



Consolidated Financial Statements
For the Year Ended December 31, 2016

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Independent Auditor's Report

**To the Board of Directors
Relief International, Inc.
Los Angeles, California**

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Relief International, Inc. and Subsidiary (collectively, the Organization), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated 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 financial statements that are free from 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 accounting 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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements of the Organization as of and for the year ended December 31, 2015, were audited by other auditors, whose report dated June 1, 2016, expressed an unmodified opinion on those financial statements.

Clark Nuber PS

Certified Public Accountants
June 26, 2017

RELIEF INTERNATIONAL, INC. AND SUBSIDIARY

Consolidated Statements of Financial Position
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents	\$ 6,124,724	\$ 2,730,920
Investments		5,140
Accounts receivable, net	112,075	
Grants receivable	3,105,202	2,155,218
Other receivables	689,500	562,013
Prepaid expenses and other	494,725	624,329
Inventory	42,752	12,922
Loans receivable, net	1,991,352	4,013,857
Other assets	425,000	393,671
Security deposits	99,215	89,378
Property and equipment, net	285,653	145,024
Total Assets	<u>\$ 13,370,198</u>	<u>\$ 10,732,472</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 8,135,839	\$ 4,984,368
Refundable advances	716,824	74,311
Funds held for related party	1,929,275	157,804
Lines of credit		1,707,328
Other liabilities	425,000	
Total Liabilities	11,206,938	6,923,811
Net Assets:		
Unrestricted	1,363,156	2,212,651
Temporarily restricted	800,104	1,596,010
Total Net Assets	<u>2,163,260</u>	<u>3,808,661</u>
Total Liabilities and Net Assets	<u>\$ 13,370,198</u>	<u>\$ 10,732,472</u>

See accompanying notes.

RELIEF INTERNATIONAL, INC. AND SUBSIDIARY

Consolidated Statement of Activities
For the Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues and Support:			
Grants and contributions	\$ 23,797,262	\$ 21,723	\$ 23,818,985
Private donations	305,765	179,436	485,201
Loan interest	876,546		876,546
Contributed goods and services	14,418		14,418
Other	390,784		390,784
Net assets released from restrictions	818,963	(818,963)	
Total Revenues and Support	26,203,738	(617,804)	25,585,934
Expenses:			
Program services-			
Economic opportunity	886,027		886,027
Education	525,701		525,701
Health	8,058,150		8,058,150
Multi-sectoral	10,387,129		10,387,129
Protection and human rights	227,529		227,529
Water, sanitation and hygiene	474,437		474,437
Microfinance	1,204,846		1,204,846
Other	332,170		332,170
Total program services	22,095,989		22,095,989
Supporting services-			
General and administrative	4,845,361		4,845,361
Total supporting services	4,845,361		4,845,361
Total Expenses	26,941,350		26,941,350
Change in Net Assets Before Loss	(737,612)	(617,804)	(1,355,416)
Loss on sale of MADAD Credit, LLC	(111,883)	(178,102)	(289,985)
Change in Net Assets	(849,495)	(795,906)	(1,645,401)
Net assets, beginning of year	2,212,651	1,596,010	3,808,661
Net Assets, End of Year	\$ 1,363,156	\$ 800,104	\$ 2,163,260

See accompanying notes.

RELIEF INTERNATIONAL, INC. AND SUBSIDIARY

Consolidated Statement of Activities
For the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Total
Revenues and Support:			
Grants and contributions	\$ 22,321,096	\$ 633,262	\$ 22,954,358
Private donations	76,867	845,751	922,618
Loan interest	1,554,105	166,580	1,720,685
Contributed goods and services		188,241	188,241
Other	84,768	102,304	187,072
Net assets released from restrictions	1,197,757	(1,197,757)	
Total Revenues and Support	25,234,593	738,381	25,972,974
Expenses:			
Program services-			
Economic opportunity	8,134,759		8,134,759
Health	12,541,088		12,541,088
Multi-sectoral	2,130,322		2,130,322
Protection and human rights	70,236		70,236
Water, sanitation and hygiene	297,223		297,223
Other	496,957		496,957
Total program services	23,670,585		23,670,585
Supporting services-			
General and administrative	4,336,325		4,336,325
Fundraising	294,147		294,147
Total supporting services	4,630,472		4,630,472
Total Expenses	28,301,057		28,301,057
Total Change in Net Assets	(3,066,464)	738,381	(2,328,083)
Net assets, beginning of year	5,279,115	857,629	6,136,744
Net Assets, End of Year	\$ 2,212,651	\$ 1,596,010	\$ 3,808,661

See accompanying notes.

