

LITTLE SISTERS FUND, INC.

**Financial Statements and
Independent Auditors' Report**

December 31, 2012 and 2011

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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, 2012 and 2011, 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.

Auditor's 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 auditor's 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, 2012 and 2011, 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.

Northwest CPA Group PLLC

Tri-Cities, Washington
June 14, 2013

Little Sisters Fund, Inc.

Statements of Financial Position

	December 31,	
	2012	2011
ASSETS		
<i>CURRENT ASSETS:</i>		
Cash and cash equivalents	\$ 261,043	\$ 202,481
Pledges receivable, <i>current</i>	56,311	59,261
Other receivable	-	1,400
Total current assets	317,354	263,142
<i>PROPERTY AND EQUIPMENT:</i>		
Equipment	3,571	3,624
Less accumulated depreciation	2,105	2,193
	1,466	1,431
<i>OTHER ASSETS:</i>		
Restricted cash and cash equivalents	150,000	-
Restricted certificates of deposit	200,000	300,000
Investments	628,972	478,303
Pledges receivable, <i>noncurrent</i>	63,398	119,209
	1,042,370	897,512
	\$ 1,361,190	\$ 1,162,085
 LIABILITIES AND NET ASSETS		
<i>CURRENT LIABILITIES:</i>		
Accounts payable	\$ 345	\$ 612
Payroll liabilities	1,999	1,918
Total current liabilities	2,344	2,530
<i>NET ASSETS:</i>		
Unrestricted	493,705	353,312
Temporarily restricted	415,141	356,243
Permanently restricted	450,000	450,000
	1,358,846	1,159,555
	\$ 1,361,190	\$ 1,162,085

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 Activities and Changes in Net Assets
Year Ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<i>REVENUES AND SUPPORT:</i>				
Contributions	\$ 332,980	\$ 189,857	\$ -	\$ 522,837
Investment loss, <i>net</i>	(32,596)	-	-	(32,596)
Gain on sale of equipment	350	-	-	350
Net assets released from restrictions	20,200	(20,200)	-	-
	<u>320,934</u>	<u>169,657</u>	<u>-</u>	<u>490,591</u>
<i>EXPENSES:</i>				
Program services	382,402	-	-	382,402
Management and general	36,195	-	-	36,195
Fundraising	22,560	-	-	22,560
	<u>441,157</u>	<u>-</u>	<u>-</u>	<u>441,157</u>
<i>CHANGES IN NET ASSETS</i>	(120,223)	169,657	-	49,434
<i>NET ASSETS, BEGINNING OF YEAR</i>	<u>473,535</u>	<u>186,586</u>	<u>450,000</u>	<u>1,110,121</u>
<i>NET ASSETS, END OF YEAR</i>	<u>\$ 353,312</u>	<u>\$ 356,243</u>	<u>\$ 450,000</u>	<u>\$ 1,159,555</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
Professional services	-	11,488	-	11,488
Travel	6,474	1,618	2,106	10,198
Insurance	1,026	1,420	513	2,959
Contract labor	-	-	2,000	2,000
Telephone and communications	569	569	284	1,422
Depreciation	-	259	260	519
Donor appreciation	-	-	429	429
Office expenses	-	180	45	225
Meals and entertainment	-	-	54	54
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.
Statement of Functional Expenses
Year Ended December 31, 2011

	Program Services	Management and General	Fundraising	Total
Grants to other organizations	\$ 334,876	\$ -	\$ -	\$ 334,876
Payroll expenses	38,872	19,437	19,437	77,746
Professional services	-	11,661	500	12,161
Travel	7,067	1,767	402	9,236
Insurance	894	1,321	447	2,662
Telephone and communications	684	684	341	1,709
Depreciation	-	74	608	682
Office expenses	-	229	57	286
Meals and entertainment	-	-	637	637
Miscellaneous	9	1,022	131	1,162
	<u>\$ 382,402</u>	<u>\$ 36,195</u>	<u>\$ 22,560</u>	<u>\$ 441,157</u>

