markets for identical investments as of the measurement date. The Organization does not adjust the quoted price for these investments.

Level II – Pricing inputs are observable for the investments, either directly or indirectly, as of the measurement date, but are not the same as those used in Level I. Fair value is determined through quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data.

Level III – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire measurement in the hierarchy.

Investments consisted of the following at December 31, 2013:

	Fair Value		Cost
	Level I	Total	
Stocks and mutual funds:			
Dodge & Cox International Stock Fund	\$ 87,667	\$ 87,667	\$ 74,592
Ishares TR S&P 500/Growth Index Fund	115,143	115,143	81,867
Ishares TR Russell 3000 Index Fund	98,700	98,700	70,259
Matthews China Fund	71,938	71,938	85,147
Matthews India Fund	66,911	66,911	74,897
Pimco Total Return Class D	96,653	96,653	99,898
Pimco Low Duration Class D	155,440	155,440	157,322
	<u>\$ 692,452</u>	<u>\$ 692,452</u>	<u>\$ 643,982</u>

Little Sisters Fund, Inc. Notes to Financial Statements

NOTE 3 – INVESTMENTS (continued):

Investments consisted of the following at December 31, 2012:

	Fair Value		Cost
	Level I	Total	
Stocks and mutual funds:			
Dodge & Cox International Stock Fund	\$ 79,059	\$ 79,059	\$ 83,396
Ishares TR S&P 500/Growth Index Fund	88,313	88,313	80,113
Ishares TR Russell 3000 Index Fund	86,120	86,120	79,954
Matthews China Fund	64,900	64,900	76,299
Matthews India Fund	68,629	68,629	71,604
Pimco Total Return Class D	93,750	93,750	92,106
Pimco Low Duration Class D	148,201	148,201	147,245
	<u>\$ 628,972</u>	<u>\$ 628,972</u>	<u>\$ 630,717</u>

Investments classified as Level I all have publicly traded values, which are based on current quoted market prices provided by custodians. Fair values are provided primarily by custodians and are based on pricing models that incorporate available trade, bid, and other market information.

There were no Level II or Level III investments at December 31, 2013 or 2012.

The components of net investment gain are reflected below:

	2013	2012
Net unrealized gain	\$ 50,214	\$ 55,395
Net realized gain	3,069	2,061
Dividends and interest	<u>18,137</u>	<u>16,135</u>
Total net investment gain	<u>\$ 71,420</u>	<u>\$ 73,591</u>

Little Sisters Fund, Inc.

Notes to Financial Statements

NOTE 4 – TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS:

Temporarily restricted net assets consisted of the following:

	December 31,	
	2013	2012
Grants and contributions restricted by the donors for specific purposes	\$ 355,212	\$ 392,641
Pledges receivable restricted until received	38,000	22,500
	\$ 393,212	\$ 415,141

Permanently restricted net assets consisted of \$450,000 in an endowment fund as of December 31, 2013 and 2012. The endowment fund is to be invested indefinitely and the income from the endowment is to be used for the Organization’s stated mission. The donor has stipulated that the endowment funds be invested solely in fixed deposits at banks at the board’s discretion. The endowment funds consist of the following assets:

	December 31,	
	2013	2012
Pledges receivable, gross	\$ 50,000	\$ 100,000
Restricted certificates of deposit	400,000	200,000
Restricted cash and cash equivalents	-	150,000
	\$ 450,000	\$ 450,000

NOTE 5 – ENDOWMENT INVESTMENT AND SPENDING POLICIES:

Effective in 2007, the State of Idaho adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA). Absent donor specific direction, UPMIFA establishes standards for endowment spending and preservation of the original gift. The Organization’s endowment consists of funds received with explicit donor stipulations. Therefore, the Organization has determined that UPMIFA is not applicable to their current endowment. The endowment is required to be maintained in fixed deposits at banks, with investment income treated as unrestricted and available to be expended to further the Organization’s nonprofit mission of providing long-term scholarships for economically disadvantaged girls in Asia. The board of directors considers the appropriation of endowment investment income to occur as earned and available for use. The endowment balance did not change during 2013 or 2012.

Little Sisters Fund, Inc. Notes to Financial Statements

NOTE 6 – CONCENTRATIONS:

The Organization maintains its cash in bank deposit accounts with financial institutions. Cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation at various times during the year; management does not consider this to be a significant credit risk.

The Organization holds various types of investments that are not guaranteed and are subject to stock market fluctuations.

During the years ended December 31, 2013 and 2012, two donors represented 44.4% and three donors represented 66.4% of contribution revenue, respectively. In addition, two donors represented 90.8% of pledges receivable as of December 31, 2013, and one donor represented 80.4% of pledges receivable as of December 31, 2012.

During the years ended December 31, 2013 and 2012, \$270,000 and \$220,000, respectively, was donated to two nonprofit organizations within Nepal to provide scholarships for economically disadvantaged girls.

NOTE 7 – NONCASH INVESTING ACTIVITIES:

During the years ended December 31, 2013 and 2012, the Organization received non-cash donations of stock with the fair value on the date of donation of \$7,598 and \$793, respectively.

NOTE 8 – SUBSEQUENT EVENTS:

Subsequent events have been evaluated by management through June 23, 2014, which is the date the financial statements were available to be issued.