MEDICAL TEAMS INTERNATIONAL

FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

For the Years Ended June 30, 2012 and 2011

Jones & Roth
CPAs & Business Advisors

MEDICAL TEAMS INTERNATIONAL
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
For the Years Ended June 30, 2012 and 2011

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Medical Teams International
Tigard, Oregon

We have audited the accompanying statements of financial position of Medical Teams International (a nonprofit organization) as of June 30, 2012 and 2011, and the related statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of Medical Teams 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 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 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 Medical Teams International as of June 30, 2012 and 2011, 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 October 2, 2012 on our consideration of Medical Teams International's internal control over financial reporting and 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 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 is important for assessing the results of our audit.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Jones & Roth, P.C.

Jones & Roth, P.C.
Hillsboro, Oregon
October 2, 2012

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FINANCIAL STATEMENTS

MEDICAL TEAMS INTERNATIONAL
STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

	2012	2011
Assets		
Cash and cash equivalents	$ 206,668	$ 997,033
Cash and cash equivalents held in foreign countries	555,595	1,071,599
Total cash and cash equivalents	762,263	2,068,632
Investments	3,080,751	3,108,565
Receivables and advances	2,070,621	1,952,532
Prepaid expenses	182,941	154,494
Inventories	11,008,889	11,631,395
Property and equipment, net	9,089,175	9,898,615
Total assets	$ 26,194,640	$ 28,814,233
Liabilities and Net Assets		
Accounts payable	$ 433,949	$ 339,031
Annuities payable	87,836	104,854
Accrued payroll, vacation, and related liabilities	597,498	759,183
Deferred revenue	8,533	20,319
Total liabilities	1,127,816	1,223,387
Net assets		
Unrestricted	22,208,352	23,265,732
Temporarily restricted	1,675,783	3,102,443
Permanently restricted	1,182,689	1,222,671
Total net assets	25,066,824	27,590,846
Total liabilities and net assets	$ 26,194,640	$ 28,814,233

The accompanying notes are an integral part of these statements.

MEDICAL TEAMS INTERNATIONAL
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support				
Contributions	$ 8,197,402	$ 8,192,173	$ 7,463	$ 16,397,038
Gifts in-kind	136,066,821	-	-	136,066,821
Service fees	750,989	445,747	-	1,196,736
Investment income (loss)	48,148	(1,054)	(17,910)	29,184
Other	115,732	229,601	(29,535)	315,798
Net assets released from restrictions	10,293,127	(10,293,127)	-	-
Total revenue and support	155,472,219	(1,426,660)	(39,982)	154,005,577
Expenses				
Program activities	152,342,166	-	-	152,342,166
Supporting activities:				
Administration	1,441,611	-	-	1,441,611
Resource development	2,745,822	-	-	2,745,822
Total expenses	156,529,599	-	-	156,529,599
Change in net assets	(1,057,380)	(1,426,660)	(39,982)	(2,524,022)
Net assets, beginning of year	23,265,732	3,102,443	1,222,671	27,590,846
Net assets, end of year	$ 22,208,352	$ 1,675,783	$ 1,182,689	$ 25,066,824

The accompanying notes are an integral part of these statements.

MEDICAL TEAMS INTERNATIONAL
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support				
Contributions	$ 7,728,816	$ 7,906,013	$ 5,000	$ 15,639,829
Gifts in-kind	129,016,848	-	-	129,016,848
Service fees	657,938	451,708	-	1,109,646
Investment income	84,514	15,713	87,723	187,950
Other	22,596	114,553	-	137,149
Net assets released from restrictions	10,883,826	(10,819,475)	(64,351)	-
Total revenue and support	148,394,538	(2,331,488)	28,372	146,091,422
Expenses				
Program activities	142,124,298	-	-	142,124,298
Supporting activities:				
Administration	1,171,644	-	-	1,171,644
Resource development	2,637,677	-	-	2,637,677
Total expenses	145,933,619	-	-	145,933,619
Change in net assets	2,460,919	(2,331,488)	28,372	157,803
Net assets, beginning of year	20,804,813	5,433,931	1,194,299	27,433,043
Net assets, end of year	$ 23,265,732	$ 3,102,443	$ 1,222,671	$ 27,590,846

The accompanying notes are an integral part of these statements.