RELIEF INTERNATIONAL, INC. AND SUBSIDIARY

Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2016

	Program Services								Support Services		Total	
	Economic Opportunity	Education	Health	Multi-Sectoral	Protection and Human Rights	Water Sanitation and Hygiene	Microfinance	Other	Total Program Services	General and Administrative		Total Support Services
Salaries and related benefits	\$ 529,952	\$ 87,652	\$ 2,566,311	\$ 2,342,609	\$ 165,476	\$ 254,037	\$ 702,920	\$ 106,678	\$ 6,755,635	\$ 2,770,044	\$ 2,770,044	\$ 9,525,679
Consultants	73,078	5,123	113,176	71,488	14,825	6,563			284,253	150,271	150,271	434,524
Depreciation			99	123					222	47,548	47,548	47,770
Donated food and relief commodities			12,478						12,478	1,940	1,940	14,418
Projects			8,200						8,200			8,200
Subrecipients	2,735		829,394	1,787,329				107,319	2,726,777			2,726,777
International freight			10,850	151					11,001	192	192	11,193
Vehicles and equipment	24,779	305,881	94,607	44,288	3,984	15,513	20,106	3,062	512,220	61,372	61,372	573,592
Office furniture and fixtures	282	28,616	27,208	19,214	3,005	5,188	455		83,968	3,065	3,065	87,033
Office supplies	10,369	9,366	91,753	82,395	2,985	8,268	13,826	3,258	222,220	14,097	14,097	236,317
Supplies		14,498	1,337,475	1,873,142		42		13,870	3,239,027	2,457	2,457	3,241,484
Insurance	19,409	4,159	94,801	62,821	6,789	16,975	12,148	2,290	219,392	316,802	316,802	536,194
Interest	1,014	219	8,680	12,073	873				22,859	16,362	16,362	39,221
New country initiatives										184	184	184
Bank charges	1,095	559	93,494	111,162		6,973	4,061	261	217,605	69,656	69,656	287,261
Books and periodicals	731		22	19		13			785	44	44	829
Communications	10,453	4,570	51,662	86,228	611	1,478	21,596	3,137	179,735	55,331	55,331	235,066
Security	4,301		41,342	14,987		646		1,123	62,399	2,739	2,739	65,138
Postage	119	182	817	684		105	3,693	847	6,447	4,716	4,716	11,163
Printing and copying	3,209	906	32,181	14,377	498	846		1,103	53,120	270	270	53,390
Public relations	15,236		104,370	24,762	11,942	7,240		156	163,706	10,988	10,988	174,694
Office rent and utilities	57,871	5,388	203,847	240,699	9,093	55,124	58,960	18,387	649,369	411,310	411,310	1,060,679
Equipment/vehicle rental, maintenance and fuel	20,255	4,979	444,435	493,548	1,199	28,828	4,454	16,062	1,013,760	21,970	21,970	1,035,730
Training		740	144,319	107,384		6,112		717	259,272	12,027	12,027	271,299
Travel	55,732	7,467	231,078	112,747	3,470	29,341	81,363	28,102	549,300	302,334	302,334	851,634
Membership fees			2,900	552		1,500			4,952	50,969	50,969	55,921
Accounting and audit	250		24,740	14,362		2,269	10,500	2,286	54,407	264,987	264,987	319,394
Legal fees		677	22,159	17,412		2,566	15,536	218	58,568	29,275	29,275	87,843
Bad debt							253,995		253,995	4,378	4,378	258,373
Contract labor		10,085	1,416,580	1,948,847					3,375,512	9,017	9,017	3,384,529
Other operating expenses	55,157	34,634	49,172	903,726	2,779	24,810	1,233	23,294	1,094,805	211,016	211,016	1,305,821
Total Expenses	\$ 886,027	\$ 525,701	\$ 8,058,150	\$ 10,387,129	\$ 227,529	\$ 474,437	\$ 1,204,846	\$ 332,170	\$ 22,095,989	\$ 4,845,361	\$ 4,845,361	\$ 26,941,350

See accompanying notes.

