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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
Handicap International

We have audited the accompanying statement of financial position of Handicap International as of December 31, 2010, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Handicap International's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information was derived from the 2009 financial statements, which were audited by other auditors whose report dated May 13, 2010 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Organization's internal control over financial reporting. Our audit included 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 the Organization'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, and 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 Handicap International as of December 31, 2010, and the changes in its net assets and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 12, 2011 on our consideration of Handicap 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 was 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 the 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.

Our audit was performed for the purpose of forming an opinion on the basis financial statements of Handicap International taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Mitchell & Titus, LLP

May 12, 2011

HANDICAP INTERNATIONAL
For the Year Ended December 31, 2010

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HANDICAP INTERNATIONAL
Statement of Financial Position
As of December 31, 2010
With Summarized Financial Information for 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
<i>Current assets</i>		
Cash	\$ 244,105	\$ 79,041
Accounts receivable	-	1,927
Grants receivable	323,589	360,121
Due from HI-Federation (Note 4)	9,368	44,301
Prepaid expenses	<u>73,449</u>	<u>6,783</u>
Total current assets	<u>650,511</u>	<u>492,173</u>
 <i>Fixed assets</i>		
Equipment	16,791	16,791
Less: Accumulated depreciation and amortization	<u>(14,622)</u>	<u>(9,026)</u>
Net fixed assets	<u>2,168</u>	<u>7,765</u>
 Total assets	 <u>\$ 652,679</u>	 <u>\$ 499,938</u>
 LIABILITIES AND NET ASSETS		
<i>Current liabilities</i>		
Loan payable (Note 2)	\$ -	\$ 3,190
Accounts payable and accrued liabilities	162,838	67,939
Deferred revenue	14,020	207,784
Due to HI-Federation Affiliated Organizations (Note 4)	147,502	187,263
Other current liabilities	<u>950</u>	<u>33,762</u>
Total liabilities	325,310	499,938
 <i>Net assets</i>		
Temporarily restricted	<u>327,369</u>	<u>-</u>
 Total liabilities and net assets	 <u>\$ 652,679</u>	 <u>\$ 499,938</u>

The accompanying notes are an integral part of these financial statements.

HANDICAP INTERNATIONAL
Statement of Activities
For the Year Ended December 31, 2010
With Summarized Financial Information For 2009

	<u>2010</u>			<u>2009</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
REVENUE				
Contributions	\$ 326,230	\$ -	\$ 326,230	\$ 776
Foundation grants	1,644,278	815,577	2,459,855	1,315,854
Government grants	787,988	-	787,988	210,121
Interest/dividend income	2,800	-	2,800	1,562
Direct mail	312,324	-	312,324	153,206
Donated goods	50,750	-	50,750	-
Net assets released from donor restrictions (Note 5)	<u>488,208</u>	<u>(488,208)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>3,612,578</u>	<u>327,369</u>	<u>3,939,947</u>	<u>1,681,519</u>
EXPENSES				
Program services	<u>2,436,520</u>	<u>-</u>	<u>2,436,520</u>	<u>1,039,019</u>
<i>Supporting services</i>				
Management and general	456,700	-	456,700	318,567
Fundraising	<u>719,358</u>	<u>-</u>	<u>719,358</u>	<u>323,933</u>
Total supporting services	<u>1,176,058</u>	<u>-</u>	<u>1,176,058</u>	<u>642,500</u>
Total expenses	<u>3,612,578</u>	<u>-</u>	<u>3,612,578</u>	<u>1,681,519</u>
Change in net assets	-	327,369	327,369	-
Net assets at beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets at end of year	<u>\$ -</u>	<u>\$ 327,369</u>	<u>\$ 327,369</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

HANDICAP INTERNATIONAL
Statement of Functional Expenses
For the Year Ended December 31, 2010
With Summarized Financial Information For 2009

