

FINANCIAL STATEMENTS

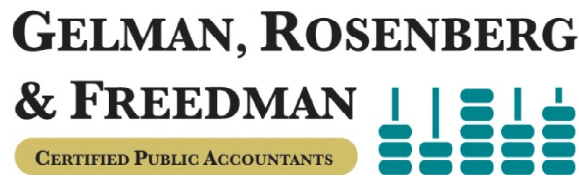


**FOR THE YEARS ENDED
DECEMBER 31, 2011 AND 2010**

RELIEF INTERNATIONAL

CONTENTS

	PAGE NO.
INDEPENDENT AUDITORS' REPORT	2
EXHIBIT A - Statements of Financial Position, as of December 31, 2011 and 2010	3
EXHIBIT B - Statements of Activities and Changes in Net Assets, for the Years Ended December 31, 2011 and 2010	4 - 5
EXHIBIT C - Statement of Functional Expenses, for the Year Ended December 31, 2011	6 - 7
EXHIBIT D - Statement of Functional Expenses, for the Year Ended December 31, 2010	8 - 9
EXHIBIT E - Statements of Cash Flows, for the Years Ended December 31, 2011 and 2010	10 - 11
NOTES TO FINANCIAL STATEMENTS	12 - 20



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Relief International
Los Angeles, California

We have audited the accompanying statements of financial position of Relief International as of December 31, 2011 and 2010, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Relief International's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Relief International's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Relief International as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2013 on our consideration of Relief International's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on Relief International's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in cursive script that reads 'Gelman, Rosenberg & Freedman'.

February 25, 2013

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

RELIEF INTERNATIONAL
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2011 AND 2010

ASSETS	2011	2010
Cash and cash equivalents	\$ 3,583,660	\$ 5,331,346
Investments	10,255	11,689
Loans receivable, net of allowance of \$185,525 in 2011 and \$455,930 in 2010 (Note 2)	11,036,908	9,898,256
Due from Relief International-UK (Note 3)	-	553,218
Grants and contracts receivable (Note 4)	20,572,468	18,960,187
Other receivables (Note 4)	1,623,764	176,597
Prepaid expenses and other assets	187,083	134,139
Inventory	6,198,177	7,880,568
Property and equipment, net of accumulated depreciation of \$627,364 in 2011 and \$546,579 in 2010 (Note 5)	235,902	279,987
Security deposits	30,258	44,243
Intangible asset (Note 13)	<u>1,000,000</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 44,478,475</u>	<u>\$ 43,270,230</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Lines of credit (Note 6)	\$ 1,059,430	\$ 609,991
Due to Relief International-UK (Note 3)	366,451	-
Accounts payable and accrued expenses (Note 12)	2,878,256	2,954,985
Refundable advances	<u>-</u>	<u>153,803</u>
Total liabilities	<u>4,304,137</u>	<u>3,718,779</u>
NET ASSETS		
Unrestricted	1,422,926	411,268
Temporarily restricted (Note 7)	<u>38,751,412</u>	<u>39,140,183</u>
Total net assets	<u>40,174,338</u>	<u>39,551,451</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 44,478,475</u>	<u>\$ 43,270,230</u>

RELIEF INTERNATIONAL

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	2011		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Grants, contributions and contracts (Notes 10 and 11)	\$ 3,278,812	\$ 22,496,402	\$ 25,775,214
Program income (Notes 4 and 13)	2,316,092	-	2,316,092
Loan interest income	-	3,057,715	3,057,715
Contributed goods and services	25,640	2,520,303	2,545,943
Interest and investment income	12,178	-	12,178
Other revenue	88,030	-	88,030
Net assets released from donor restrictions (Note 8)	<u>28,325,691</u>	<u>(28,325,691)</u>	<u>-</u>
Total support and revenue	<u>34,046,443</u>	<u>(251,271)</u>	<u>33,795,172</u>
EXPENSES			
Program Services:			
Emergency, Health and Sanitation	11,687,020	-	11,687,020
Food and Agriculture	5,585,672	-	5,585,672
Livelihoods and Enterprise	6,122,422	-	6,122,422
Shelter and Infrastructure	1,299,261	-	1,299,261
Education and Empowerment	1,986,189	-	1,986,189
Protection and Human Rights	<u>2,101,705</u>	<u>-</u>	<u>2,101,705</u>
Total program services	<u>28,782,269</u>	<u>-</u>	<u>28,782,269</u>
Supporting Services:			
General and Administrative	4,089,252	-	4,089,252
Fundraising	<u>161,830</u>	<u>-</u>	<u>161,830</u>
Total supporting services	<u>4,251,082</u>	<u>-</u>	<u>4,251,082</u>
Total expenses	<u>33,033,351</u>	<u>-</u>	<u>33,033,351</u>
Changes in net assets before other items	1,013,092	(251,271)	761,821
OTHER ITEMS			
Grants deemed uncollectable	-	(137,500)	(137,500)
Unrealized (loss) gain on investments	<u>(1,434)</u>	<u>-</u>	<u>(1,434)</u>
Changes in net assets	1,011,658	(388,771)	622,887
Net assets at beginning of year	<u>411,268</u>	<u>39,140,183</u>	<u>39,551,451</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,422,926</u>	<u>\$ 38,751,412</u>	<u>\$ 40,174,338</u>

See accompanying notes to financial statements.