RELIEF INTERNATIONAL, INC. AND SUBSIDIARY

**Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2015**

	Program Services						Support Services				Total
	Economic Opportunity	Health	Multi-Sectoral	Protection and Human Rights	Water Sanitation and Hygiene	Other	Total Program Services	General and Administrative	Fundraising	Total Support Services	
Salaries and related benefits	\$ 2,918,616	\$ 3,470,315	\$ 438,052	\$ 55,749	\$ 155,067	\$ 126,475	\$ 7,164,274	\$ 2,602,953	\$ 25,148	\$ 2,628,101	\$ 9,792,375
Consultants	267,935	302,483	66,745	242	1,540	41,580	680,525	123,738	151,750	275,488	956,013
Depreciation	895	348	133			315	1,691	9,275	(1,801)	7,474	9,165
Donated food and relief commodities	1,953	188,366					190,319		666	666	190,985
Projects		4,261					4,261		(1,560)	(1,560)	2,701
Subrecipients	1,183,260	2,862,235	792,153			93,864	4,931,512				4,931,512
International freight	126	10,868	153			51	11,198	69	(54)	15	11,213
Vehicles and equipment	104,069	115,314	107,506	1,850	42,398	2,116	373,253	53,098	7	53,105	426,358
Office furniture and fixtures	26,213	59,290	1,698	424	100	1,549	89,274	5,558	513	6,071	95,345
Office supplies	111,442	116,569	25,526	1,570	3,874	8,261	267,242	15,711	3,631	19,342	286,584
Supplies	6,617	1,983,833	219,294			20,523	2,230,267	42	65,269	65,311	2,295,578
Insurance	110,113	173,536	8,754	2,694	17,028	5,575	317,700	321,759	377	322,136	639,836
Interest	13,855	35,336	9,277	247			58,715	54,861	2,111	56,972	115,687
Bank charges	18,379	39,365	726		5,864	633	64,967	55,333	574	55,907	120,874
Books and periodicals	143	51					194	396		396	590
Communications	93,582	91,367	18,498	144	1,387	7,165	212,143	34,238	1,076	35,314	247,457
Security	25,318	48,822				843	74,983		1,472	1,472	76,455
Postage	5,051	2,467	563	26		2,970	11,077	4,506	796	5,302	16,379
Printing and copying	16,223	53,600	9,307	106	3,653	723	83,612	902	2,813	3,715	87,327
Public relations	11,339	51,806	3,017		3,019	1,036	70,217	11,844	8,701	20,545	90,762
Office rent and utilities	268,847	318,834	57,173	3,603	5,421	24,449	678,327	246,866	2,236	249,102	927,429
Equipment/vehicle rental, maintenance and fuel	154,023	667,963	51,699	453	11,040	21,660	906,838	21,064	(25)	21,039	927,877
Training	15,637	268,803	5,159		6,936	27,540	324,075	35,764	4,843	40,607	364,682
Travel	459,551	392,288	25,128	2,058	17,171	25,758	921,954	264,867	2,004	266,871	1,188,825
Membership fees	2,400	725				46	3,171	45,669		45,669	48,840
Accounting and audit	58,584	70,421	7,636	652	1,963	3,459	142,715	163,225	961	164,186	306,901
Legal fees	78,249	37,185	8,400	175	2,130	4,567	130,706	15,539		15,539	146,245
Bad debt	622,885	(24)	38			5,285	628,184	1,002		1,002	629,186
Contract labor	113,917	941,015	41,199				1,096,131	2,263		2,263	1,098,394
Beneficiaries	1,232,228		223,475				1,455,703				1,455,703
Other operating expenses	213,309	233,646	9,013	243	18,632	70,514	545,357	245,783	22,639	268,422	813,779
Total Expenses	\$ 8,134,759	\$ 12,541,088	\$ 2,130,322	\$ 70,236	\$ 297,223	\$ 496,957	\$ 23,670,585	\$ 4,336,325	\$ 294,147	\$ 4,630,472	\$ 28,301,057

See accompanying notes.

RELIEF INTERNATIONAL, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash From Operating Activities:		
Change in net assets	\$ (1,645,401)	\$ (2,328,083)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities-		
Receipt of donated commodities	(14,418)	(188,241)
Distribution of donated commodities	14,418	188,241
Depreciation	47,770	9,165
Noncash investing and financing activities:		
Unrealized gain on investments		(5,090)
Change in allowance for bad debt	253,995	236,648
Loss on disposal of property and equipment	30,950	96,933
Transfer of line-of-credit and liabilities related to MADAD Credit, LLC	(757,690)	
Transfer of loans and interest receivable related to MADAD Credit, LLC	1,047,675	
Changes in operating assets and liabilities:		
Accounts receivable	(112,075)	
Grants receivable	(949,984)	1,292,379
Other receivables	(296,457)	(3,268)
Prepaid expenses and other	129,604	(273,384)
Inventory	(29,830)	17,128
Other assets	393,671	
Security deposits	(9,837)	(12,961)
Accounts payable and accrued expenses	3,151,471	1,467,420
Refundable advances	642,513	(64,651)
Funds held for related party	1,771,471	(1,300,667)
Net Cash Provided by (Used in) Operating Activities	3,667,846	(868,431)
Cash Flows From Investing Activities:		
Purchases of property and equipment	(219,349)	(122,174)
Proceeds from sale of property and equipment		59
Proceeds from sale of investments	5,140	
Net receipts from (advances for) for loans receivable	889,805	(403,628)
Net Cash Provided by (Used in) Investing Activities	675,596	(525,743)
Cash Flows From Financing Activities:		
Net (payments on) advances from lines of credit	(949,638)	48,230
Net Cash (Used in) Provided by Financing Activities	(949,638)	48,230
Net Change in Cash and Cash Equivalents	3,393,804	(1,345,944)
Cash and cash equivalents, beginning of year	2,730,920	4,076,864
Cash and Cash Equivalents, End of Year	\$ 6,124,724	\$ 2,730,920
Supplementary Disclosure of Cash Flow:		
Interest paid	\$ 147,049	\$ 40,180