	<u>2010</u>				<u>2009</u>	
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	<u>Total Expenses</u>	<u>Total Expenses</u>
Salaries	\$ 320,906	\$ 103,900	\$ 16,153	\$ 120,053	\$ 440,959	\$ 296,192
Benefits	74,868	24,240	3,768	28,008	102,876	59,424
Payroll taxes	25,765	8,342	1,297	9,639	35,404	24,632
Legal	1,001	3,962	1,185	5,147	6,147	1,005
Consultants	13,891	16,990	-	16,990	30,881	11,581
Direct mail	83,684	-	687,610	687,610	771,294	336,399
Occupancy (Note 3)	-	89,401	-	89,401	89,401	68,401
Accounting services	-	98,113	-	98,113	98,113	50,100
Insurance	-	4,725	-	4,725	4,725	3,688
Communications	2,539	16,400	-	16,400	18,939	18,373
Travel	28,103	57,953	438	58,391	86,494	45,943
Postage and delivery	-	225	-	225	225	3,411
Supplies	97	16,990	3,534	20,524	20,622	12,079
Subscriptions and publications	371	6,150	795	6,945	7,315	20,000
Events and meeting	819	2,250	500	2,750	3,569	9,354
Bank fees	-	2,880	598	3,478	3,478	1,712
Federal grants	787,988	-	-	-	787,988	210,121
Other grants	1,096,488	-	-	-	1,096,488	501,154
Miscellaneous	-	2,063	-	2,063	2,063	2,353
Depreciation and amortization	-	2,116	3,480	5,596	5,596	5,597
Total	<u>\$ 2,436,520</u>	<u>\$ 456,700</u>	<u>\$ 719,358</u>	<u>\$1,176,058</u>	<u>\$ 3,612,578</u>	<u>\$1,681,519</u>

The accompanying notes are an integral part of these financial statements.

HANDICAP INTERNATIONAL
Statement of Cash Flows
For the Year Ended December 31, 2010
With Summarized Financial Information for 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 327,369	\$ -
<i>Adjustments to reconcile change in net assets to net cash provided (used) by operating activities</i>		
Depreciation	5,597	5,597
<i>(Increase) decrease in</i>		
Accounts receivable	1,927	(1,177)
Grants receivable	36,532	(357,115)
Due from HI-Federation	34,932	(40,480)
Prepaid expenses	(66,666)	618
<i>Increase (decrease) in</i>		
Accounts payable and accrued liabilities	94,899	14,853
Deferred revenue	(193,764)	(135,076)
Due to HI-Federation, affiliate organization	(39,761)	166,519
Other current liabilities	(32,812)	33,762
Net cash provided by (used in) operating activities	168,254	(312,499)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan payable	(3,190)	3,190
Net cash (used in) provided by financing activities	(3,190)	3,190
Net increase (decrease) in cash	165,064	(309,309)
Cash at beginning of year	79,041	388,350
Cash at end of year	\$ 244,105	\$ 79,041

The accompanying notes are an integral part of these financial statements.

HANDICAP INTERNATIONAL

Notes to Financial Statements

December 31, 2010 and 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization

Handicap International (HI-US), which was incorporated in 2006 in the District of Columbia, is located in Takoma Park, Maryland. HI-US endeavors to bring lasting changes to people living in disabling situations who are in post-conflict or low-income countries. Together, with local partners, we work to prevent and address the consequences of disabling accidents and diseases; clear landmines/UXO and prevent mine-related accidents through education; end the use of indiscriminate weapons that wound and kill the innocent long after the war is over; respond quickly and effectively to natural and civil disasters to limit serious and permanent injuries and assist survivors with social and economic reintegration; and advocate for the universal recognition of the rights of the disabled through national planning and advocacy.

Basis of Presentation

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with Financial Accounting Standards Board (FASB) released Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*.

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with HI-US' financial statements for the year ended December 31, 2009, from which the summarized information was derived.

Reclassifications

Certain prior-year amounts have been reclassified to conform to the current year's presentation.

Cash

During the year, HI-US maintains cash balances at financial institutions that may exceed the Federal Deposit Insurance Corporation (FDIC) limits. Management believes that the risk in these situations is minimal.