2010		
Unrestricted	Temporarily Restricted	Total
\$ 3,889,785	\$ 21,989,068	\$ 25,878,853
-	-	-
-	2,325,952	2,325,952
-	10,235,181	10,235,181
23,916	-	23,916
247,888	-	247,888
<u>26,328,177</u>	<u>(26,328,177)</u>	<u>-</u>
<u>30,489,766</u>	<u>8,222,024</u>	<u>38,711,790</u>
10,808,557	-	10,808,557
1,848,536	-	1,848,536
5,749,277	-	5,749,277
2,123,614	-	2,123,614
2,996,875	-	2,996,875
3,093,170	-	3,093,170
<u>26,620,029</u>	<u>-</u>	<u>26,620,029</u>
3,765,763	-	3,765,763
98,999	-	98,999
<u>3,864,762</u>	<u>-</u>	<u>3,864,762</u>
<u>30,484,791</u>	<u>-</u>	<u>30,484,791</u>
4,975	8,222,024	8,226,999
-	-	-
<u>3,258</u>	<u>-</u>	<u>3,258</u>
8,233	8,222,024	8,230,257
<u>403,035</u>	<u>30,918,159</u>	<u>31,321,194</u>
<u>\$ 411,268</u>	<u>\$ 39,140,183</u>	<u>\$ 39,551,451</u>

See accompanying notes to financial statements.

RELIEF INTERNATIONAL

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Program Services			
	Emergency, Health and Sanitation	Food and Agriculture	Livelihoods and Enterprise	Shelter and Infrastructure
Salaries and related benefits (Note 12)	\$ 2,857,481	\$ 541,869	\$ 2,327,372	\$ 483,072
Consultants	69,192	25,814	129,327	2,418
Depreciation	63,205	-	-	-
Donated food and relief commodities	512,683	2,749,447	-	24,655
Projects	3,490,898	1,407,984	854,811	602,718
Subrecipient expenses	1,661,224	-	1,384,773	-
International freight	12,355	360	-	-
Vehicles and equipment expense	177,669	62,028	52,833	126
Office furniture and fixtures	21,058	4,194	2,988	-
Office expense	60,951	30,830	100,063	685
Supplies	805,064	373	-	-
Insurance	151,944	26,550	117,893	20,392
Interest	358	691	285	-
New country initiatives	55	-	-	-
Bank charges	20,914	1,457	23,957	147
Books and periodicals	1,050	4	72	-
Communications	84,138	20,021	96,413	2,888
Security	17,823	22,589	56,958	-
Postage	23,823	1,440	13,616	141
Printing and copying	20,289	10,420	10,489	596
Public relations	9,794	14,052	60	-
Office rent and utilities (Note 9)	350,598	178,948	213,527	33,401
Equipment/vehicle rental, maintenance and fuel	447,539	299,756	252,956	89,879
Training	31,018	94	149,309	-
Travel	379,995	137,306	208,244	21,386
Membership fees	1,434	-	7,800	-
Accounting and audit	61,401	2,348	18,895	3,952
Legal fees	6,844	5,421	11,452	-
Bad debt and loan allowance	57,824	-	63,074	-
Other operating expenses	288,399	41,676	25,255	12,805
TOTAL	\$ 11,687,020	\$ 5,585,672	\$ 6,122,422	\$ 1,299,261

See accompanying notes to financial statements.