See accompanying notes.

RELIEF INTERNATIONAL, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Years Ended December 31, 2016 and 2015

Note 1 - Organization and Summary of Accounting Policies

Relief International, Inc. and its Subsidiary (collectively, the Organization) was founded in June 1990 and formally incorporated in the State of California on November 30, 1990, as a non-profit charitable organization. The Organization is a leading humanitarian non-profit agency committed to achieving relief from poverty, building resilience, and promoting dignity and well-being of the world's most vulnerable populations. By partnering with people in the communities where we work, we bridge the gap between immediate relief and long-term community development. The Organization is non-sectarian and non-political in its mission. The Organization's programs focus on four sectors: health; education; water, sanitation and hygiene (WASH); and economic opportunity. We design every program to follow "The RI Way", which includes global participation, integration across sectors, partnerships and civic skills development. Past and current programs have included assistance to refugees, displaced and other vulnerable communities in Afghanistan, Azerbaijan, Bangladesh, Ghana, Guinea, Haiti, Iran, Iraq, Jordan, Kenya, Lebanon, Myanmar, Niger, Pakistan, Palestinian territories, Philippines, Senegal, Somalia, Sudan, Turkey, South Sudan, Uganda and Yemen.

MADAD Credit, LLC was formed as a wholly-owned subsidiary of Relief International, Inc. under a Non-Banking Credit Limited Liability Company Charter registered in Azerbaijan in 2002. Relief International, Inc. sold MADAD Credit, LLC during the year ended December 31, 2016 (Note 2).

Relief International receives awards, grants and contributions from the United States Agency for International Development (USAID), the United States Department of State (DOS), various foundations, and other international organizations.

Basis of Presentation - The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting under accounting principles generally accepted in the United States of America (U.S. GAAP). The consolidated financial statements include the accounts of Relief International, Inc. and its wholly-owned subsidiary, MADAD Credit, LLC. Inter-entity transactions have been eliminated upon consolidation.

For the purposes of financial reporting, the Organization classifies resources into three net asset categories pursuant to any donor-imposed restrictions. Accordingly, the net assets of the Organization are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently Restricted Net Assets - Net assets restricted by donor-imposed stipulations to be invested in perpetuity. The Organization had no permanently restricted net assets as of December 31, 2016 and 2015.

Revenue and support are reported as increases in unrestricted net assets unless the use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Temporary restrictions expire when the donor-stipulated purpose has been fulfilled and/or the donor-stipulated time period has elapsed. Expirations of temporary restrictions result in the reclassification of temporarily restricted net assets to unrestricted net assets and are reported in the consolidated statements of activities as net assets released from restrictions.

RELIEF INTERNATIONAL, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Years Ended December 31, 2016 and 2015

Note 1 - Continued

Cash and Cash Equivalents - For purposes of the consolidated statements of cash flows, the Organization considers cash on hand and deposits in U.S. and foreign banks with maturities of three months or less to be cash equivalents.

Investments - Investments are recorded at their readily determinable fair value. Common stock is valued at the closing price reported on the active market in which the individual securities are traded. Realized and unrealized gains and losses are included in investment return, if applicable, in the consolidated statements of activities.

Accounts Receivable, Other Assets and Other Liabilities - Accounts receivable are stated at the amount management expects to collect from outstanding balances and consist of amounts billed for voluntary emissions reductions (VERs) that have been certified and delivered to the purchaser of the credits (Note 10). Other assets consist of VERs that have been certified and obligated by contract for release in the future. Other liabilities reflect the Organization's obligation to deliver the VERs at a future date. The VERs that have been certified and obligated are recorded at the price specified in the applicable contract, net of an allowance to reflect a present value discount and fluctuations in market prices.

Grants and Other Receivables - Grants and other receivables are stated at the amount management expects to collect from outstanding balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to grants or other receivables. Management considers all amounts to be fully collectible as of December 31, 2016 and 2015.

