

FINANCIAL STATEMENTS

RELIEF INTERNATIONAL

**FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006**

RELIEF INTERNATIONAL

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GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Relief International
Los Angeles, California

We have audited the accompanying statements of financial position of Relief International as of December 31, 2007 and 2006, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Relief International's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Relief International as of December 31, 2007 and 2006, and its changes in 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 July 16, 2008 on our consideration of Relief International's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Gelman Rosenberg & Freedman

July 16, 2008

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RELIEF INTERNATIONAL
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2007 AND 2006

ASSETS	2007	2006
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,230,619	\$ 1,710,126
Investments (Note 2)	8,561	126,590
Loans receivable, net of allowance of \$122,699 in 2007 and \$138,035 in 2006 (Note 3)	2,470,549	395,700
Loan to Relief International-UK (Note 11)	199,697	129,100
Grants receivable	8,621,036	10,675,605
Other receivables	68,259	9,445
Prepaid expenses and other assets	53,012	69,419
Inventory	108,102	-
Total current assets	13,759,835	13,115,985
PROPERTY AND EQUIPMENT		
Furniture and fixtures	2,084	2,084
Office equipment	26,249	20,132
Computer equipment	66,193	52,149
Vehicles	215,242	215,242
	309,768	289,607
Less: Accumulated depreciation	(267,502)	(207,157)
Net property and equipment	42,266	82,450
OTHER ASSETS		
Deposits	11,219	8,461
TOTAL ASSETS	\$ 13,813,320	\$ 13,206,896

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
CURRENT LIABILITIES		
Loans payable (Note 4)	\$ 16,667	\$ 33,333
Accounts payable and accrued expenses	<u>1,723,178</u>	<u>452,808</u>
Total current liabilities	<u>1,739,845</u>	<u>486,141</u>
LONG-TERM LIABILITIES		
Loans payable (Note 4)	<u>-</u>	<u>16,667</u>
Total liabilities	<u>1,739,845</u>	<u>502,808</u>
NET ASSETS		
Unrestricted	94,679	493,579
Temporarily restricted (Note 5)	<u>11,978,796</u>	<u>12,210,509</u>
Total net assets	<u>12,073,475</u>	<u>12,704,088</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 13,813,320</u>	<u>\$ 13,206,896</u>

RELIEF INTERNATIONAL

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	2007		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Grants and contributions (Note 8 and 9)	\$ 249,779	\$ 13,952,511	\$ 14,202,290
Government contracts (Note 8 and 9)	7,105,547	-	7,105,547
Loan interest income	46,349	455,340	501,689
Contributed food and relief commodities	1,263,784	15,191	1,278,975
Investment income (loss) (Note 2)	(13,685)	-	(13,685)
Other revenue	23,092	-	23,092
Net assets released from donor restrictions (Note 6)	<u>14,654,755</u>	<u>(14,654,755)</u>	<u>-</u>
Total support and revenue	<u>23,329,621</u>	<u>(231,713)</u>	<u>23,097,908</u>
EXPENSES			
Program Services:			
Community Development, Shelter and Refugee Resettlement	17,703,727	-	17,703,727
Education: Schools, Libraries and ICT in ED	1,698,612	-	1,698,612
Women Development	-	-	-
Emergency Response	749,346	-	749,346
Health, Household Food and Economic Security	<u>743,637</u>	<u>-</u>	<u>743,637</u>
Total program services	<u>20,895,322</u>	<u>-</u>	<u>20,895,322</u>
Supporting Services:			
General and Administrative	2,732,316	-	2,732,316
Fundraising	<u>130,437</u>	<u>-</u>	<u>130,437</u>
Total supporting services	<u>2,862,753</u>	<u>-</u>	<u>2,862,753</u>
Total expenses	<u>23,758,075</u>	<u>-</u>	<u>23,758,075</u>
Changes in net assets before other items	(428,454)	(231,713)	(660,167)
OTHER ITEMS			
Unrealized gain (loss) on investments (Note 2)	<u>29,554</u>	<u>-</u>	<u>29,554</u>
Changes in net assets	(398,900)	(231,713)	(630,613)
Net assets at beginning of year	<u>493,579</u>	<u>12,210,509</u>	<u>12,704,088</u>
NET ASSETS AT END OF YEAR	<u>\$ 94,679</u>	<u>\$ 11,978,796</u>	<u>\$ 12,073,475</u>

See accompanying notes to financial statements.