Supporting Services						
Education and Empowerment	Protection and Human Rights	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	Total Expenses
\$ 387,899	\$ 973,275	\$ 7,570,968	\$ 2,659,962	\$ 99,400	\$ 2,759,362	\$ 10,330,330
21,042	1,810	249,603	109,654	2,465	112,119	361,722
-	-	63,205	17,580	-	17,580	80,785
868,333	-	4,155,118	-	-	-	4,155,118
44,731	215,726	6,616,868	-	-	-	6,616,868
121,239	415,256	3,582,492	-	-	-	3,582,492
498	296	13,509	-	-	-	13,509
80,800	15,354	388,810	38,710	-	38,710	427,520
31,940	1,985	62,165	2,620	-	2,620	64,785
11,406	15,312	219,247	16,689	540	17,229	236,476
2,198	-	807,635	106	-	106	807,741
29,523	31,460	377,762	229,389	5,232	234,621	612,383
433	-	1,767	46,124	-	46,124	47,891
-	-	55	3,856	-	3,856	3,911
773	5,981	53,229	30,889	595	31,484	84,713
723	-	1,849	2,011	-	2,011	3,860
15,823	37,726	257,009	39,945	276	40,221	297,230
-	1,945	99,315	4,516	-	4,516	103,831
931	1,233	41,184	8,206	715	8,921	50,105
25,874	1,281	68,949	2,335	4,748	7,083	76,032
1,494	1,008	26,408	7,135	14,094	21,229	47,637
45,755	135,430	957,659	366,729	13,059	379,788	1,337,447
51,506	167,326	1,308,962	18,034	141	18,175	1,327,137
310	8,357	189,088	820	-	820	189,908
211,269	41,538	999,738	226,324	1,816	228,140	1,227,878
-	3,333	12,567	38,853	-	38,853	51,420
3,599	4,575	94,770	31,660	-	31,660	126,430
1,251	3,309	28,277	39,683	450	40,133	68,410
-	8,045	128,943	-	-	-	128,943
26,839	10,144	405,118	147,422	18,299	165,721	570,839
\$ 1,986,189	\$ 2,101,705	\$ 28,782,269	\$ 4,089,252	\$ 161,830	\$ 4,251,082	\$ 33,033,351

See accompanying notes to financial statements.

RELIEF INTERNATIONAL

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Program Services			
	Emergency, Health and Sanitation	Food and Agriculture	Livelihoods and Enterprise	Shelter and Infrastructure
Salaries and related benefits (Note 12)	\$ 3,222,739	\$ 616,887	\$ 2,301,623	\$ 615,459
Consultants	144,498	133,081	37,257	350
Depreciation	63,295	5,451	-	-
Contributed food and relief commodities	339,004	123,716	144	66,824
Projects	3,397,842	337,597	1,250,331	1,126,372
Subrecipient expenses	374,593	-	1,126,421	-
International freight	30,933	-	275	-
Vehicles and equipment expense	481,205	98,007	25,548	4,559
Office furniture and fixtures	46,322	10,830	2,511	-
Office expense	111,455	23,678	66,790	2,780
Supplies	489,690	-	-	-
Insurance	154,573	30,698	95,087	26,701
Interest	106	589	7	-
New country initiatives	254	-	-	-
Bank charges	22,360	4,103	56,277	849
Books and periodicals	96	2	289	26
Communications	105,950	22,417	91,811	8,277
Security	35,347	5,491	30,215	(497)
Postage	11,188	2,408	9,152	2,929
Printing and copying	79,838	8,742	5,462	1,479
Public relations	3,747	1,455	-	-
Office rent and utilities (Note 9)	314,002	72,356	150,728	44,034
Equipment/vehicle rental, maintenance and fuel	637,485	124,217	187,449	151,716
Training	8,660	34,034	5,482	2,427
Travel	519,256	74,947	168,281	47,712
Membership fees	426	-	2,435	-
Accounting and audit	21,512	13,792	87,244	11,196
Legal fees	3,058	427	18,959	6,953
Bad debt and loan allowance	35	1,694	7,365	-
Other operating expenses	189,088	101,917	22,134	3,468
TOTAL	\$ 10,808,557	\$ 1,848,536	\$ 5,749,277	\$ 2,123,614

See accompanying notes to financial statements.

Supporting Services						
Education and Empowerment	Protection and Human Rights	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	Total Expenses
\$ 347,165	\$ 1,453,327	\$ 8,557,200	\$ 2,472,063	\$ 66,468	\$ 2,538,531	\$ 11,095,731
29,659	17,975	362,820	198,836	10,928	209,764	572,584
-	-	68,746	43,890	-	43,890	112,636
1,758,672	-	2,288,360	-	-	-	2,288,360
395,043	511,006	7,018,191	419	-	419	7,018,610
55,937	354,882	1,911,833	-	-	-	1,911,833
414	155	31,777	-	-	-	31,777
23,944	12,505	645,768	46,863	2,627	49,490	695,258
235	2,037	61,935	3,331	-	3,331	65,266
7,397	49,348	261,448	8,554	1,237	9,791	271,239
4,077	-	493,767	47,683	-	47,683	541,450
23,081	38,710	368,850	162,043	1,262	163,305	532,155
-	1,258	1,960	30,747	-	30,747	32,707
-	-	254	-	-	-	254
2,468	17,089	103,146	25,944	23	25,967	129,113
-	2,782	3,195	1,372	-	1,372	4,567
12,763	52,959	294,177	29,487	268	29,755	323,932
-	8,133	78,689	-	-	-	78,689
1,886	1,131	28,694	6,933	2,312	9,245	37,939
556	4,011	100,088	1,207	1,085	2,292	102,380
2,151	-	7,353	53	1,658	1,711	9,064
44,100	209,488	834,708	347,437	3,631	351,068	1,185,776
30,101	227,297	1,358,265	26,723	71	26,794	1,385,059
388	4,679	55,670	692	-	692	56,362
233,601	87,943	1,131,740	132,441	40	132,481	1,264,221
2,527	-	5,388	33,139	220	33,359	38,747
1,638	30,067	165,449	10,455	-	10,455	175,904
374	-	29,771	10,809	-	10,809	40,580
-	-	9,094	(14,903)	-	(14,903)	(5,809)
18,698	6,388	341,693	139,545	7,169	146,714	488,407
\$ 2,996,875	\$ 3,093,170	\$ 26,620,029	\$ 3,765,763	\$ 98,999	\$ 3,864,762	\$ 30,484,791