MEDICAL TEAMS INTERNATIONAL
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Change in net assets	$ (2,524,022)	$ 157,803
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	833,511	800,716
Gain on sale of property and equipment	(37,515)	(7,956)
Donated property and equipment	(61,697)	-
Loss on sale of investments	730	8,515
Unrealized (gain) loss on investments	56,574	(108,417)
Donated investments	(25,187)	(33)
Change in inventories	622,506	(1,899,340)
(Increase) decrease in:		
Receivables	(118,089)	916,897
Prepaid expenses	(28,447)	178,466
Increase (decrease) in:		
Accounts payable	94,918	(38,529)
Annuities payable	(17,018)	(1,710)
Accrued payroll, vacation, and related liabilities	(161,685)	(8,676)
Deferred revenue	(11,786)	10,319
Net cash provided (used) by operating activities	(1,377,207)	8,055
Cash flows from investing activities		
Purchase of investments	(627,911)	(1,109,108)
Proceeds from sale of investments	623,608	4,763
Proceeds from sale of property and equipment	455,114	71,761
Acquisition of property and equipment	(379,973)	(1,288,996)
Net cash provided (used) by investing activities	70,838	(2,321,580)
Net decrease in cash and cash equivalents	(1,306,369)	(2,313,525)
Cash and cash equivalents, beginning of year	2,068,632	4,382,157
Cash and cash equivalents, end of year	$ 762,263	$ 2,068,632

The accompanying notes are an integral part of these statements.

MEDICAL TEAMS INTERNATIONAL
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2012

	Program Activities	Supporting Activities: Administration	Supporting Activities: Resource Development	Supporting Activities: Subtotal	Total
Salaries and related expenses					
Salaries and related expenses	$ 5,432,823	$ 808,886	$ 1,317,712	$ 2,126,598	$ 7,559,421
Employee benefits	953,402	125,181	207,434	332,615	1,286,017
Payroll taxes	308,153	59,986	112,186	172,172	480,325
Total salaries and related expenses	6,694,378	994,053	1,637,332	2,631,385	9,325,763
Other expenses					
Professional fees	900,525	70,483	13,585	84,068	984,593
Consultants	40,649	4,457	146,395	150,852	191,501
Media and marketing	5,849	607	225,701	226,308	232,157
Direct mail	-	-	152,467	152,467	152,467
Program grants and activities	2,819,502	-	340	340	2,819,842
Travel	903,021	31,523	72,298	103,821	1,006,842
Supplies	1,032,160	10,063	101,121	111,184	1,143,344
Facilities	328,042	20,098	103,187	123,285	451,327
Utilities	455,118	53,866	11,773	65,639	520,757
Insurance	178,215	36,823	-	36,823	215,038
Equipment	313,254	8,983	96,102	105,085	418,339
Vehicles	1,033,901	1,486	8,025	9,511	1,043,412
Other expenses	344,508	44,404	169,158	213,562	558,070
Depreciation	668,253	164,765	493	165,258	833,511
Gifts in-kind	136,624,791	-	7,845	7,845	136,632,636
Total other expenses	145,647,788	447,558	1,108,490	1,556,048	147,203,836
Total expenses	$ 152,342,166	$ 1,441,611	$ 2,745,822	$ 4,187,433	$ 156,529,599

The accompanying notes are an integral part of these statements.

MEDICAL TEAMS INTERNATIONAL
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2011