2006		
Unrestricted	Temporarily Restricted	Total
\$ 23,235	\$ 13,491,447	\$ 13,514,682
3,586,423	-	3,586,423
31,094	-	31,094
2,160,148	-	2,160,148
10,144	-	10,144
6,839	-	6,839
<u>10,433,737</u>	<u>(10,433,737)</u>	<u>-</u>
<u>16,251,620</u>	<u>3,057,710</u>	<u>19,309,330</u>
9,612,278	-	9,612,278
1,411,339	-	1,411,339
2,213,566	-	2,213,566
534,201	-	534,201
<u>331,497</u>	<u>-</u>	<u>331,497</u>
<u>14,102,881</u>	<u>-</u>	<u>14,102,881</u>
1,978,747	-	1,978,747
<u>52,324</u>	<u>-</u>	<u>52,324</u>
<u>2,031,071</u>	<u>-</u>	<u>2,031,071</u>
<u>16,133,952</u>	<u>-</u>	<u>16,133,952</u>
117,668	3,057,710	3,175,378
<u>(82,016)</u>	<u>-</u>	<u>(82,016)</u>
35,652	3,057,710	3,093,362
<u>457,927</u>	<u>9,152,799</u>	<u>9,610,726</u>
<u>\$ 493,579</u>	<u>\$ 12,210,509</u>	<u>\$ 12,704,088</u>

See accompanying notes to financial statements.

RELIEF INTERNATIONAL

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2007**

	Program Services			
	Community Development, Shelter and Refugee Resettlement	Education: Schools, Libraries and ICT in ED	Emergency Response	Health, Household Food and Economic Security
Salaries and related benefits (Note 10)	\$ 4,042,903	\$ 727,821	\$ 245,529	\$ 231,742
Consultants	12,457	534	-	-
Contributed food and relief commodities	893,883	-	198,349	69,749
Depreciation	-	-	-	-
Projects	9,919,833	430,980	112,649	176,495
Subrecipient expenses	40,176	29,042	14,904	13,355
International freight	-	-	1,100	-
Vehicles and equipment expense	221,961	66,938	25,559	12,334
Office furniture and fixtures	22,442	17,472	913	4,908
Office expense	85,743	25,966	4,314	5,965
Supplies	256,259	34,990	1,385	128,996
Insurance	101,367	21,491	15,087	2,660
Interest	9	428	10	-
New country initiatives	-	-	-	-
Bank charges	38,180	2,237	1,044	1,487
Books and periodicals	86	64	92	5
Communications	180,430	30,563	16,412	7,503
Security	27,704	128	7,339	-
Household supplies	4,815	-	79	-
Postage	10,637	1,675	882	250
Printing and copying	30,778	3,953	1,049	575
Public relations	-	-	-	-
Meetings and events	-	-	-	-
Office rent and utilities (Note 7)	379,510	45,232	25,242	15,509
Equipment/vehicle rental, maintenance and fuel	1,115,889	42,319	15,209	51,381
Training	911	43,739	61	-
Travel	230,398	144,019	24,546	15,135
Membership fees	450	273	-	-
Accounting and audit	60,390	9,517	10,586	1,331
Legal fees	-	-	-	-
Bad debt	240	-	-	-
Other operating expenses	26,276	19,231	27,006	4,257
TOTAL	\$ 17,703,727	\$ 1,698,612	\$ 749,346	\$ 743,637

See accompanying notes to financial statements.