See accompanying notes to financial statements.

RELIEF INTERNATIONAL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 622,887	\$ 8,230,257
Adjustments to reconcile changes in net assets to net cash (used) provided by operating activities:		
Depreciation	80,785	112,636
Bad debt expense (recovery)	128,943	(2,112)
Donation of computer equipment and software	-	(102,300)
Unrealized loss (gain) on investments	1,434	(3,258)
Receipt of donated commodities	(2,520,303)	(10,132,881)
Distribution of donated commodities	4,155,118	2,288,360
Recognition of intangible asset	(1,000,000)	-
Conversion of loans to sub-awards	1,000,000	-
(Increase) decrease in:		
Grants and contracts receivable	(1,741,224)	3,046,640
Other receivables	(1,447,167)	10,763
Prepaid expenses and other assets	(52,944)	17,053
Inventory	47,576	96,863
Security deposits	13,985	(1,930)
Increase (decrease) in:		
Accounts payable and accrued expenses	(76,729)	860,668
Refundable advances	<u>(153,803)</u>	<u>153,803</u>
Net cash (used) provided by operating activities	<u>(941,442)</u>	<u>4,574,562</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(36,700)	(100,639)
Net disbursements of micro-credit loans receivable	<u>(2,138,652)</u>	<u>(3,132,034)</u>
Net cash used by investing activities	<u>(2,175,352)</u>	<u>(3,232,673)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net cash outlays on behalf of Relief International-UK	(1,683,009)	(347,445)
Loan repayments received from Relief International-UK	2,602,678	400,000
Repayments on line of credit	(611,731)	(1,150,000)
Cash drawn on line of credit	<u>1,061,170</u>	<u>909,991</u>
Net cash provided (used) by financing activities	<u>1,369,108</u>	<u>(187,454)</u>
Net (decrease) increase in cash and cash equivalents	(1,747,686)	1,154,435
Cash and cash equivalents at beginning of year	<u>5,331,346</u>	<u>4,176,911</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,583,660</u>	<u>\$ 5,331,346</u>

See accompanying notes to financial statements.

RELIEF INTERNATIONAL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
SUPPLEMENTAL INFORMATION:		
Interest Paid	\$ <u>47,891</u>	\$ <u>32,707</u>

RELIEF INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Relief International was founded in June 1990 and formally incorporated in the State of California on November 30, 1990, as a non-profit charitable organization. Relief International is a humanitarian agency with the aim of saving lives and rebuilding livelihoods in manmade and natural disasters by transitioning relief to development. Relief International is non-sectarian and non-political in its mission. Relief International's transitional programs are holistic and cross-sectoral, including services and capacity development programs in health, shelter, food, education, economic security, community development and rural livelihoods. Past and current programs have included assistance to refugees, displaced and other needy individuals in Afghanistan, Azerbaijan, Bangladesh, Ghana, Guinea, Haiti, Indonesia, Iran, Iraq, Jordan, Kenya, Lebanon, Myanmar, Niger, Nigeria, Pakistan, occupied Palestinian territories, Philippines, Senegal, Somalia, Sri Lanka, Sudan, Tajikistan, Tanzania, Uganda and Yemen. Relief International also provides internet connectivity to schools in several countries within the Americas, Middle East, Africa, Asia and Europe. Working with its partners, Relief International provides appropriate technology, teacher development workshops and continuous teacher support to engage them in online collaborative projects.

Relief International receives grant funds and contributions from the U.S. Agency for International Development (USAID), the U.S. Department of State (DOS), various foundations, international organizations (such as the United Nations High Commissioner for Refugees and UNICEF) and other foreign governments.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

The accompanying financial statements include the worldwide operations of Relief International. For the years ended December 31, 2011 and 2010, the financial statements of Relief International - U.K. (Note 3) have been combined with Relief International in accordance with FASB ASC 958-810, *Not-for-Profit Entities, Consolidation*. The combined financial statements are available at Relief International's headquarters.