	Program Activities	Supporting Activities: Administration	Supporting Activities: Resource Development	Supporting Activities: Subtotal	Total
Salaries and related expenses					
Salaries and related expenses	$ 5,044,672	$ 601,318	$ 1,247,332	$ 1,848,650	$ 6,893,322
Employee benefits	1,026,324	95,374	184,128	279,502	1,305,826
Payroll taxes	324,864	56,147	110,311	166,458	491,322
Total salaries and related expenses	6,395,860	752,839	1,541,771	2,294,610	8,690,470
Other expenses					
Professional fees	660,886	59,669	15,697	75,366	736,252
Consultants	58,187	1,202	212,885	214,087	272,274
Media and marketing	9,154	556	167,998	168,554	177,708
Direct mail	-	-	191,797	191,797	191,797
Program grants and activities	2,703,882	-	5,060	5,060	2,708,942
Travel	762,150	18,544	48,573	67,117	829,267
Supplies	1,179,611	4,158	91,078	95,236	1,274,847
Facilities	430,019	17,368	75,048	92,416	522,435
Utilities	402,118	56,712	11,571	68,283	470,401
Insurance	170,846	40,042	-	40,042	210,888
Equipment	492,594	12,553	66,002	78,555	571,149
Vehicles	878,570	1,005	7,035	8,040	886,610
Other expenses	223,647	43,717	202,749	246,466	470,113
Depreciation	637,024	163,279	413	163,692	800,716
Gifts in-kind	127,119,750	-	-	-	127,119,750
Total other expenses	135,728,438	418,805	1,095,906	1,514,711	137,243,149
Total expenses	$ 142,124,298	$ 1,171,644	$ 2,637,677	$ 3,809,321	$ 145,933,619

The accompanying notes are an integral part of these statements.

1. Organization

Founded in 1979, Medical Teams International's (MTI) mission is to demonstrate the love of Christ to people affected by disaster, conflict, and poverty. MTI is headquartered in Tigard, Oregon with satellite offices in Redmond, Washington; Zeeland, Michigan; and Minneapolis, Minnesota and eight international offices in Cambodia, Guatemala, Haiti, Indonesia, Liberia, Moldova, Uganda, and Uzbekistan.

MTI delivers dental and medical care, humanitarian aid, and holistic development programs to all people in need, regardless of religion, nationality, sex, or race. In collaboration with established field partners, MTI staff and volunteers mobilize training and educational initiatives to ensure that programs have a long-term positive impact.

MTI implements and supports programs that address the causes and effects of inadequate health care. Initiatives include training and education to build the skill and capacity of partners, volunteers, staff, and those they serve in order to produce sustainable change. Programs include medical services and training; community health and development; HIV and AIDS; emergency medical services; disaster response; and humanitarian aid.

MTI operates 11 mobile dental units that have the capability of providing dental care to over 17,000 low-income, uninsured people in 39 Pacific Northwest counties. MTI operates one mobile dental unit in the Twin Cities, Minnesota area that has the capacity to serve 1,500 children and adults who lack access to critically needed dental care. In partnership with Ronald McDonald House Charities-Upper Midwest, MTI operates one mobile dental van that provides dental care to approximately 1,500 pediatric patients in the 14-county Minneapolis-St. Paul metropolitan area.

2. Significant Accounting Policies

Basis of Accounting and Presentation

The accompanying financial statements include the accounts of all MTI field offices and have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Net assets, revenue, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of MTI and changes therein are classified and reported as follows:

Unrestricted net assets reflect the cumulative effect of net activity absent donor-imposed restrictions.

Temporarily restricted net assets result from contributions whose use is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of MTI pursuant to these stipulations. When a donor restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction.

Permanently restricted net assets result from contributions whose use is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by MTI's actions.

2. Significant Accounting Policies, continued

Cash and Cash Equivalents

For purposes of financial statement classification, MTI considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Allowance for Uncollectable Promises to Give

Management periodically reviews the collectability of promises to give and, based on this analysis, determines an appropriate allowance for uncollectable promises. Accounts are charged-off when all collection efforts have been exhausted.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at the approximate fair market value at the date of donation. It is MTI’s policy to capitalize expenditures for items that are in excess of $5,000 and have a useful life of more than one year. The recorded value of equipment and other capital assets used in overseas programs is expensed as incurred where MTI does not retain the title. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets as follows:

Vehicles, including mobile dental units	5 - 10 years
Office equipment and furniture	3 - 5 years
Buildings and land improvements	7 - 30 years
Assets held overseas	5 years

Restricted and Unrestricted Revenue and Support

Contributions and grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor-imposed restrictions. When projects are completed and restricted contribution funds remain, every effort is made to use the excess funds in like or similar projects, upon approval of the Board of Directors.

Promises to Give

Unconditional promises to give are recognized as revenue or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Donated Assets

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair value at the date of donation.

