

FINANCIAL STATEMENTS

RELIEF INTERNATIONAL

**FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007**

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, 2008 and 2007, 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, 2008 and 2007, 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 June 23, 2009 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.

June 23, 2009

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MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF HORWATH INTERNATIONAL
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

RELIEF INTERNATIONAL
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2008 AND 2007

| ASSETS | 2008 | 2007 |
|---|-----------------------------|-----------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 2,136,363 | \$ 2,230,619 |
| Investments (Notes 2 and 13) | 7,498 | 8,561 |
| Loans receivable, net of allowance of \$455,930 in 2008 and \$122,699 in 2007 (Note 3) | 4,543,797 | 2,470,549 |
| Loan to Relief International-UK (Note 12) | 589,661 | 199,697 |
| Grants receivable | 26,398,729 | 8,621,036 |
| Other receivables | 179,643 | 68,259 |
| Prepaid expenses and other assets | 143,947 | 53,012 |
| Inventory | 33,763 | 108,102 |
| Total current assets | <u>34,033,401</u> | <u>13,759,835</u> |
| PROPERTY AND EQUIPMENT | | |
| Furniture and fixtures | 4,955 | 2,084 |
| Office equipment | 21,119 | 26,249 |
| Computer equipment | 125,360 | 66,193 |
| Vehicles | 256,458 | 215,242 |
| | 407,892 | 309,768 |
| Less: Accumulated depreciation | (333,995) | (267,502) |
| Net property and equipment | <u>73,897</u> | <u>42,266</u> |
| OTHER ASSETS | | |
| Deposits | 22,194 | 11,219 |
| TOTAL ASSETS | <u>\$ 34,129,492</u> | <u>\$ 13,813,320</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Loans payable (Note 4) | \$ - | \$ 16,667 |
| Line of credit (Note 7) | 350,000 | - |
| Accounts payable and accrued expenses | 1,054,053 | 1,723,178 |
| Total liabilities | <u>1,404,053</u> | <u>1,739,845</u> |
| NET ASSETS | | |
| Unrestricted | 112,668 | 94,679 |
| Temporarily restricted (Note 5) | 32,612,771 | 11,978,796 |
| Total net assets | <u>32,725,439</u> | <u>12,073,475</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 34,129,492</u> | <u>\$ 13,813,320</u> |

See accompanying notes to financial statements.

RELIEF INTERNATIONAL

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

| | 2008 | | |
|--|--------------------------|-----------------------------------|-----------------------------|
| | Unrestricted | Temporarily Restricted | Total |
| SUPPORT AND REVENUE | | | |
| Grants and contributions (Note 9 and 10) | \$ - | \$ 39,849,059 | \$ 39,849,059 |
| Government contracts (Note 9 and 10) | 3,167,712 | - | 3,167,712 |
| Loan interest income | - | 1,038,652 | 1,038,652 |
| Contributed food and relief commodities | 831,593 | 15,084 | 846,677 |
| Interest and investment income (loss) (Note 2) | 47,935 | - | 47,935 |
| Other revenue | 42,703 | - | 42,703 |
| Net assets released from donor restrictions (Note 6) | <u>20,268,820</u> | <u>(20,268,820)</u> | <u>-</u> |
| Total support and revenue | <u>24,358,763</u> | <u>20,633,975</u> | <u>44,992,738</u> |
| EXPENSES | | | |
| Program Services: | | | |
| Community Development, Shelter and Refugee Resettlement | 15,555,489 | - | 15,555,489 |
| Education: Schools, Libraries and ICT in ED | 2,122,564 | - | 2,122,564 |
| Women Development | 47,828 | - | 47,828 |
| Emergency Response | 968,625 | - | 968,625 |
| Health, Household Food and Economic Security | <u>2,781,555</u> | <u>-</u> | <u>2,781,555</u> |
| Total program services | <u>21,476,061</u> | <u>-</u> | <u>21,476,061</u> |
| Supporting Services: | | | |
| General and Administrative | 2,824,755 | - | 2,824,755 |
| Fundraising | <u>35,809</u> | <u>-</u> | <u>35,809</u> |
| Total supporting services | <u>2,860,564</u> | <u>-</u> | <u>2,860,564</u> |
| Total expenses | <u>24,336,625</u> | <u>-</u> | <u>24,336,625</u> |
| Changes in net assets before other items | 22,138 | 20,633,975 | 20,656,113 |
| OTHER ITEMS | | | |
| Unrealized gain (loss) on investments (Note 2) | <u>(4,149)</u> | <u>-</u> | <u>(4,149)</u> |
| Changes in net assets | 17,989 | 20,633,975 | 20,651,964 |
| Net assets at beginning of year | <u>94,679</u> | <u>11,978,796</u> | <u>12,073,475</u> |
| NET ASSETS AT END OF YEAR | <u>\$ 112,668</u> | <u>\$ 32,612,771</u> | <u>\$ 32,725,439</u> |