Supporting Services				
Total Program Services	General and Administrative	Fundraising	Total Supporting Services	Total Expenses
\$ 5,247,995	\$ 1,735,089	\$ 98,298	\$ 1,833,387	\$ 7,081,382
12,991	7,000	3,000	10,000	22,991
1,161,981	-	-	-	1,161,981
-	60,345	-	60,345	60,345
10,639,957	-	-	-	10,639,957
97,477	-	-	-	97,477
1,100	46	-	46	1,146
326,792	76,086	1,257	77,343	404,135
45,735	3,203	-	3,203	48,938
121,988	45,329	625	45,954	167,942
421,630	-	1,900	1,900	423,530
140,605	149,702	-	149,702	290,307
447	512	-	512	959
-	12,424	-	12,424	12,424
42,948	11,854	927	12,781	55,729
247	749	-	749	996
234,908	35,886	902	36,788	271,696
35,171	1,638	-	1,638	36,809
4,894	984	-	984	5,878
13,444	4,692	5,281	9,973	23,417
36,355	8,519	1,317	9,836	46,191
-	1,962	12,734	14,696	14,696
-	-	-	-	-
465,493	207,605	-	207,605	673,098
1,224,798	91,524	329	91,853	1,316,651
44,711	-	-	-	44,711
414,098	157,347	2,306	159,653	573,751
723	34,325	1,323	35,648	36,371
81,824	30,808	-	30,808	112,632
-	100	-	100	100
240	3,092	-	3,092	3,332
76,770	51,495	238	51,733	128,503
\$ 20,895,322	\$ 2,732,316	\$ 130,437	\$ 2,862,753	\$ 23,758,075

See accompanying notes to financial statements.

RELIEF INTERNATIONAL

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Program Services			
	Community Development, Shelter and Refugee Resettlement	Education: Schools, Libraries and ICT in ED	Women Development	Emergency Response
Salaries and related benefits (Note 11)	\$ 2,426,653	\$ 543,778	\$ 387,797	\$ 14,344
Consultants	16,773	-	2,600	-
Contributed food and relief commodities	514,542	-	1,081,390	514,542
Depreciation	-	-	-	-
Projects	4,844,453	559,007	366,722	-
Subrecipient expenses	319,294	77,513	2,500	-
International freight	5,163	-	9,705	-
Vehicles and equipment expense	162,370	39,593	78,724	-
Office furniture and fixtures	11,115	3,835	3,534	47
Office expense	43,170	12,651	8,491	1,364
Supplies	49,825	1,875	-	-
Insurance	55,768	15,236	17,154	110
Interest	250	-	4	-
New country initiatives	-	-	-	-
Bank charges	30,264	2,383	3,162	215
Books and periodicals	178	-	348	-
Communications	99,252	23,347	21,106	289
Security	4,821	611	9,064	-
Household supplies	3,767	83	862	-
Postage	2,918	3,578	2,838	-
Printing and copying	5,418	1,045	1,823	94
Public relations	-	-	-	-
Meetings and events	-	-	-	-
Office rent and utilities (Note 7)	241,188	27,412	33,998	317
Equipment/vehicle rental, maintenance and fuel	556,690	37,012	70,156	1,602
Training	11,587	-	197	-
Travel	127,340	48,814	58,613	736
Membership fees	-	1,038	-	-
Accounting and audit	46,713	5,850	12,879	410
Legal fees	-	-	8	-
Bad debt	-	-	46	-
Other operating expenses	32,766	6,678	39,845	131
TOTAL	\$ 9,612,278	\$ 1,411,339	\$ 2,213,566	\$ 534,201

See accompanying notes to financial statements.