2. Significant Accounting Policies, continued

Donated Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, MTI reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. MTI reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Donated Services

MTI receives the benefit of donated services that are recognized if the services received create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation.

Endowment Fund Policy

The Board of Directors has established guidelines for the Endowment Fund in seeking preservation of the assets, growth of the assets, and consistency of investment returns through both capital appreciation and current income. MTI's policy is to maintain the principal of the fund in perpetuity. The policy allows a percentage of the fair market value of the Endowment Fund, including interest earned, to be expended in a given fiscal year as recommended by the Finance Committee and approved by the Board. The percentage shall be determined on a year-to-year basis by the Finance Committee and subsequently approved by the Board.

MTI's endowment investment strategy is to emphasize long-term growth as measured by total return, while avoiding excessive risk. The primary investment objective is to earn a total rate of return from investment assets which shall exceed demands placed on the portfolio to support MTI's spending policy plus the rate of inflation, as measured by the national Consumer Price Index. The total rate of return shall be based on a method that utilizes market value for all marketable investments, such as equity and fixed income securities. The total rate of return shall be calculated to include dividends and interest accrued or received during the period. Calculations should also show realized and unrealized gains and losses. The rate of return should be net of all fees and expenses.

Endowment Fund investments are limited to separately managed accounts, commingled funds, or mutual funds. These include equity investments and fixed income investments.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and statements of functional expenses. Accordingly, certain costs have been allocated between the program and supporting services benefited. Such allocations are made on the basis of cost accounting information available and the judgment of management.

2. Significant Accounting Policies, continued

Compensated Absences

Employees are compensated during periods of absence due to sickness or vacation. MTI records this cost as it is incurred. Compensation is payable to employees at the time the absence occurs or upon termination of employment. As of June 30, 2012 and 2011, accrued compensated absences were $295,822 and $284,675, respectively.

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 (including gifts in-kind) and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue, support, and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates include the valuation of donated assets, property and equipment, and services. It is reasonably possible that estimates used in the valuation process could change in the near term.

Advertising Costs

Advertising costs are expensed during the year in which they are incurred. During fiscal years 2012 and 2011, advertising costs totaled $33,076 and $33,555, respectively.

Annuities Payable

Annuities payable have been computed using an average discount factor of 5.5 percent and an estimated life expectancy of annuitants based on applicable mortality rates.

Income Taxes

MTI is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). In addition, MTI qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(2). In any year in which the organization has unrelated business gross income of $1,000 or more, it must file Form 990-T with the Internal Revenue Service (IRS) and may have to pay tax on such income. MTI's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ended June 30, 2012 and 2011 are subject to examination by the IRS for three years after they were filed.

Shipping and Freight

The cost of shipping and freight as they relate to donated assets is included in program grants and activities and is expensed as costs are incurred.

3. Cash and Cash Equivalents

Cash and cash equivalents held in the United States may at times exceed the limits of Federal Deposit Insurance Corporation (FDIC) insurance coverage. MTI makes such deposits with financially strong entities and has not incurred any credit-related losses. Cash and cash equivalents held in foreign countries are not insured and are restricted to use for programs in those countries. The Uzbekistan soum is not readily marketable outside of that country.

As of June 30, in United States dollars, MTI's cash and cash equivalents consisted of the following:

	2012	2011
Cash and cash equivalents held in the U.S.:		
Checking accounts	$ 188,808	$ 974,868
Petty cash	14,000	13,302
Money markets	3,320	3,987
Cash in foreign currency	540	4,876
Total cash and cash equivalents held in the U.S.	206,668	997,033
Cash and cash equivalents held in foreign countries:		
Uganda	253,875	15,098
Liberia	172,702	760,530
Uzbekistan	57,746	128,748
Indonesia	41,965	48,333
Haiti	17,144	21,446
Mexico	8,805	19,159
Cambodia	3,021	1,999
Guatemala	322	31,206
Moldova	15	11
Sri Lanka	-	45,069
Total cash and cash equivalents held in foreign countries	555,595	1,071,599
Total cash and cash equivalents	$ 762,263	$ 2,068,632

MTI had losses of $23,326 and $1,407 from foreign currency transactions for the years ended June 30, 2012 and 2011, respectively. These amounts are included in other expenses.