Cash and cash equivalents -

For financial statement purposes, cash on hand and deposits in U.S. and foreign banks with maturities of three months or less are considered to be cash equivalents.

Relief International had \$2,946,953 and \$2,983,694 in cash and cash equivalents held at financial institutions and on hand in foreign countries at December 31, 2011 and 2010, respectively. The majority of the funds invested in foreign countries is uninsured.

At times during the year, Relief International maintains cash balances at financial institutions in excess of the current Federal Deposit Insurance Corporation (FDIC) limit of \$250,000. Management believes the risk in these situations to be minimal.

Through December 31, 2012, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") provides temporary unlimited deposit insurance coverage for non-interest bearing transaction accounts at all Federal Deposit Insurance Corporation (FDIC) - insured depository institutions (the "Dodd-Frank Deposit Insurance Provision").

RELIEF INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Cash and cash equivalents (continued) -

Relief International maintains a portion of its cash balances at financial institutions in non-interest bearing accounts; thereby, all of these cash balances are protected by FDIC under this Act.

Receivables -

All receivables approximate fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Investments -

Investments are recorded at fair value. Investments donated to Relief International are recorded at fair value as of the date of donation. Gains and losses due to market fluctuations are recorded as unrealized in the accompanying Statements of Activities and Changes in Net Assets until the securities are sold or traded.

Property and equipment -

Property and equipment purchased with unrestricted funds (with a cost basis exceeding \$5,000 or more) are stated at cost and are depreciated on the straight-line basis over their related estimated useful lives, generally three to five years. Property and equipment (with an estimated fair value exceeding \$5,000) donated to Relief International is recorded as temporarily restricted revenue in the year of receipt. All donated assets (non-inventory) are depreciated over their estimated useful lives; accordingly an amount equal to depreciation expense on the donated assets is also recorded as net assets released from restrictions (Note 8).

During 2009, Relief International received a parcel of property located in Los Angeles, California, from a donor who imposed certain restrictions on the use of any sales proceeds specifically to further Relief International's programs in Afghanistan. The value assigned to the property totaled \$126,000 (land value of \$38,000 and building value of \$88,000) (Notes 5 and 7). The property has not been sold as of December 31, 2011, and therefore, the value of the building has been depreciated on the straight-line basis over its estimated useful life of 40 years. During the years ended December 31, 2011 and 2010, Relief International recorded \$2,200 and \$1,513, respectively, of depreciation expense on the building.

Relief International also purchases equipment for its various programs with funding received from the U.S. Government and other donors. Under the terms of these agreements, title to equipment remains with Relief International, but the donor generally retains control of the equipment until disposition at the end of the award period. In most cases (and under the direction of the donor), Relief International donates this equipment to local humanitarian organizations at the end of the award period. Therefore, equipment purchased under these programs are expensed when incurred and such assets are not reflected as capital assets in the accompanying Statements of Financial Position. Maintenance, repairs and renewals that neither materially add value to existing property (nor prolong its life) are expensed as incurred.

Income taxes -

Relief International is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

RELIEF INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Income taxes (continued) -

Relief International is not a private foundation as described in Section 509(a)(2) of the Internal Revenue Code. Relief International is subject to unrelated business income taxes under Section 512 of the Internal Revenue Code. During the years ended December 31, 2011 and 2010, Relief International did not generate any unrelated business income.

Foreign currency translation -

The dollar ("dollars") is the functional currency for Relief International's worldwide operations. Transactions in currencies other than U.S. dollars are translated into dollars at the rate of exchange in effect during the month of the transaction.

Current assets and liabilities denominated in non-U.S. currency are translated into dollars at the exchange rate in effect at the dates of the Statements of Financial Position.

Uncertain tax positions -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes. For the years ended December 31, 2011 and 2010, Relief International has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

Inventory -

Inventory consists of various hygienic supplies, food and other relief commodities, and are recorded at a fair value assigned by the donor on the date of donation. Distributions of inventory are recorded on a first-in, first-out basis. During the years ended December 31, 2011 and 2010, Relief International received \$2,520,303 and \$10,132,881 in commodities, respectively, of which \$4,155,118 and \$2,288,360, respectively, were distributed to beneficiaries as of fiscal year-end. In addition, during the years ended December 31, 2011 and 2010, Relief International transferred \$47,576 and \$96,863 of commodities to RI-UK (Note 3). As of December 31, 2011 and 2010, total inventory on hand aggregated \$6,198,177 and \$7,880,568, respectively.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of Relief International and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of Relief International and/or the passage of time. When a restriction expires, 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.

RELIEF INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Grants, contributions and contracts -

Grants and contributions are recorded as revenue in the year notification is received from the donor. Grants and contributions are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Grants and contributions received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Contracts are treated as exchange transactions, and accordingly, unrestricted revenue is recognized when qualifying expenditures are incurred; any funds received in advance of incurring qualifying expenditures are recorded as refundable advances.

