

National Relief Charities, Inc.

Accountants' Report and Financial Statements

December 31, 2011



National Relief Charities, Inc.
December 31, 2011

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Independent Accountants' Report

Board of Directors
National Relief Charities, Inc.
Sherman, Texas

We have audited the accompanying statement of financial position of National Relief Charities, Inc. (NRC) as of December 31, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the NRC's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Relief Charities, Inc. as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

BKD, LLP

April 30, 2012

National Relief Charities, Inc.
Statement of Financial Position
December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 2,750,760	\$ -	\$ 15,000	\$ 2,765,760
Pledges and accounts receivable, net	24,248	-	-	24,248
Inventories	11,208,058	-	-	11,208,058
Short-term investments	1,636	-	50,000	51,636
Prepaid expenses and other assets	193,685	-	-	193,685
	<u>14,178,387</u>	<u>-</u>	<u>65,000</u>	<u>14,243,387</u>
Total current assets	14,178,387	-	65,000	14,243,387
Property and equipment, net	9,313,667	-	-	9,313,667
Long-term investments	121,648	-	-	121,648
	<u>23,613,702</u>	<u>-</u>	<u>65,000</u>	<u>23,678,702</u>
Total assets	<u>\$ 23,613,702</u>	<u>\$ -</u>	<u>\$ 65,000</u>	<u>\$ 23,678,702</u>
Liabilities				
Current Liabilities				
Accounts payable	\$ 1,151,074	\$ -	\$ -	\$ 1,151,074
Accrued salaries, benefits and vacation	361,675	-	-	361,675
Line of credit	1,468,594	-	-	1,468,594
Current portion of long-term debt	165,768	-	-	165,768
	<u>3,147,111</u>	<u>-</u>	<u>-</u>	<u>3,147,111</u>
Total current liabilities	3,147,111	-	-	3,147,111
Long-term debt	1,758,267	-	-	1,758,267
	<u>4,905,378</u>	<u>-</u>	<u>-</u>	<u>4,905,378</u>
Total liabilities	4,905,378	-	-	4,905,378
Net Assets				
Unrestricted	18,708,324	-	-	18,708,324
Temporarily restricted	-	-	-	-
Permanently restricted	-	-	65,000	65,000
	<u>18,708,324</u>	<u>-</u>	<u>65,000</u>	<u>18,773,324</u>
Total net assets	18,708,324	-	65,000	18,773,324
Total liabilities and net assets	<u>\$ 23,613,702</u>	<u>\$ -</u>	<u>\$ 65,000</u>	<u>\$ 23,678,702</u>

National Relief Charities, Inc.
Statement of Activities
Year Ended December 31, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and Support				
Direct contributions	\$ 23,481,562	\$ 39,100	\$ -	\$ 23,520,662
In-kind donations	22,263,531	-	-	22,263,531
Other income	205,897	-	-	205,897
Net assets released from restrictions	39,100	(39,100)	-	-
Total revenue and support	<u>45,990,090</u>	<u>-</u>	<u>-</u>	<u>45,990,090</u>
Expenses				
Program services				
South Dakota Indian Services	17,244,491	-	-	17,244,491
Southwest Indian Services	15,418,962	-	-	15,418,962
American Indian Education Foundation	1,407,880	-	-	1,407,880
Other programs	118,652	-	-	118,652
Total program services	<u>34,189,985</u>	<u>-</u>	<u>-</u>	<u>34,189,985</u>
Supporting services				
Management and general	841,734	-	-	841,734
Fundraising	12,526,192	-	-	12,526,192
Total supporting services	<u>13,367,926</u>	<u>-</u>	<u>-</u>	<u>13,367,926</u>
Total expenses	<u>47,557,911</u>	<u>-</u>	<u>-</u>	<u>47,557,911</u>
Change in Net Assets	(1,567,821)	-	-	(1,567,821)
Net Assets, Beginning of Year	<u>20,276,145</u>	<u>-</u>	<u>65,000</u>	<u>20,341,145</u>
Net Assets, End of Year	<u>\$ 18,708,324</u>	<u>\$ -</u>	<u>\$ 65,000</u>	<u>\$ 18,773,324</u>

National Relief Charities, Inc.
Statement of Functional Expenses
Year Ended December 31, 2011