See accompanying notes to financial statements.

| 2007 | | |
|---------------------|-----------------------------------|----------------------|
| Unrestricted | Temporarily Restricted | Total |
| \$ 249,779 | \$ 13,952,511 | \$ 14,202,290 |
| 7,105,547 | - | 7,105,547 |
| 46,349 | 455,340 | 501,689 |
| 1,263,784 | 15,191 | 1,278,975 |
| (13,685) | - | (13,685) |
| 23,092 | - | 23,092 |
| <u>14,654,755</u> | <u>(14,654,755)</u> | <u>-</u> |
| <u>23,329,621</u> | <u>(231,713)</u> | <u>23,097,908</u> |
| 17,703,727 | - | 17,703,727 |
| 1,698,612 | - | 1,698,612 |
| - | - | - |
| 749,346 | - | 749,346 |
| <u>743,637</u> | <u>-</u> | <u>743,637</u> |
| <u>20,895,322</u> | <u>-</u> | <u>20,895,322</u> |
| 2,732,316 | - | 2,732,316 |
| <u>130,437</u> | <u>-</u> | <u>130,437</u> |
| <u>2,862,753</u> | <u>-</u> | <u>2,862,753</u> |
| <u>23,758,075</u> | <u>-</u> | <u>23,758,075</u> |
| (428,454) | (231,713) | (660,167) |
| <u>29,554</u> | <u>-</u> | <u>29,554</u> |
| (398,900) | (231,713) | (630,613) |
| <u>493,579</u> | <u>12,210,509</u> | <u>12,704,088</u> |
| <u>\$ 94,679</u> | <u>\$ 11,978,796</u> | <u>\$ 12,073,475</u> |

See accompanying notes to financial statements.

RELIEF INTERNATIONAL

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2008**

| | 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) | \$ 5,294,777 | \$ 752,543 | \$ 10,642 | \$ 323,915 |
| Consultants | 7,021 | 22,902 | - | - |
| Contributed food and relief commodities | 204,895 | - | - | 186,201 |
| Depreciation | - | - | - | - |
| Projects | 4,919,802 | 871,736 | 31,381 | 125,723 |
| Subrecipient expenses | 1,379,426 | 88,304 | - | 173,623 |
| International freight | 1,142 | - | - | - |
| Vehicles and equipment expense | 701,302 | 22,404 | - | - |
| Office furniture and fixtures | 174,055 | 4,473 | - | 1,674 |
| Office expense | 143,024 | 13,415 | 1,864 | 1,908 |
| Supplies | 54,416 | 34,018 | - | - |
| Insurance | 101,936 | 17,465 | 183 | 18,264 |
| Interest | 1,583 | 1,509 | - | - |
| New country initiatives (Note 12) | - | - | - | - |
| Bank charges | 51,192 | 3,172 | 54 | 2,030 |
| Books and periodicals | 920 | 3,172 | - | 26 |
| Communications | 286,730 | 32,575 | - | 10,420 |
| Security | 12,498 | 591 | 785 | 4,117 |
| Household supplies | 5,944 | 3,046 | - | 2,186 |
| Postage | 8,422 | 3,249 | 23 | 240 |
| Printing and copying | 19,562 | 2,550 | 160 | 1,318 |
| Public relations | - | - | - | - |
| Office rent and utilities (Note 8) | 603,324 | 45,205 | 1,397 | 22,365 |
| Equipment/vehicle rental, maintenance and fuel | 895,310 | 44,814 | 1,249 | 49,459 |
| Training | 254,929 | 57,267 | - | 1,756 |
| Travel | 299,556 | 71,496 | - | 30,084 |
| Membership fees | 700 | - | - | - |
| Accounting and audit | 76,387 | 6,683 | - | 6,770 |
| Legal fees | - | - | - | - |
| Bad debt | - | - | - | - |
| Other operating expenses | 56,636 | 19,975 | 90 | 6,546 |
| TOTAL | \$ 15,555,489 | \$ 2,122,564 | \$ 47,828 | \$ 968,625 |