4. Investments

Investments are stated at fair value as determined by quoted market prices and consist of mutual funds that are invested primarily in fixed-income securities of varying maturities at any point in time. Investments in mutual funds include Board-designated investments, reserves, and endowment investments. Investments also include a certificate of deposit with an original maturity in excess of three months.

4. Investments, continued

As of June 30, investments consisted of:

	2012	2011
Certificate of deposit	$ 140,000	$ 145,236
Mutual funds	2,940,751	2,963,329
Total investments	$ 3,080,751	$ 3,108,565

Investment balances reported above are not guaranteed or covered by insurance.

Investment income is comprised of the following:

	2012	2011
Interest and dividend income	$ 86,488	$ 88,048
Realized loss on investments	(730)	(8,515)
Unrealized gain (loss) on investments	(56,574)	108,417
Total investment income	$ 29,184	$ 187,950

5. Receivables

As of June 30, receivables included unconditional promises to give and consisted of the following:

	2012	2011
Pledge receivable in less than one year	$ 650,618	$ 854,713
Receivable in one to five years	189,834	311,778
Receivable after five years	-	69,482
Total unconditional promises to give	840,452	1,235,973
Allowance for uncollectible promises to give	(15,000)	(15,000)
Net unconditional promises to give	825,452	1,220,973
Grant receivables	651,230	591,040
Other receivables	593,939	140,519
Total receivables	$ 2,070,621	$ 1,952,532

At June 30, 2012, there were unconditional promises to give from one major donor that exceeded 10 percent of total net unconditional promises to give. At June 30, 2011, there were unconditional promises to give from three major donors that exceeded 10 percent of total net unconditional promises to give. Receivables from these donors were $228,334 and $602,971 at June 30, 2012 and 2011, respectively.

6. Inventories

As of June 30, inventories consisted of the following:

	2012	2011
Donated items	$ 10,849,444	$ 11,469,111
Mobile dental care supplies	159,445	162,284
Total inventories	$ 11,008,889	$ 11,631,395

Donated inventories which consist of medical equipment and relief and medical supplies are valued at their estimated fair market value at the date of donation.

7. Property and Equipment

As of June 30, property and equipment consisted of the following:

	2012	2011
Vehicles, including mobile dental units	$ 3,120,419	$ 3,115,409
Office equipment and furniture	1,762,281	2,179,584
Building and land	8,556,482	7,951,256
Assets held overseas	1,612,904	2,186,513
Assets held for resale	45,360	77,725
	15,097,446	15,510,487
Accumulated depreciation	(6,008,271)	(5,611,872)
Property and equipment, net	$ 9,089,175	$ 9,898,615

8. Line of Credit

MTI had a $1 million revolving line of credit through U.S. Bank with a maturity date of October 31, 2011. The unpaid principal balance bore interest at an annual rate equal to the prime rate and was payable each month, with a final interest payment due with the final payment of principal. The credit line was secured by the general assets of MTI and required that MTI maintain a tangible net worth at all times in the amount of $20 million. There were no advances made on the line of credit as of June 30, 2011 and it was closed as of October 31, 2011.

9. Net Assets Released from Restrictions

Net assets relating to restricted contributions and grants are released from the temporarily restricted fund to the unrestricted fund when MTI incurs expenses satisfying the restricted purposes or when other events specified by donors occur.

9. Net Assets Released from Restrictions, continued

For the years ended June 30, such releases are summarized as follows:

	2012	2011
Satisfaction of international and domestic relief and development projects – temporarily restricted net assets	$ 10,293,127	$ 10,819,475
Board-approved use of permanently restricted net assets	$ -	$ 64,351

10. Net Assets

As of June 30, net assets consisted of the following:

	2012	2011
Unrestricted net assets	$ 2,110,288	$ 1,735,722
Invested in inventories	11,008,889	11,631,395
Invested in property and equipment, net	9,089,175	9,898,615
Total unrestricted net assets	$ 22,208,352	$ 23,265,732

The nature of MTI's activities is such that it is common to have temporarily restricted net asset carryovers when projects funded by long-term grants are carried out over multiple-year periods or when restricted revenue for projects exceeds expenses for those projects during the same fiscal year. MTI is committed to these long-term projects and plans to expend these funds.