	Program Services				Supporting Services				Total
	South Dakota Indian Services	Southwest Indian Services	American Indian Education Foundation	Other Programs	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Cost of goods distributed	\$ 12,076,422	\$ 10,982,406	\$ 9,102	\$ -	\$ 23,067,930	\$ 581	\$ 50,230	\$ 50,811	\$ 23,118,741
Grants	10,330	-	603,893	-	614,223	-	-	-	614,223
Advertising and list rentals	5,262	1,086	2,915	-	9,263	45	330,385	330,430	339,693
Mailing and shipping	3,315,306	3,023,657	496,321	69	6,835,353	10,809	1,430,830	1,441,639	8,276,992
Meetings and travel	55,465	31,158	26,848	1,460	114,931	29,703	62,132	91,835	206,766
Office supplies	21,016	30,778	5,504	1,057	58,355	29,424	153,770	183,194	241,549
Payroll and benefits	1,334,279	862,490	230,998	98,124	2,525,891	419,706	3,984,730	4,404,436	6,930,327
Printing	5,541	3,622	4,203	300	13,666	1,254	3,764,989	3,766,243	3,779,909
Professional fees	29,137	34,412	6,469	6,943	76,961	204,185	616,127	820,312	897,273
Rent and utilities	64,617	39,419	742	128	104,906	12,495	990,495	1,002,990	1,107,896
Computers and technology	37,653	29,134	4,970	1,914	73,671	65,607	504,264	569,871	643,542
Miscellaneous	119,663	182,695	11,715	4,457	318,530	4,501	494,206	498,707	817,237
Depreciation	169,800	161,259	4,200	4,200	339,459	29,749	119,520	149,269	488,728
Interest	-	36,846	-	-	36,846	33,675	24,514	58,189	95,035
Total	\$ 17,244,491	\$ 15,418,962	\$ 1,407,880	\$ 118,652	\$ 34,189,985	\$ 841,734	\$ 12,526,192	\$ 13,367,926	\$ 47,557,911

National Relief Charities, Inc.
Statement of Cash Flows
Year Ended December 31, 2011

Operating Activities	
Change in net assets	\$ (1,567,821)
Items not requiring (providing) operating cash	
Depreciation	488,728
Net realized and unrealized loss on investments	26,711
Changes in	
Accounts receivable	(14,907)
Accounts payable and accrued expenses	124,895
Inventories	267,115
Other current assets and liabilities	<u>505,223</u>
Net cash used in operating activities	<u>(170,056)</u>
Investing Activities	
Net proceeds from sale of investments	221,000
Purchases of property and equipment	<u>(844,550)</u>
Net cash used in investing activities	<u>(623,550)</u>
Financing Activities	
Proceeds from draw on line of credit, net	468,594
Proceeds from notes payable	1,570,000
Principal payments on long-term debt	<u>(899,286)</u>
Net cash provided by financing activities	<u>1,139,308</u>
Net Change in Cash and Cash Equivalents	345,702
Cash and Cash Equivalents, Beginning of Year	<u>2,420,058</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 2,765,760</u></u>

National Relief Charities, Inc.
Notes to Financial Statements
December 31, 2011

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

National Relief Charities, Inc. (NRC) is a not-for-profit organization which was incorporated in North Carolina in 1989 whose mission and principal activities are to assist impoverished Native Americans with various forms of humanitarian support and to educate the public about the plight of the American Indian in today's society.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

Financial statement presentation is in accordance with Accounting Standards Codification (ASC) 958-205, *Not-for-Profit Entities – Presentation of Financial Statements*. Under ASC 958-205, NRC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted net assets are not subject to donor-imposed stipulations.
- Temporarily restricted net assets are those whose use by NRC has been limited by donors to a specific time period or purpose.
- Permanently restricted net assets have been restricted by donors to be maintained by NRC in perpetuity.

Cash and Cash Equivalents

NRC considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2011, cash equivalents consisted primarily of a repurchase agreement.

Effective July 21, 2010, the FDIC's insurance limits were permanently increased to \$250,000. At December 31, 2011, NRC's cash accounts exceeded federally insured limits by approximately \$206,000.

Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010 through December 31, 2012, at all FDIC-insured institutions.

National Relief Charities, Inc.