Grants receivable consists of amounts due from the U.S. Government and pass-through entities. Other receivables consist of: accrued interest on microfinance loans; advances to field offices; advances to staff; subcontractor receivables; pledges receivable; and a provision for the variance between the actual and negotiated indirect cost recovery on U.S. Government awards. Pledges receivable outstanding at December 31, 2016, totaled approximately \$98,000 and are expected to be received within one year. At December 31, 2016, approximately 70% of pledges receivable were due from two individuals who are also board members. There were no pledges receivable at December 31, 2015.

Inventory - Inventory consists of various hygienic supplies, food and other relief commodities, and are recorded at fair value on the date of donation. Distributions of inventory are recorded on a first-in, first-out basis.

Loans Receivable - Loans receivable consist of loans made under the Organization's microfinance programs (Note 3). Loans that management has the intent and ability to hold for the foreseeable future, until maturity or until payoff are reported at the principal balance outstanding, net of an allowance for loan losses.

Property and Equipment - The Organization capitalizes property and equipment with a cost or donated value of \$5,000 or greater. The cost of property and equipment is depreciated over the estimated useful life of the asset and is computed using the straight-line method over three to five years. Maintenance and repairs are charged to expense as incurred.

The Organization 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 the Organization; however, the donor generally retains control of the equipment until disposition at the end of the award period. In most cases, under the direction of the donor, the Organization donates this equipment to local relief and humanitarian organizations at the end of the award period. Therefore, equipment purchased under these programs is expensed when purchased, and such assets are not reflected as capital assets in the consolidated statements of financial position.

RELIEF INTERNATIONAL, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Years Ended December 31, 2016 and 2015

Note 1 - Continued

Impairment of Assets - The Organization evaluates assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Upon such an occurrence, recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to forecasted undiscounted future net cash flows expected to be generated by the asset. If the carrying amount exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. Once an impairment charge is recorded, the carrying amount cannot be increased. There was no impairment recorded for the years ended December 31, 2016 or 2015.

Vulnerability From Certain Concentrations and Risks - Financial instruments that potentially subject the Organization to concentrations of credit and market risk consist primarily of cash and cash equivalents and loans receivable (Note 3). The Organization had approximately \$5,000,000 and \$2,700,000 in cash and cash equivalents held at financial institutions and on hand in foreign countries as of December 31, 2016 and 2015, respectively. The majority of the funds invested in foreign countries is uninsured. Cash and cash equivalents held by financial institutions in the U.S. at times exceed Federal Deposit Insurance Corporation insured limits. Management believes the risk in these situations to be minimal.

The Organization's credit risk arises primarily from its lending activity through its microfinance programs (Note 3) and results when a borrower or counterparty to a financial instrument fails to meet its contractual obligations. Allowances for impairment are accounted for when there is objective evidence that the loans and advances to borrowers are impaired. Significant changes in the economy, depreciation of local currencies against the currencies of the indexed portfolios, or in the health of a particular industry segment could result in evidence that the expected future cash flows are different from those provided for at the end of the reporting period. Management carefully monitors and manages its exposure to credit risk.

For the years ended December 31, 2016 and 2015, 93% and 88%, respectively, of the Organization's total revenues and support consist of awards from agencies of the U.S. Government and pass-through entities. As of December 31, 2016 and 2015, 100% of grants receivable are from the U.S. Government and pass-through entities. Management 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 the Organization's ability to finance ongoing operations.

Revenue Recognition - Unconditional grants and contributions are recognized as revenue in the period committed or received. Donor-restricted contributions are reported as temporarily restricted contributions and as net assets released from restrictions when donor restrictions are met. Conditional promises to give are not recognized as revenue until the conditions upon which they depend are substantially satisfied.

Grants and contracts that are awarded to the Organization from U.S. Government agencies and pass-through agencies are accounted for as exchange transactions, and revenue is recognized when qualifying expenditures related to specified programs are incurred. When funds are received in advance of incurring qualified expenditures, the unspent funds are recorded in the consolidated statements of financial position as refundable advances. When qualifying expenditures are incurred prior to receiving funds from the U.S. Government, including pass-through agencies, a receivable is recorded.

RELIEF INTERNATIONAL, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Years Ended December 31, 2016 and 2015

Note 1 - Continued

Contributed Goods and Services - Contributed goods and services consist of donated food, services, supplies and other relief commodities. The value of these contributions are recorded at their fair value on the date the goods and services are provided. The Organization also receives contributed goods and services for which an estimate of the fair value is not determinable; therefore, these contributed goods and services are not reflected in the consolidated statements of activities.