	2012	2011
Temporarily restricted net assets:		
Latin America projects	$ 685,548	$ 1,705,244
Africa projects	631,344	818,448
Asia projects	195,621	440,279
Capital acquisitions	-	86,495
Other	163,270	51,977
Total temporarily restricted net assets	$ 1,675,783	$ 3,102,443
Permanently restricted net assets	$ 1,182,689	$ 1,222,671

Permanently restricted net assets consisted of Endowment Fund assets to be held indefinitely totaling $1,182,689 and $1,222,671 at June 30, 2012 and 2011, respectively. The income from these assets is used to support MTI's general activities. Income earned, gains, and losses on endowment investments are accumulated in permanently restricted revenue and are released upon the approval by the Board of Directors to expend a percentage in a given fiscal year.

11. Gifts In-kind

MTI receives donations of food, medical supplies, and other commodities for use in relief and development programs. These in-kind donations have been recorded in accordance with ACCORD GIK Interagency Standards, which are consistent with presentation per accounting principles generally accepted in the United States of America. All in-kind donations are recorded at their estimated fair value in the period shipped or designated for program use. On July 1, 2011, MTI changed the valuation methodology for donated pharmaceuticals from Average Wholesale Price to Wholesale Acquisition Cost, as published by Thomson Reuters in the Red Book. The Red Book is an industry recognized drug and pricing reference guide for pharmaceuticals in the United States, and both methodologies reflect industry norms at the time of their respective use by MTI.

For the year ended June 30, 2012, gifts in-kind distributed directly by MTI amounted to $2,836,460. The remaining $130,843,541 was distributed to, and in partnership with, other agencies and was delivered to MTI before being distributed.

For the year ended June 30, 2011, gifts in-kind distributed directly by MTI amounted to $5,557,256. The remaining $118,804,914 was distributed to, and in partnership with, other agencies and was delivered to MTI before being distributed.

MTI only records the value of gifts in-kind for which they were the original recipient of the gift, were involved in partnership with another organization for distribution internationally, or used the gifts in their programs.

MTI also receives a significant amount of donated services. The total value of these gifts in-kind included in the accompanying financial statements is $2,944,790 and $2,757,580 for the years ended June 30, 2012 and 2011, respectively. During the years ended June 30, 2012 and 2011, MTI also received a significant amount of donated services from other volunteers that are not recognized in the statements of activities because the criteria for recognition under accounting principles generally accepted in the United States of America was not satisfied.

MTI's emergency response and other projects' survival depend upon these contributions. If it were not for gifts in-kind, the purchase of these vital components and the services of these volunteers for its projects would be restricted to the availability of cash funds.

12. Operating Leases

MTI leases office equipment under noncancellable operating leases. MTI also leases buildings, equipment, and vehicles under cancellable operating leases or under leases with lease terms expiring within one year. Rent expense under all leases included in the accompanying financial statements totaled $488,272 and $486,519 for the years ended June 30, 2012 and 2011, respectively.

12. Operating Leases, continued

The future minimum rental payments required under the above noncancellable operating leases is as follows:

For the Years Ending June 30		
2013	$	9,180
2014		9,180
2015		9,180
2016		8,415
2017		-
Total	$	35,955

13. Retirement Plan

MTI has established a Safe Harbor 401(k) retirement plan for the benefit of its employees. Employees are eligible to make voluntary salary deferrals to the plan on their date of hire. Employees are eligible for discretionary employer contributions and matching contributions after they have completed 12 months and 1,000 hours of service. The plan is funded on a bi-weekly basis and funding is at the discretion of the Board of Directors.

Total retirement plan expense for the years ended June 30, 2012 and 2011, was $289,257 and $271,382, respectively.

14. Concentration of Geographic Risk

The majority of MTI’s donors are located in the Pacific Northwest region of the United States. MTI's revenue is potentially subject to risks associated with fluctuations in the economy of this area of the United States.