Notes to Financial Statements

December 31, 2011

Foreign Currency Transactions

Assets and liabilities of operations that transact in a local currency environment, where that local currency is the functional currency, are translated to U.S. dollars at exchange rates in effect at the balance sheet date, with the resulting translation adjustments directly recorded to a separate component of *Other Income*. Income and expense accounts are translated at average exchange rates during the year. Re-measurement adjustments are also recorded in *Other Income*.

Investments and Investment Return

Investments in mutual funds having a readily determinable fair value are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Building and improvements	39 years
Computers and software	3 – 5 years
Machinery and equipment	5 – 7 years
Furniture and fixtures	5 – 7 years
Motor vehicles	5 years

Long-lived Asset Impairment

NRC evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

National Relief Charities, Inc.
Notes to Financial Statements
December 31, 2011

No asset impairment was recognized during the year ended December 31, 2011.

Inventory

Inventories consist of donated and purchased supplies and are usually acquired through major retailer donations.

- **Donated Supplies Other Than Food** – Donated supplies are recorded at their fair value based upon the estimated price paid by the donor. NRC values items by identifying the gross profit margin of the retailer and researching the average retailer price for the item via retailer websites. Once the average price is determined, it is reduced by a percentage equal to the gross profit margin of the retailer. This values the donated item at the approximate price paid by the retailer.
- **Donated Food** – NRC values food items at the average wholesale price per pound of food as determined by a price study commissioned by Feeding America, the largest food charity in the U.S. This rate applies to all food regardless of type or packaging. For the year ended December 31, 2011, \$1.58 was the average wholesale price per pound of food.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as temporarily restricted and then released from restriction.

In-kind Contributions

In addition to receiving cash contributions, NRC receives in-kind contributions of clothing, medical supplies, toiletries, food, educational products and other items from various donors. It is the policy of NRC to record the estimated fair value of certain in-kind donations as contribution revenue when received, and similarly increase expenses when distributed. For the year ended December 31, 2011, \$22,263,531 was received in in-kind contributions.

Shipping and Handling Costs

Shipping and handling costs of \$5,775,965 and \$2,521,027 are included in program services and supporting services, respectively for 2011.

National Relief Charities, Inc.
Notes to Financial Statements
December 31, 2011

Income Taxes

NRC is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, NRC is subject to federal income tax on any unrelated business taxable income.

NRC files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Organization is no longer subject to U.S. federal examinations by tax authorities for years before 2008.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program, management and general and fund raising categories based on direct salaries and other methods.

Fundraising Expenses

All costs attributable to the production, printing, and mailing of literature to the public that have both an educational and fundraising appeal, have been allocated between fundraising and program expenses in the consolidated financial statements as they meet the requirements for the allocation of joint costs as provided by ASC Topic 958-720-50, *Accounting for Costs of Activities that Include Fundraising*.

Note 2: Investments and Investment Return

Investments at December 31, 2011, consisted of the following:

Mutual funds	\$	121,648
Certificates of deposit		51,636
	\$	173,284

Total investment return included as part of other income is comprised of the following:

Net realized and unrealized loss on investments reported at fair value	\$	(30,130)
Interest and dividends, net of management fee		3,419
	\$	(26,711)

National Relief Charities, Inc.
Notes to Financial Statements
December 31, 2011

Note 3: Property and Equipment

Property and equipment at December 31, 2011, consisted of:

Land	\$ 1,450,840
Buildings	8,171,102
Leasehold improvements	385,947
Vehicles	1,123,371
Furniture and equipment	<u>1,653,387</u>
	12,784,647
Less: Accumulated depreciation and amortization	<u>3,470,980</u>
	<u><u>\$ 9,313,667</u></u>

Note 4: Note Payable to Bank

NRC has a \$1,500,000 revolving bank line of credit expiring August 30, 2012. At December 31, 2011, there was \$1,468,594 borrowed against this line. The line is collateralized by NRC's South Dakota property. Interest on the line of credit was 5.5% on December 31, 2011, and is payable monthly.

Note 5: Long-term Debt

Long-term debt activity for the year ended December 31, 2011, is as follows:

Note payable, Great Western Bank (A)	\$ 382,790
Note payable, JPMorgan Chase Bank, NA (B)	<u>1,541,245</u>
	1,924,035
Less: Current maturities	<u>165,768</u>
	<u><u>\$ 1,758,267</u></u>

(A) Due August 20, 2015; \$115,760 payable annually with interest payable monthly at 5.6% fixed interest rate; secured by South Dakota real estate.