HANDICAP INTERNATIONAL

Notes to Financial Statements

December 31, 2010 and 2009

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION *(continued)*

Receivables

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

Fixed Assets

Fixed assets in excess of \$5,000 are capitalized and stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, which is generally three to five years. The cost of maintenance and repairs is recorded as expenses are incurred.

Income Taxes

HI-US is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, a provision for income taxes has not been made in the accompanying financial statements. HI-US is not a private foundation.

Uncertain Tax Positions

In June 2006, the FASB issued ASC 740-10, *Income Taxes*, which provides guidance for reporting uncertainty in income taxes. For the year ended December 31, 2010, HI-US has documented its consideration of ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

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 HI-US and include both internally designated and undesignated net assets.
- Temporarily restricted net assets include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of HI-US and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

HANDICAP INTERNATIONAL

Notes to Financial Statements

December 31, 2010 and 2009

NOTE 1 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION** *(continued)*

Contributions and Grants

Contributions and grants are recorded as revenue in the year the donor is notified. Contributions and grants are recognized as unrestricted support to the extent HI-US has complied with the donor-imposed restrictions and/or the satisfaction of time restrictions.

Deferred Revenue

Deferred revenue represents advance funding for a specific purpose project. The revenue is recognized once expenses are incurred and HI-US is reimbursed from the advance.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 2 **LOAN PAYABLE**

During 2009, HI-US entered into a noninterest-bearing loan payable due on demand for capital improvements. The balance at December 31, 2009 was \$3,190, which was paid in full in February 2010.

HANDICAP INTERNATIONAL
Notes to Financial Statements
December 31, 2010 and 2009

NOTE 3 LEASE COMMITMENT

Effective November 1, 2009, HI-US entered into a one-year lease agreement with Survey Action Center for office space in Takoma Park, Maryland. The agreement was amended to permit the possession of additional space; the amended lease expired on May 31, 2010. HI-US signed a new five-year lease with the Takoma Business Center on June 1, 2010, which expires on May 31, 2015.

Rent expense for the year ended December 31, 2010 was \$31,494 under the amended lease and \$57,774 under the lease that commenced on June 1, 2010.

Future minimum payments are as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2011	\$ 81,619
2012	84,067
2013	86,589
2014	89,187
2015	<u>37,618</u>
	<u>\$ 379,080</u>

NOTE 4 RELATED-PARTY TRANSACTIONS

HI-US is part of the Handicap International network, which is comprised of seven national associations and Handicap International Federation (HI-Federation), which is headquartered in Lyon, France. HI-US solicits private and public funds as well as provides program management through technical expertise, training, monitoring and evaluation, and grants administration. HI-Federation reimburses HI-US for operational expenses. For the year ended December 31, 2010, operational support to HI-US totaled \$1,775,740, of which \$327,369 was designated temporarily restricted because the funds cannot be used until the next fiscal year. Additionally, HI-US expended \$1,884,477 in grant funds on behalf of the Handicap International network. HI-US and HI-Federation share two Board members.

HANDICAP INTERNATIONAL

Notes to Financial Statements

December 31, 2010 and 2009

NOTE 5 NET ASSETS RELEASED FROM RESTRICTIONS

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

	<u>Amount</u>
ELMA Foundation	\$ 144,058
Vanguard Charitable Endowment Program	286,202
FCNL	<u>57,948</u>
	<u>\$ 488,208</u>

NOTE 6 ALLOCATION OF JOINT COSTS

During the year ended December 31, 2010, HI-US incurred joint costs of \$418,420 for informational materials and direct-mail campaigns that included fundraising appeals. Of these costs, \$334,736 was allocated to fundraising expense and \$83,684 was allocated to program services.

NOTE 7 SUBSEQUENT EVENTS

In preparing these financial statements, HI-US has evaluated events and transactions for potential recognition or disclosure through May 12, 2011, the date the financial statements were available for issuance.