Contributed goods and services -

Contributed goods and services consisted of donated food, services, supplies and other relief commodities. The value of these contributions are recorded at their fair market value as of the date the goods and services were provided. Contributions of \$2,545,943 and \$10,235,181, representing the fair value of the use of these goods and services have been recorded as revenue in the accompanying financial statements for the years ended December 31, 2011 and 2010, respectively. Relief International also receives additional contributed goods and services for which an estimate of the fair value is not determinable.

Use of estimates -

The preparation of the 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 revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Fair value measurement -

Relief International adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. Relief International accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

RELIEF INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

2. LOANS RECEIVABLE

Relief International maintains several "Group Solidarity" loans in Azerbaijan. The loans are unsecured and interest is payable monthly at 3.0% on the declining principal balance. Interest is not charged during the first and second month of the loan period, resulting in an annual interest rate of approximately 16.5% to 20.0%. As of December 31, 2011 and 2010, total borrowings (including accrued interest), net of allowance of \$21,758 and \$6,674, aggregated \$375,272 and \$330,912, respectively.

Relief International maintains several micro-credit loans in Afghanistan. The loans are unsecured and are generally repayable within a 12-month period. The loans are interest-bearing at 22.0% per annum. As of December 31, 2011 and 2010, total borrowings, net of allowance of \$0 and \$238,333, aggregated \$20,040 and \$143,644, respectively.

Relief International maintains several micro-credit loans in Iraq (this portfolio represents approximately 93.6% and 79.7% of Relief International's net loans receivable worldwide as of December 31, 2011 and 2010, respectively). All loans were provided to individuals in accordance with the terms of Relief International's local programmatic activities. The majority of loans are due within one-year and bear interest of 6.0% to 15.0%. Total micro-credit loans receivable, net of allowance of \$104,388 and \$172,839, aggregated \$10,334,406 and \$7,888,012 as of December 31, 2011 and 2010, respectively.

Relief International maintains several micro-credit loans in Pakistan, Sudan, Indonesia, Lebanon, Palestine and Sri Lanka. The loans have been extended to local associations and individuals (including group loans), in accordance with the terms of Relief International's local programmatic activities. The majority of loans are due within one-year and bear interest up to 13.0%. Total micro-credit loans receivable, net of allowance of \$59,379 and \$38,084, aggregated \$307,190 and \$535,688 as of December 31, 2011 and 2010, respectively.

During 2009, Relief International entered into loan agreements with two local lending institutions in Lebanon. The loans are non-interest bearing and are currently due on November 28, 2011. Under the terms of the agreements, Relief International will provide up to \$500,000 in lending capital to each institution, and at the end of the agreement, the loans may be converted into a grant (based on satisfactory performance). As of December 31, 2009, Relief International obligated and transferred one-half of each agreement to the lending institutions (\$250,000 per institution); therefore, the total loans receivable aggregated \$500,000. As of December 31, 2010, Relief International obligated and transferred the balance of each agreement to the lending institutions (\$250,000 per institution); therefore, the total loans receivable aggregated \$1,000,000. During the year ended December 31, 2011, both loans were converted to sub-awards and therefore considered satisfied.

Following is a schedule by country of all loans receivable as of December 31, 2011 and 2010:

2011				2010			
Country	Loans			Country	Loans		
	Receivable	Allowance	Net		Receivable	Allowance	Net
Azerbaijan	\$ 397,030	\$ (21,758)	\$ 375,272	Azerbaijan	\$ 337,586	\$ (6,674)	\$ 330,912
Afghanistan	20,040	-	20,040	Afghanistan	381,977	(238,333)	143,644
Iraq	10,438,794	(104,388)	10,334,406	Iraq	8,060,851	(172,839)	7,888,012
Lebanon	63,920	(2,121)	61,799	Lebanon	1,312,161	(2,121)	1,310,040
Palestine	161,946	(8,045)	153,901	Palestine	84,945	-	84,945
Sri Lanka	140,703	(49,213)	91,490	Sri Lanka	176,666	(35,963)	140,703
	<u>\$ 11,222,433</u>	<u>\$ (185,525)</u>	<u>\$ 11,036,908</u>		<u>\$ 10,354,186</u>	<u>\$ (455,930)</u>	<u>\$ 9,898,256</u>

RELIEF INTERNATIONAL

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

3. LOAN TO RELIEF INTERNATIONAL - UK

Relief International - UK (RI-UK), a separately incorporated not-for-profit entity in the United Kingdom, is part of the global family of Relief International agencies through which international programmatic activities are coordinated. On occasion, Relief International provides short-term interest-free financing and other support to RI-UK. During 2011 and 2010, Relief International provided \$1,683,009 and \$347,445, respectively, of financing to (and absorbed certain costs on behalf of) RI-UK; also, during 2011, RI-UK repaid \$2,602,678 of the prior year balance due to Relief International. As of December 31, 2011, the aggregate amount due to RI-UK totaled \$366,451; as of December 31, 2010, the aggregate amount due from RI-UK totaled \$553,218.