(B) Due August 10, 2026; \$157,444 payable annually with interest payable monthly at 5.8% fixed interest rate; secured by Arizona real estate.

In connection with this note payable to bank, NRC is required, among other things, to maintain certain financial conditions. The bank has formally approved noncompliance with the requirements for the year ended December 31, 2011.

National Relief Charities, Inc.
Notes to Financial Statements
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Aggregate annual maturities of long-term debt at December 31, 2011, are:

Years Ending	Principal	Interest	Total
2012	\$ 165,768	\$ 106,946	\$ 272,714
2013	175,438	97,277	272,714
2014	185,663	87,051	272,714
2015	157,448	76,680	234,127
2016	86,959	69,995	156,954
Thereafter	<u>1,152,759</u>	<u>354,717</u>	<u>1,507,476</u>
Total	<u>\$ 1,924,035</u>	<u>\$ 792,665</u>	<u>\$ 2,716,700</u>

Note 6: Permanently Restricted Net Assets

Permanently restricted net assets at December 31, 2011, are restricted to:

Investment in perpetuity, the income of which is expendable to support NRC operations	<u>\$ 65,000</u>
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Note 7: Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors:

Health living	\$ 10,000
Scholarship and education	13,100
School supplies	<u>16,000</u>
	<u>\$ 39,100</u>

Note 8: Operating Leases

NRC has an operating lease agreement for office space in the Philippines for the 36-month period ending July 30, 2013. 2011 rent expense was approximately \$152,600. The lease is cancellable by either party with 6 months written notice.

Future minimum lease payments under operating leases are:

2012	\$ 160,184
2013	<u>96,069</u>
Total minimum lease payments	<u>\$ 256,253</u>

National Relief Charities, Inc.
Notes to Financial Statements
December 31, 2011

Note 9: Retirement and 401(k) Plans

Retirement Plan

NRC has a retirement plan for employees who have met certain years of service and age requirements. The Board of Directors annually determines the amount, if any, of NRC's contributions to the plan. Retirement contributions were suspended for all of 2011.

401(k) Plan

NRC has a 401(k) plan covering substantially all employees. NRC's contributions to the plan are 3% of annual compensation of all eligible employees. Contributions to the plan were \$102,459 for 2011.

Note 10: Foreign Exchange Risk

NRC engages in activities that extend beyond the borders of the United States and are susceptible to adverse changes in the currency markets, as of December 31, 2011, NRC had 9,045,980 Philippines Pesos worth approximately \$207,465. Annual gains or losses from foreign currency translations are minimal.

Note 11: Disclosures About Fair Value of Assets

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of financial position, as well as the general classification of such assets pursuant to the valuation hierarchy.

National Relief Charities, Inc.

Notes to Financial Statements

December 31, 2011

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include mutual funds. Mutual funds reported as Level 1 are valued by reference to quoted market prices for investments listed on an exchange or over-the-counter market.

Investments at December 31, 2011, consisted of the following:

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Dodge & Cox Int'l Stock Fund (DODFX)	\$ 1,649	\$ -	\$ -
Pear Tree Polaris Foreign Value Fund (QFVOX)	53,127	-	-
CGM Focus Fund (CGMFX)	6,014	-	-
American Century Target Mat 2015 (BTFTX)	2,701	-	-
Vanguard Inflation-protected (VIPSX)	58,157	-	-
	\$ 121,648	\$ -	\$ -

Note 12: Allocation of Joint Costs

NRC conducted activities that included requests for contributions, as well as program components. Those activities included direct mail, planned giving, and telemarketing campaigns. The costs of conducting those activities included a total of \$9,574,040 in 2011, respectively, of joint costs, which are not specifically attributable to particular components of the activities. These joint costs were allocated as follows:

Fundraising	\$ 4,326,804
South Dakota Indian Services	2,403,263
Southwest Indian Services	2,350,136
American Indian Education Foundation	493,837
	\$ 9,574,040

National Relief Charities, Inc.

Notes to Financial Statements

December 31, 2011

Note 13: Subsequent Events

Subsequent events have been evaluated through April 30, 2012, which is the date the financial statements were available to be issued.