Functional Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Tax Exempt Status - Relief International, Inc. is a nonprofit corporation exempt from federal income taxes under Internal Revenue Code (IRC) Section 501 (c)(3) and is classified as an organization that is not a private foundation under Section 501(a) of the IRC. The Organization is also recognized by the California Franchise Tax Exempt Board as exempt in California under the California revenue and Taxation Code Section 23701d and is exempt from California income and franchise taxes on operations related to its exempt purpose.

Foreign Currency Translation - Substantially all assets and liabilities of the Organization that are held in foreign currencies are translated at year end exchange rates. Revenues, gains and other support and expenses are translated at the average monthly exchange rates during the year. Gains and losses from foreign currency translation were not material to the consolidated financial statements taken as a whole and are not reflected separately in the consolidated financial statements.

Use of Estimates - The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments - Financial instruments reported at fair value on a recurring basis include investments. Financial instruments not reported at fair value on a recurring basis include receivables, accounts payable and notes payable. The carrying amounts of these financial instruments approximate fair value.

Reclassifications - Certain reclassifications have been made to 2015 amounts to conform to the 2016 presentation. The reclassifications have no effect on the previously reported total assets, liabilities, net assets or change in net assets for 2015.

Subsequent Events - The Organization has evaluated subsequent events through June 26, 2017, the date on which the consolidated financial statements were available to be issued.

RELIEF INTERNATIONAL, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Years Ended December 31, 2016 and 2015

Note 2 - Sale of MADAD Credit, LLC

During the year ended December 31, 2016, the Organization's board of directors determined that local ownership of MADAD Credit, LLC is in the best interests of servicing the financial needs of the people of Azerbaijan. Therefore, the board elected to sell the Organization's interest in MADAD Credit, LLC to a local entity. Under the terms of the sale, the purchasers assumed all responsibilities and liabilities of MADAD Credit, LLC, including loans and other obligations owed to creditors, employees and borrowers. At the time of sale, the Organization transferred to the purchasers assets totaling \$1,047,675 and liabilities totaling \$757,690, and recognized a loss on the sale of \$289,985 (Notes 3 and 6).

Note 3 - Loans Receivable

Loans issued under the Organization's microfinance programs have been evaluated as a pool of homogeneous loans and are the only segment and class of lending by the Organization. Loans are considered impaired at 90 days and are completely reserved. Past-due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans include smaller balance homogeneous loans that are collectively evaluated for impairment.

The allowance for loan losses has been established for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance using past loan loss experience, the nature and volume of the portfolio, economic conditions, and other factors. The allowance does not contain specifically identified reserves, as the micro-finance loans are evaluated for exposure as a pool of loans.

Factors considered by management in determining impairment include payment status and the probability of collecting scheduled payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays based on the aging of the microfinance loans in the pool. Loans are not restructured, and no troubled debt restructurings are included in the portfolio.

Large groups of smaller balance homogeneous loans, such as microfinance loans, are collectively evaluated for impairment, and accordingly, they are not included in the separately identified impairment disclosures. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Organization. This actual loss experience is supplemented with other economic factors based on the risks present for the geographic region. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; migration of loans in the past due categories; trends in volume and terms of loans; economic trends and conditions; industry conditions; and effects of changes in credit concentration.

Azerbaijan - The Organization maintained several "Group Solidarity" loans in Azerbaijan. The loans were unsecured and interest was payable monthly at 3.0% on the declining principal balance. Interest was not charged during the first and second months of the loan period, resulting in an annual interest rate of approximately 16.5% to 20.0%. The loans under this program were transferred upon the sale of MADAD Credit, LLC in 2016 (Note 2).

Iraq - The Organization maintains a significant micro-credit loan portfolio in Iraq, which represents approximately 100% and 79% of the Organization's net loans receivable as of December 31, 2016 and 2015, respectively. All loans were provided to individuals in accordance with the terms of the Organization's local programmatic activities. The majority of loans are due within one year and bear interest of 13.0% to 35.0%.

RELIEF INTERNATIONAL, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements
For the Years Ended December 31, 2016 and 2015

Note 3 - Continued

Palestine - The Organization maintained micro-credit loans in Palestine. The loans have been extended to local associations and individuals, including group loans, in accordance with the terms of the Organization's local programmatic activities. The majority of loans were due within one year and bore interest up to 13.0%. As of December 31, 2016 and 2015, these loans have been fully repaid, written off or reserved against with allowance.