Supporting Services						
Health, Household Food and Economic Security	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	Total Expenses	
\$ 98,036	\$ 3,470,608	\$ 1,262,961	\$ 12,804	\$ 1,275,765	\$ 4,746,373	
-	19,373	-	-	-	19,373	
-	2,110,474	-	-	-	2,110,474	
-	-	81,155	-	81,155	81,155	
180,362	5,950,544	-	-	-	5,950,544	
-	399,307	-	-	-	399,307	
-	14,868	19,625	-	19,625	34,493	
1,196	281,883	1,974	-	1,974	283,857	
213	18,744	3,287	-	3,287	22,031	
598	66,274	20,172	237	20,409	86,683	
3,993	55,693	-	-	-	55,693	
4,312	92,580	19,981	-	19,981	112,561	
250	504	418	-	418	922	
-	-	32,179	-	32,179	32,179	
215	36,239	8,008	-	8,008	44,247	
-	526	1,114	-	1,114	1,640	
1,127	145,121	22,382	-	22,382	167,503	
558	15,054	-	-	-	15,054	
77	4,789	-	-	-	4,789	
97	9,431	3,542	226	3,768	13,199	
913	9,293	2,530	458	2,988	12,281	
-	-	636	-	636	636	
-	-	-	35,599	35,599	35,599	
15,294	318,209	144,182	-	144,182	462,391	
12,669	678,129	13,612	-	13,612	691,741	
-	11,784	2,202	-	2,202	13,986	
4,872	240,375	49,882	3,000	52,882	293,257	
-	1,038	30,361	-	30,361	31,399	
6,000	71,852	4,772	-	4,772	76,624	
264	272	126	-	126	398	
-	46	209,713	-	209,713	209,759	
451	79,871	43,933	-	43,933	123,804	
\$ 331,497	\$ 14,102,881	\$ 1,978,747	\$ 52,324	\$ 2,031,071	\$ 16,133,952	

See accompanying notes to financial statements.

RELIEF INTERNATIONAL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ (630,613)	\$ 3,093,362
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	60,345	81,155
Receipt of stock	(19,485)	(5,370)
Donation of software	(15,191)	(43,376)
Unrealized (gain) loss on investments	(29,554)	82,016
Realized (gain) loss on sale of stock	34,350	(5,481)
(Increase) decrease in:		
Pledges receivable	-	125,000
Grants receivable	2,054,569	(2,178,559)
Other receivables	(58,814)	(9,149)
Prepaid expenses and other assets	16,407	(62,756)
Inventory	(108,102)	-
Deposits	(2,758)	(1,670)
Increase (decrease) in:		
Accounts payable and accrued expenses	<u>1,270,371</u>	<u>(731,385)</u>
Net cash provided by operating activities	<u>2,571,525</u>	<u>343,787</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(4,970)	-
Proceeds from sales of stock	<u>132,718</u>	<u>23,820</u>
Net cash provided by investing activities	<u>127,748</u>	<u>23,820</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments (disbursements) of micro-credit loans receivable	(2,074,849)	17,416
Repayments on loans payable	(33,333)	(33,333)
Loan proceeds disbursed to Relief International-UK	(110,965)	(129,100)
Loan repayments received from Relief International-UK	<u>40,367</u>	<u>-</u>
Net cash used by financing activities	<u>(2,178,780)</u>	<u>(145,017)</u>
Net increase in cash and cash equivalents	520,493	222,590
Cash and cash equivalents at beginning of year	<u>1,710,126</u>	<u>1,487,536</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,230,619</u>	<u>\$ 1,710,126</u>

See accompanying notes to financial statements.

RELIEF INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

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

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

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations".

The accompanying financial statements include the worldwide operations of Relief International.

Cash and cash equivalents -

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

Relief International had \$1,278,572 and \$1,163,413 in cash and cash equivalents held at financial institutions and on hand in foreign countries at December 31, 2007 and 2006, respectively. The majority of the funds invested in foreign countries is uninsured.

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

Foreign currency translation -

The dollar ("dollars") is the functional currency for Relief International's worldwide operations. Transactions in currencies other than U.S. dollars are translated into dollars at the rate of exchange in effect during the month of the transaction. Current assets and liabilities denominated in non-U.S. currency are translated into dollars at the exchange rate in effect at the dates of the Statements of Financial Position.

RELIEF INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

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

Investments -

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

Property and equipment -

Property and equipment purchased with unrestricted funds (with a cost basis exceeding \$1,000 or more) are stated at cost and are depreciated on the straight-line basis over their related estimated useful lives, generally three to five years. Property and equipment donated to Relief International is recorded as temporarily restricted revenue in the year of receipt. All donated assets (non-inventoriable) are depreciated over their estimated useful lives; accordingly this expense is also recorded as net assets released from restrictions (Note 6).

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

Income taxes -

Relief International is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. Relief International is not a private foundation as described in Section 509(a)(2) of the Internal Revenue Code. Relief International is subject to unrelated business income taxes under Section 512 of the Internal Revenue Code. During the years ended December 31, 2007 and 2006, Relief International did not generate any unrelated business income.