Little Sisters Fund, Inc. Statements of Cash Flows

	Years Ended December 31,	
	2012	2011
<i>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</i>		
<i>CASH FLOWS FROM OPERATING ACTIVITIES:</i>		
Cash received from donations	\$ 515,683	\$ 551,225
Cash paid to other nonprofit organizations, suppliers, and employees	(329,328)	(440,281)
Interest and dividends received	16,135	14,434
Net cash provided by operating activities	202,490	125,378
<i>CASH FLOWS FROM INVESTING ACTIVITIES:</i>		
Purchases of investments	(97,397)	(538,441)
Proceeds from sale of investments	4,977	418,946
Purchases of certificates of deposit	(400,000)	(450,000)
Proceeds from redemption of certificates of deposit	500,000	400,000
Purchases of equipment	(1,508)	(1,561)
Change in restricted cash and cash equivalents	(150,000)	
Proceeds from sale of equipment	-	350
Net cash used in investing activities	(143,928)	(170,706)
<i>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</i>	58,562	(45,328)
<i>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</i>	202,481	247,809
<i>CASH AND CASH EQUIVALENTS, END OF YEAR</i>	\$ 261,043	\$ 202,481
<i>Reconciliation of Changes in Net Assets to Net Cash Provided By Operating Activities:</i>		
Changes in net assets	\$ 199,291	\$ 49,434
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	519	682
Realized gain on investments	(2,061)	(3,285)
Unrealized loss (gain) on investments	(55,395)	50,315
Gain on sale of equipment	-	(350)
In-kind stock donation	(793)	(3,000)
In-kind grant to other organization	954	-
Decrease (increase) in assets:		
Pledges receivable	58,761	32,788
Other receivable	1,400	(1,400)
Increase (decrease) in liabilities:		
Accounts payable	(267)	279
Payroll liabilities	81	(85)
Total adjustments	3,199	75,944
Net cash provided by operating activities	\$ 202,490	\$ 125,378

See accompanying notes to financial statements.

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 (NGO's) in Nepal. The Organization has working relationships with these NGO's 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 \$79,441 and \$55,726 on December 31, 2012 and 2011, 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, 2012 and 2011.

Property and equipment – Equipment exceeding the Organization's capitalization policy of \$1,000 is stated at cost for purchases and at fair value for assets donated. 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 certificate of deposits of \$100,000 with original maturity dates of three months and \$50,000 held in a money market account at Fidelity Investments. Amounts represent contributions restricted by a donor for long-term purposes.

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, 2012, the restricted certificates of deposit bear interest at 0.35% to 0.45% and mature at various dates from January 2013 to June 2013.

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 values in the statement 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 statement of activities and changes in net assets.

Financial instruments – At December 31, 2012 and 2011, 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 statement 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 statement 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 2009.

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.

Reclassifications – Certain 2011 amounts have been reclassified without an effect on changes in net assets, in order to conform to the 2012 financial statement presentation.

NOTE 2 – PLEDGES RECEIVABLE:

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

	Years Ended December 31,	
	2012	2011
Total pledges receivable	\$ 122,500	\$ 185,000
Less discounts to net present value using 3.295% effective interest rate	2,791	6,530
	\$ 119,709	\$ 178,470
 Amounts due in:		
Less than one year	\$ 56,311	\$ 59,261
One to five years	63,398	119,209
	\$ 119,709	\$ 178,470

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, 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>

Little Sisters Fund, Inc. Notes to Financial Statements

NOTE 3 – INVESTMENTS (continued):

Investments consisted of the following at December 31, 2011:

	Fair Value		Cost
	Level I	Total	
Stocks and mutual funds:			
Dodge & Cox International Stock Fund	\$ 65,322	\$ 65,322	\$ 81,727
Ishares TR MSCI Emerging Markets Index Fund	3,794	3,794	5,007
Ishares TR S&P 500/Growth Index Fund	69,183	69,183	69,768
Ishares TR Russell 3000 Index Fund	66,169	66,169	69,886
Matthews China Fund	47,782	47,782	64,698
Matthews India Fund	43,424	43,424	60,214
Pimco Total Return Class D	61,841	61,841	61,825
Pimco Low Duration Class D	120,788	120,788	122,316
	<u>\$ 478,303</u>	<u>\$ 478,303</u>	<u>\$ 535,441</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, 2012 or 2011.

The components of net investment gain (loss) are reflected below:

	2012	2011
Net unrealized gain (loss)	\$ 55,395	\$ (50,315)
Net realized gain	2,061	3,285
Dividends and interest	16,135	14,434
Total net investment gain (loss)	<u>\$ 73,591</u>	<u>\$ (32,596)</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,	
	2012	2011
Grants and contributions restricted by the donors for specific purposes	\$ 392,641	\$ 321,243
Pledges receivable restricted until received	22,500	35,000
	\$ 415,141	\$ 356,243

Permanently restricted net assets consisted of \$450,000 in an endowment fund as of December 31, 2012 and 2011. 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 are to be invested solely in fixed deposits at banks at the board's discretion. The endowment funds consist of the following assets:

	December 31,	
	2012	2011
Pledges receivable, gross	\$ 100,000	\$ 150,000
Restricted certificates of deposit	200,000	300,000
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 to be 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 2012 or 2011.

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 which are not guaranteed and are subject to stock market fluctuations.

During the years ended December 31, 2012 and 2011, three donors represented 66.4% and 54.6% of contribution revenue, respectively. Also, one donor represented 81.2% and 80.4% of pledges receivable as of December 31, 2012 and 2011, respectively.

During the year ended December 31, 2012 and 2011, \$220,000 and \$316,500, 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, 2012 and 2011, the Organization received non-cash donations of stock with the fair value on the date of donation of \$793 and \$3,000, respectively.

NOTE 8 – SUBSEQUENT EVENTS:

Subsequent events have been evaluated by management through June 14, 2013, which is the date the financial statements were available to be issued.