Loans receivable, by country, were as follows:

December 31, 2016			
Country	Loans Receivable	Allowance	Net
Iraq	\$ 2,076,830	\$ (85,478)	\$ 1,991,352
December 31, 2015			
Country	Loans Receivable	Allowance	Net
Iraq	\$ 4,670,287	\$ (1,487,178)	\$ 3,183,109
Azerbaijan	836,177	(5,429)	830,748
Palestine	39,170	(39,170)	
Total Loans Receivable, Net	\$ 5,545,634	\$ (1,531,777)	\$ 4,013,857

Activity in the allowance for loan losses was as follows for the years ended December 31:

	2016	2015
Balance, beginning of year	\$ 1,531,777	\$ 1,295,129
Provision for loan losses	253,995	493,363
Loans charged off	(1,705,723)	(256,715)
Allowance transferred with sale of MADAD, LLC	5,429	
Balance, End of Year	\$ 85,478	\$ 1,531,777

As of December 31, 2016, the Organization had \$27,863 in loans that were considered impaired with an allowance of \$27,863 allocated to all loans over 90 days. As of December 31, 2015, the Organization had \$1,374,397 in loans that were considered impaired with an allowance of \$1,374,397 allocated to all loans over 90 days.

RELIEF INTERNATIONAL, INC. AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Years Ended December 31, 2016 and 2015**

Note 3 - Continued

The aging of the recorded investment in past-due microfinance loans, was as follows:

December 31, 2016					
30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
\$ 47,264	\$ 13,333	\$ 27,863	\$ 88,460	\$ 1,988,370	\$ 2,076,830

The aging of the recorded investment in past-due microfinance loans, was as follows:

December 31, 2015					
30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
\$ 57,536	\$ 18,942	\$ 1,374,397	\$ 1,450,875	\$ 4,094,759	\$ 5,545,634

Note 4 - Relief International - UK

Relief International - UK (RI-UK) is a nongovernmental organization headquartered in London. It is separately incorporated as a company limited by guarantee in England and Wales and registered as a charitable organization with the Charity Commission. RI-UK is an independent affiliate of the Organization and is part of the global family of Relief International agencies through which international programmatic activities are coordinated. RI-UK and the Organization have common board members and collaborate closely by sharing the use of key support staff and systems. However, neither entity has a residual interest in the net assets of the other, nor is either entity responsible for the obligations or debts of the other. The aggregate amounts held by the Organization on behalf of RI-UK totaled \$1,929,275 and \$157,804 as of December 31, 2016 and 2015, respectively, and consist primarily of cash. These amounts are included in cash and cash equivalents and funds held for related party on the consolidated statements of financial position. Costs allocated to RI-UK for key support staff and systems totaled \$2,595,057 and \$1,858,425 for the years ended December 31, 2016 and 2015, respectively.

Note 5 - Property and Equipment

Property and equipment consisted of the following as of December 31:

	2016	2015
Furniture and fixtures	\$ -	\$ 470
Office equipment	17,000	17,474
Computer equipment	449,561	247,639
Vehicles	150,271	165,507
	616,832	431,090
Less accumulated depreciation	(331,179)	(286,066)
Property and Equipment, Net	\$ 285,653	\$ 145,024

Depreciation expense totaled \$47,770 and \$9,165 for the years ended December 31, 2016 and 2015, respectively.

RELIEF INTERNATIONAL, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Years Ended December 31, 2016 and 2015

Note 6 - Lines-of-Credit

The Organization had a revolving line-of-credit for up to \$1,625,000 with a local financial institution. This line-of-credit was originated in 2011, matured in July 2016 and was not renewed. Interest on the line-of-credit was at the bank's prime rate plus 0.25%, which was 4.50% as of December 31, 2015. Interest was assessed on a monthly basis. All inventory, including all returned inventory, equipment, general intangibles and all cash and noncash proceeds and products of the Organization were pledged as collateral. The amount due on the line-of-credit totaled \$969,058 as of December 31, 2015. This balance was paid in full in September 2016.

On July 21, 2010, the Organization 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 micro-lending activities. The line-of-credit bore quarterly interest at 2.00%, was secured by its loans receivable portfolio in Azerbaijan and was originally set to mature in March 2016 but was extended to July 2020 during the year ended December 31, 2015. As of December 31, 2015, the amount due on the line-of-credit totaled \$738,270. During the year ended December 31, 2016, this liability was assumed by the purchasers of MADAD Credit, LLC (Note 2).

Note 7 - Temporarily Restricted Net Assets

As of December 31, 2016, temporarily restricted net assets were available for time or purpose-restricted programs, including \$100,160 for microfinance and \$699,944 for other program services. As of December 31, 2015, temporarily restricted net assets were available for time or purpose restricted programs, including approximately \$430,000 for microfinance and \$1,167,000 for other program services. Net assets released from restrictions upon satisfaction of purpose restrictions totaled \$818,963 and \$1,197,757 for the years ended December 31, 2016 and 2015, respectively.