Inventory -

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

Net asset classification -

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

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of Relief International and include both internally designated and undesignated resources.

RELIEF INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

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

Net asset classification (continued) -

- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of Relief International and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.

Grants and contributions -

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

Contributed food and relief commodities -

Contributed food and relief commodities consisted of donated food, supplies and other relief commodities. The value of these contributions are recorded at their fair market value as of the date the goods were provided. Contributions of \$1,263,784 and \$2,160,148, representing the fair value of the use of these goods have been recorded as revenue and expense in the accompanying financial statements for the years ended December 31, 2007 and 2006, respectively. Relief International also receives additional contributed goods for which an estimate of the fair value is not determinable.

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 at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

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

Recent pronouncements -

In June 2006, FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 prescribes a "more likely than not" threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on other topics related to accounting for income tax assets liabilities, interest and penalties associated with tax position and income taxes in interim periods as well as income tax disclosures. FIN 48 is effective non-profit organizations for periods

RELIEF INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

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

Recent pronouncements (continued) -

beginning after December 15, 2007. Relief International is currently evaluating the potential financial statement impact of adopting FIN 48, if any.

Reclassification -

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

2. INVESTMENTS

Investments consisted of the following at December 31, 2007 and 2006:

	2007		2006	
	Cost	Market Value	Cost	Market Value
Common Stock	<u>\$ 8,491</u>	<u>\$ 8,561</u>	<u>\$ 156,074</u>	<u>\$ 126,590</u>

Included in investment income are the following:

	2007	2006
Interest and dividends	\$ 20,665	\$ 4,663
Realized gain (loss) on sale of stock	<u>(34,350)</u>	<u>5,481</u>
TOTAL INVESTMENT INCOME (LOSS)	<u>\$ (13,685)</u>	<u>\$ 10,144</u>

During the years ended December 31, 2007 and 2006, Relief International had an unrealized gain and loss on its investments totaling \$29,554 and \$(82,016), respectively. The unrealized gain and loss have been reflected as an Other Item in the accompanying Statements of Activities and Changes in Net Assets.

3. LOANS RECEIVABLE

During 2003, Relief International entered into several "Group Solidarity" loans in Azerbaijan. The loans are unsecured, and interest is payable monthly at 1-1/2% fixed or at 3% on the declining principal balance. Interest is not charged during the first and second month of the loan period resulting in an annual interest rate of approximately 16.5% to 18.0%. As of December 31, 2007 and 2006, total borrowings (including accrued interest), net of uncollectible balances of \$484 and \$5,000, aggregated \$178,639 and \$100,994, respectively.

RELIEF INTERNATIONAL

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006**

3. LOANS RECEIVABLE (Continued)

During 2005, Relief International entered into several microcredit loans in Afghanistan. The loans are unsecured and are repayable within one year. As of December 31, 2007 and 2006, total borrowings, net of uncollectible balances of \$90,680 and \$101,780, aggregated \$89,350 and \$128,150, respectively.

During 2007 and 2006, Relief International engaged in microcredit lending activity in Iraq (this portfolio represents approximately 83% and 35% of Relief International's loans worldwide as of December 31, 2007 and 2006, respectively). All loans were provided to individuals, in accordance with the terms of Relief International's local programmatic activities. The majority of loans are due within one year and bear interest of 6.0% to 15.0%. Total microcredit loans receivable, net of uncollectible balances of \$20,701 and \$-, aggregated \$2,049,391 and \$140,185 as of December 31, 2007 and 2006.

During 2007 and 2006, Relief International engaged in microcredit lending activity in Pakistan, Sudan, Indonesia and Lebanon. All loans were provided to individuals, in accordance with the terms of Relief International's local programmatic activities. The majority of loans are due within one year and bear interest up to 12%. Total microcredit loans receivable, net of uncollectible balances of \$10,834 and \$31,255, aggregated \$153,169 and \$26,371 as of December 31, 2007 and 2006.