15. Fair Value Measurements

MTI uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820*, Fair Value Measurements and Disclosures,* the fair value of a financial instrument is 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. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair value is based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

15. Fair Value Measurements, continued

FASB ASC 820 provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with FASB ASC 820, MTI groups its financial assets and financial liabilities generally measured at fair value based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly. The valuation may be based on 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 asset or liability.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Fair value of assets measured on a recurring basis at June 30, 2012 and 2011, was as follows:

	Assets at Fair Value as of June 30, 2012			
	Level 1	Level 2	Level 3	Total
Investments – mutual funds	$ 3,080,751	$ -	$ -	$ 3,080,751

	Assets at Fair Value as of June 30, 2011			
	Level 1	Level 2	Level 3	Total
Investments – mutual funds	$ 3,108,565	$ -	$ -	$ 3,108,565

16. Subsequent Events

Management evaluates events and transactions that occur after the statement of financial position date as potential subsequent events. Management has performed this evaluation through the date of the independent auditor's report.

SUPPLEMENTAL INFORMATION

MEDICAL TEAMS INTERNATIONAL
SCHEDULE OF PROGRAM ACTIVITIES
For the Year Ended June 30, 2012
(With Comparative Totals for 2011)

	Africa	Asia	Latin America	United States	Other Disaster and Development	Distribution Center and Commodities Support	Total Program Activities 2012	Total Program Activities 2011
Salaries and related expenses								
Salaries and related expenses	$ 1,475,972	$ 591,126	$ 830,721	$ 1,106,153	$ 1,096,485	$ 332,366	$ 5,432,823	$ 5,044,672
Employee benefits	308,721	82,346	121,950	197,087	188,279	55,019	953,402	1,026,324
Payroll taxes	30,982	19,177	36,986	105,382	85,835	29,791	308,153	324,864
Total salaries and related expenses	1,815,675	692,649	989,657	1,408,622	1,370,599	417,176	6,694,378	6,395,860
Other expenses								
Professional fees	461,400	268,141	127,868	12,616	30,500	-	900,525	660,886
Consultants	19,868	12,762	708	1,270	3,041	3,000	40,649	58,187
Media and marketing	1,490	-	179	1,185	2,995	-	5,849	9,154
Program grants and activities	1,348,513	515,885	821,493	-	2,617	130,994	2,819,502	2,703,882
Travel	554,975	145,140	113,870	22,022	62,395	4,619	903,021	762,150
Supplies	596,578	134,111	99,466	118,572	18,395	65,038	1,032,160	1,179,611
Facilities	91,723	67,863	82,826	41,691	25,015	18,924	328,042	430,019
Utilities	195,471	32,860	89,196	59,041	23,264	55,286	455,118	402,118
Insurance	31,073	8,661	26,116	55,103	19,331	37,931	178,215	170,846
Equipment	120,110	75,932	41,741	32,164	37,668	5,639	313,254	492,594
Vehicles	722,830	88,978	72,934	138,840	2,099	8,220	1,033,901	878,570
Other expenses	60,234	64,290	119,783	42,865	51,579	5,757	344,508	223,647
Depreciation	106,497	29,477	106,350	228,117	42,939	154,873	668,253	637,024
Gifts in-kind	18,288,752	44,469,133	60,002,705	1,229,857	2,431,019	10,203,325	136,624,791	127,119,750
Total other expenses	22,599,514	45,913,233	61,705,235	1,983,343	2,752,857	10,693,606	145,647,788	135,728,438
Distribution Center allocation	1,920,762	3,666,521	4,932,256	266,849	324,394	(11,110,782)	-	-
Total expenses	$ 26,335,951	$ 50,272,403	$ 67,627,148	$ 3,658,814	$ 4,447,850	$ -	$ 152,342,166	$ 142,124,298

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Medical Teams International
Tigard, Oregon

We have audited the financial statements of Medical Teams International (a nonprofit organization) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 2, 2012. We conducted our audit 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.

Internal Control over Financial Reporting

Management of Medical Teams International is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered Medical Teams International's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Medical Teams International's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Medical Teams International's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Medical Teams International's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the Board of Directors, management and others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Jones & Roth, P.C.

Jones & Roth, P.C.
Hillsboro, Oregon
October 2, 2012