Note 8 - Commitments and Contingencies

Leases - The Organization leases its principal office space in Los Angeles, California, under an operating rental agreement which expires on March 31, 2021. On January 13, 2015, the Organization entered into an agreement for a new office space in Washington, D.C. which expires in July 2026. The Organization also leases offices and guest houses in several foreign countries under short-term lease agreements. Rent expense, including foreign country offices, utilities and related costs, totaled \$1,177,291 and \$892,924, for the years ended December 31, 2016 and 2015, respectively.

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

For the Year Ending December 31,

2017	\$	406,392
2018		417,039
2019		428,028
2020		444,567
2021		371,768
Thereafter		<u>1,656,864</u>
Total Minimum Lease Payments	\$	<u>3,724,658</u>

RELIEF INTERNATIONAL, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Years Ended December 31, 2016 and 2015

Note 8 - Continued

Legal Proceedings - In the normal course of business, the Organization has various claims in process, matters in litigation and other contingencies. In management's opinion, the outcome from these matters will not materially impact the Organization's financial position or results of activities.

Potential Disallowed Costs - Expenses incurred under certain programs are subject to audit by the awarding agencies, including programs funded by the U.S. Government. If, as a result of such an audit, certain expenses incurred are determined to be nonreimbursable, the Organization may be liable for repayment of disallowed expenses previously claimed or received.

Overseas Operations - The Organization administers its various programs in numerous developing countries through its field offices in each of those countries. The Organization 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, 2016, the Organization had assets in Afghanistan, Bangladesh, Ghana, Iran, Iraq, Jordan, Kenya, Lebanon, Myanmar, Nigeria, Pakistan, occupied Palestinian territories, Philippines, Turkey, Senegal, Somalia, Sudan, Uganda and Yemen, totaling approximately \$7,600,000, which represents 57% of the Organization's total assets as of December 31, 2016.

Note 9 - Retirement Plans

The Organization maintains a retirement plan under Section 403(b)(7) of the IRC, and employees are eligible to participate in the plan after one year of service. Employee contributions are limited to current Internal Revenue Services (IRS) limitations. The Organization contributes to the plan on the employee's behalf, initially at 4% with increases based on years of service. The Organization's contributions are vested at 20% after two years of service, rising to 100% after six years of service. During the years ended December 31, 2016 and 2015, the retirement plan expense totaled \$242,799 and \$158,839, respectively.

The Organization has established a nonqualified deferred compensation plan (the Plan) under Section 457(f) of the IRC for the executive director, effective as of March 17, 2014, for the purpose of providing certain supplemental retirement and retention benefits, in addition to any other retirement and retention benefits available under any other plan sponsored and maintained by the Organization. Until the withdrawal date, the contributions to the Plan are legal assets of the Organization and subject to its creditors. The balance of funds credited under the terms of the Plan totaled \$45,000 and \$37,000 as of December 31, 2016 and 2015, respectively.

Note 10 - Other Assets

The Organization is the beneficiary under a program, "Gyapa Improved Stoves in Ghana," related to the sale of voluntary emissions reductions (VERs) earned from its production of fuel efficient stoves in Ghana. The Organization contracts with RINA Services, S.p.A. to verify the greenhouse gas emission reductions reported for the program activity and to certify VERs earned in accordance with Gold Standard Verification, consistent with industry practice.

RELIEF INTERNATIONAL, INC. AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Years Ended December 31, 2016 and 2015**

Note 10 - Continued

The most recent RINA Services, S.p.A. Gold Standard Verification Report, dated February 2, 2016, covered the verification periods of 2016 and 2014 and certified 824,977 VERs, of which 538,022 were subsequently obligated by contract to a third party. Revenue totaling approximately \$534,000 was recognized during the year ended December 31, 2016, for VERs that were released and invoiced to the third party. The remaining obligated VERs are reported as other assets in the consolidated statements of financial position, valued at the stated contract price less an allowance to reflect a present value discount and market fluctuations. A liability is also reflected in the consolidated statements of financial position for the Organization's obligation to release the remaining obligated VERs. The other asset and liability related to the obligated VERs totaled \$425,000, net of an allowance of \$235,542 as of December 31, 2016. The remaining certified but unobligated VERs will be recognized at the time they are obligated under contract. During the year ended December 31, 2016, the Organization elected to write off VERs that had been recognized but not yet released in a prior year totaling approximately \$216,000.

During the year ended December 31, 2015, revenue totaling approximately \$97,000 was recognized for VERs that were released to a third party. There were no VERs certified during the year ended December 31, 2015.