4. GRANTS, CONTRACTS AND OTHER RECEIVABLES

As of December 31, 2011 and 2010, grants and contracts receivable consisted of the following:

<u>Year Ending December 31,</u>	<u>2011</u>	<u>2010</u>
2011	\$ -	\$ 14,183,139
2012	16,844,456	2,510,008
2013	<u>3,728,012</u>	<u>2,267,040</u>
GRANTS AND CONTRACTS RECEIVABLE	<u>\$ 20,572,468</u>	<u>\$ 18,960,187</u>

At December 31, 2011, grants and contracts receivable included \$748,499 due from the Earthquake Reconstruction and Rehabilitation Authority (an agency of the Pakistan Government) under a contract for a program entitled "Primary School Construction in Earthquake-Affected Areas". Such funds have not been collected as of the date of our audit report. While the ultimate determination of how much will be collected at this time, management of Relief International has been advised by local legal counsel that such funds will be collected in the foreseeable future. Accordingly, there has not been a provision for an uncollectable amount recorded in the accompanying financial statements.

Included in other receivables is \$1,316,092 due from JPMorgan Ventures Energy related to the sale of carbon credits earned from Relief International's production of fuel efficient stoves (in Ghana). The full amount of the receivable was received in January 2012 and is included in unrestricted revenue (classified as "Program income") during the year ended December 31, 2011.

5. PROPERTY AND EQUIPMENT

As of December 31, 2011 and 2010, property and equipment consisted of the following:

	<u>2011</u>	<u>2010</u>
Land and building (Note 7)	\$ 126,000	\$ 126,000
Furniture and fixtures	4,955	4,955
Office equipment	21,119	21,119
Computer equipment	189,237	189,237
Vehicles	<u>521,955</u>	<u>485,255</u>
	863,266	826,566
Less: Accumulated depreciation	<u>(627,364)</u>	<u>(546,579)</u>
NET PROPERTY AND EQUIPMENT	<u>\$ 235,902</u>	<u>\$ 279,987</u>

RELIEF INTERNATIONAL

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010**

6. LINES OF CREDIT

As of December 31, 2011 and 2010, Relief International had the following lines of credit:

- Relief International maintains a \$1,125,000 line of credit with a local financial institution (the line of credit was increased to \$1,625,000 on November 27, 2012). Amounts borrowed under this agreement bear interest at the bank's prime rate plus 0.25% (4.50% at December 31, 2011 and 2010). Interest is assessed on a monthly basis. All receivables have been pledged as collateral. At December 31, 2011 and 2010, the total amount due on the line of credit aggregated \$882,047 and \$530,000, respectively.
- On July 21, 2010, Relief International entered into a revolving line of credit agreement with the Azerbaijan Ministry of Agriculture for the purpose of providing additional lending capital to the beneficiaries of its rural microlending activities. The line of credit bears quarterly interest of 2% and is secured by its loans receivable portfolio in Azerbaijan. As of December 31, 2011 and 2010, the total amount due on the line of credit aggregated \$177,383 and \$79,991, respectively.

7. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2011 and 2010:

	2011	2010
Emergency, Health and Sanitation	\$ 8,279,607	\$ 11,163,432
Food and Agriculture	10,300,708	9,226,731
Livelihoods and Enterprise	14,483,142	12,918,469
Shelter and Infrastructure	135,306	14,341
Education and Empowerment *	4,772,813	3,316,403
Protection and Human Rights	779,836	2,500,807
	<u>\$ 38,751,412</u>	<u>\$ 39,140,183</u>

* Included in the "Education and Empowerment" total is the net value of the donated property noted in Footnote 5.

8. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions by incurring expenses which satisfied the restricted purposes specified by the donors:

	2011	2010
Emergency, Health and Sanitation	\$ 11,841,973	\$ 12,055,985
Food and Agriculture	5,729,958	1,236,995
Livelihoods and Enterprise	6,044,466	6,007,269
Shelter and Infrastructure	441,258	797,756
Education and Empowerment	2,555,936	3,048,080
Protection and Human Rights	1,712,100	3,182,092
	<u>\$ 28,325,691</u>	<u>\$ 26,328,177</u>

RELIEF INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

9. LEASE COMMITMENTS

Relief International leases its principal office space in Los Angeles, California, under an operating rental agreement which expires on August 31, 2013. Relief International also leases office space in Washington, D.C. under an agreement expiring on July 31, 2015. Relief International leases offices and guest houses in several foreign countries under short-term lease agreements. Total rent expense (including foreign country offices utilities and related costs) for the years ended December 31, 2011 and 2010 was \$1,337,447 and \$1,185,776, respectively.