4. LOANS PAYABLE

On September 10, 2002, Relief International entered into a credit agreement with the Social Fund for Internally Displaced People (SFDI) in Azerbaijan. The loan proceeds are to be used for microcredit lending on a revolving fund basis. Borrowings under the agreement are non-interest bearing, and the loan balance is due on April 30, 2008. The loan is secured by Relief International's cash held in Azerbaijan. As of December 31, 2007 and 2006, outstanding borrowings totaled \$16,667 and \$50,000, respectively.

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Community Development, Shelter and Refugee Resettlement	\$ 2,100,100	\$ 7,508,705
Education: Schools, Libraries and ICT in ED	2,447,683	1,816,379
Women Development	172,468	50,440
Emergency Response	1,125,425	1,551,443
Health, Household Food and Economic Security	1,559,422	176,132
Micro-Credit Loan Capital Restricted for Lending - Federal Donors	4,420,894	1,032,561
Micro-Credit Loan Capital Restricted for Lending - Non-Federal Donors	142,186	74,849
Donated computer equipment	<u>10,618</u>	<u>-</u>
	<u>\$ 11,978,796</u>	<u>\$ 12,210,509</u>

RELIEF INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

6. NET ASSETS RELEASED FROM RESTRICTIONS

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

	<u>2007</u>	<u>2006</u>
Community Development, Shelter and Refugee Resettlement	\$ 11,601,039	\$ 8,071,265
Education: Schools, Libraries and ICT in ED	1,811,227	1,411,339
Women Development	-	411,839
Emergency Response	608,528	534,201
Health, Household Food and Economic Security	629,388	5,093
Depreciation of computer equipment	<u>4,573</u>	<u>-</u>
	<u>\$ 14,654,755</u>	<u>\$ 10,433,737</u>

7. LEASE COMMITMENT

Relief International leased its principal office space in Los Angeles, California under an operating rental agreement which expired on September 30, 2007. Currently, rent is paid on a quarterly basis. Relief International also leases office space in several foreign countries under short-term lease agreements. Total rent expense (including office utilities and related costs) for the years ended December 31, 2007 and 2006 was \$673,098 and \$462,391, respectively.

8. CONTINGENCIES

United States Government funding -

Relief International receives grants and contracts from various agencies of the United States Government. Such awards are subject to audit under the provisions of OMB Circular A-133. The ultimate determination of amounts received under the United States Government awards is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the provisions of OMB Circular A-133 have been completed for all required fiscal years through 2007. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

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

As of December 31, 2007 and 2006, Relief International had cash and other assets in Afghanistan, Azerbaijan, Bangladesh, Indonesia, Iran, Iraq, Jordan, Lebanon, Pakistan, Palestine, Somalia, Sri Lanka, Sudan and Tajikistan totaling approximately \$3,990,000 and \$1,795,000, respectively, which represents 29% and 14% of Relief International's total assets as of December 31, 2007 and 2006, respectively.

RELIEF INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007 AND 2006

9. ECONOMIC DEPENDENCY

Approximately 83% and 86% of Relief International's support and revenue (excluding contributed food and relief commodities) for the years ended December 31, 2007 and 2006 was derived from grants and contracts awarded by the United States Government and various pass-through entities. Relief International has no reason to believe that relationships with these entities will be discontinued in the foreseeable future. However, any interruption of these relationships (i.e., the failure to renew agreements or withholding of funds) would adversely affect Relief International's ability to finance ongoing operations.

10. RETIREMENT PLAN

Relief International has adopted a retirement plan under Section 403(b)(7) of the Internal Revenue Code. Employees are eligible to participate in the plan after one year of service to the organization. Employee contributions are limited to \$15,000 per year, and Relief International will match those annual contributions up to \$3,750. During the years ended December 31, 2007 and 2006, the retirement plan expense totaled \$28,087 and \$23,992, respectively.

11. LOAN TO RELIEF INTERNATIONAL - UK

Relief International - UK (RI-UK), a separately incorporated not-for-profit entity in the United Kingdom, is part of the global family of Relief International agencies through which international programmatic activities are coordinated. On occasion, Relief International provides short-term interest-free financing and other support to RI-UK. As of December 31, 2007 and 2006, the aggregate amount due from RI-UK totaled \$199,697 and \$129,100, respectively.