Future minimum lease payments required under long-term lease agreements are as follows:

Year Ending December 31,

2012	\$ 445,101
2013	405,310
2014	<u>283,652</u>
	<u>\$ 1,134,063</u>

10. CONTINGENCIES

United States Government Funding -

Relief International receives grants and contracts from various agencies of the United States Government. Such awards are subject to audit under the provisions of OMB Circular A-133. The ultimate determination of amounts received under the United States Government awards is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the provisions of OMB Circular A-133 have been completed for all required fiscal years through 2011. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

Overseas Operations -

Relief International administers its various programs in numerous developing countries through its field offices in each of those countries. Relief International also maintains cash accounts as well as loan portfolios in certain of those countries. The future results of those programs could be adversely affected by a number of potential factors, such as currency devaluations or changes in the political climate.

As of December 31, 2011 and 2010, Relief International had cash and other assets in Afghanistan, Azerbaijan, Bangladesh, Ghana, Guinea, Haiti, Indonesia, Iran, Iraq, Jordan, Kenya, Lebanon, Myanmar, Niger, Nigeria, Pakistan, occupied Palestinian territories, Philippines, Senegal, Somalia, Sri Lanka, Sudan, Tajikistan, Tanzania, Uganda and Yemen, totaling approximately \$21,700,000 and \$22,000,000, respectively, which represents 49% and 51% of Relief International's total assets as of December 31, 2011 and 2010, respectively.

Litigation -

Relief International is currently involved in a legal case with a former employee who is seeking damages for unfair termination. Management (and the attorney) are of the opinion, as of February 25, 2013, that any liability or loss resulting from such litigation will not have a material adverse effect on the financial position, net assets or cash flows of Relief International.

RELIEF INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 AND 2010

11. ECONOMIC DEPENDENCY

Approximately 67% and 72% of Relief International's unrestricted support and revenue (excluding contributed food and relief commodities) for the years ended December 31, 2011 and 2010, respectively, was derived from grants and contracts awarded by the United States Government and various pass-through entities.

Relief International has no reason to believe that relationships with these entities will be discontinued in the foreseeable future. However, any interruption of these relationships (i.e., the failure to renew agreements or withholding of funds) would adversely affect Relief International's ability to finance ongoing operations.

12. RETIREMENT PLANS

Relief International has adopted a retirement plan under Section 403(b)(7) of the Internal Revenue Code. Employees are eligible to participate in the plan after one year of service to the organization. Employee contributions are limited to \$16,500 per year, and Relief International will match those annual contributions initially at 24%, not to exceed \$4,125. The employer match percentage increases based on years of service. Relief International contributions are vested at 20% after two years of service, rising to 100% after six years of service. During the years ended December 31, 2011 and 2010, the retirement plan expense totaled \$89,655 and \$82,417, respectively.

Unrecognized prior service pension benefits have been granted to employees who have been employed by Relief International for a minimum of six years who did not have benefit or opportunity to participate in a pension plan. The combined total benefit amount of \$500,000 was granted first as a maximization of each employee's 403(b) plan and the remainder was to be placed in an administered 457(f) plan. As of December 31, 2011 and 2010, the total amount of \$500,000 has been recorded as an accrued liability in the accompanying Statements of Financial Position. During March 2012, the entire liability was paid out to these employees. The total amount paid, including accrued interest, aggregated \$558,816.

13. INTANGIBLE ASSET

As discussed in Note 4, Relief International is the beneficiary under a program (managed by JPMorgan Ventures Energy) related to the sale of carbon credits earned from Relief International's production of fuel efficient stoves (in Ghana). During the period 2008-2010, Relief International earned 252,682 voluntary emission reduction (VER) credits, valued at \$6.00 per VER, resulting in program income of \$1,316,092 (\$1,516,092 was earned but \$200,000 was retained in connection with the sales transaction). During calendar year 2011, 453,211 credits were earned (certified as gold standard in 2012) and while the average fair value of such credits is approximately \$7.00 per credit, a contract for a sale (including the identification of a buyer) had not been completed as of the date of our audit report. Therefore, Relief International estimated an intangible asset value of \$1,000,000 based on a conservative assumption of a VER value between \$2.00 and \$3.00 per unit. Accordingly, \$1,000,000 has been recorded as an intangible asset and as "Program income" during the year ended December 31, 2011.

14. SUBSEQUENT EVENTS

In preparing these financial statements, Relief International has evaluated events and transactions for potential recognition or disclosure through February 25, 2013, the date the financial statements were issued.