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 | |
| \$ 844,853 | \$ 7,226,730 | \$ 1,745,786 | \$ 23,971 | \$ 1,769,757 | \$ 8,996,487 | |
| - | 29,923 | 2,485 | 7,931 | 10,416 | 40,339 | |
| 496,456 | 887,552 | 18,380 | - | 18,380 | 905,932 | |
| - | - | 66,493 | - | 66,493 | 66,493 | |
| 533,826 | 6,482,468 | - | - | - | 6,482,468 | |
| 28,113 | 1,669,466 | - | - | - | 1,669,466 | |
| - | 1,142 | - | - | - | 1,142 | |
| 24,748 | 748,454 | 8,297 | - | 8,297 | 756,751 | |
| 3,789 | 183,991 | 9,847 | - | 9,847 | 193,838 | |
| 30,792 | 191,003 | 17,378 | - | 17,378 | 208,381 | |
| - | 88,434 | - | - | - | 88,434 | |
| 24,448 | 162,296 | 159,331 | - | 159,331 | 321,627 | |
| 303 | 3,395 | 1,058 | - | 1,058 | 4,453 | |
| - | - | 258,184 | - | 258,184 | 258,184 | |
| 22,039 | 78,487 | 11,649 | - | 11,649 | 90,136 | |
| 94 | 4,212 | 639 | - | 639 | 4,851 | |
| 33,510 | 363,235 | 35,438 | - | 35,438 | 398,673 | |
| 22,102 | 40,093 | - | - | - | 40,093 | |
| 745 | 11,921 | 164 | - | 164 | 12,085 | |
| 2,996 | 14,930 | 5,982 | 32 | 6,014 | 20,944 | |
| 6,255 | 29,845 | 6,050 | 3,870 | 9,920 | 39,765 | |
| - | - | 3,870 | - | 3,870 | 3,870 | |
| 77,859 | 750,150 | 239,960 | - | 239,960 | 990,110 | |
| 155,448 | 1,146,280 | 3,264 | - | 3,264 | 1,149,544 | |
| 8,926 | 322,878 | - | - | - | 322,878 | |
| 70,831 | 471,967 | 101,938 | - | 101,938 | 573,905 | |
| - | 700 | 32,212 | - | 32,212 | 32,912 | |
| 50,168 | 140,008 | 13,952 | - | 13,952 | 153,960 | |
| - | - | 2,798 | - | 2,798 | 2,798 | |
| 333,231 | 333,231 | 30,529 | - | 30,529 | 363,760 | |
| 10,023 | 93,270 | 49,071 | 5 | 49,076 | 142,346 | |
| \$ 2,781,555 | \$ 21,476,061 | \$ 2,824,755 | \$ 35,809 | \$ 2,860,564 | \$ 24,336,625 | |

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 11) | \$ 4,042,903 | \$ 727,821 | \$ 245,529 | \$ 231,742 |
| Consultants | 12,457 | 534 | - | - |
| Contributed food and relief commodities | 887,584 | - | 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 | 262,558 | 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 | - | - | - | - |
| Office rent and utilities (Note 8) | 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 |
| 1,155,682 | - | - | - | 1,155,682 |
| - | 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 |
| 427,929 | - | 1,900 | 1,900 | 429,829 |
| 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
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

| | <u>2008</u> | <u>2007</u> |
|--|----------------------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Changes in net assets | \$ 20,651,964 | \$ (630,613) |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation | 66,493 | 60,345 |
| Receipt of stock | (3,086) | (19,485) |
| Bad debt | 30,529 | 18,668 |
| Increase (decrease) in loan allowance | 333,231 | (15,336) |
| Donation of computer equipment and software | (15,084) | (15,191) |
| Unrealized loss (gain) on investments | 4,149 | (29,554) |
| Realized loss on sales of investments | - | 34,350 |
| Forgiveness of loan due from Relief International - UK | 199,697 | - |
| (Increase) decrease in: | | |
| Grants receivable | (17,808,222) | 2,035,901 |
| Other receivables | (111,384) | (58,814) |
| Prepaid expenses and other assets | (90,935) | 16,407 |
| Inventory | 74,339 | (108,102) |
| Deposits | (10,975) | (2,758) |
| Increase (decrease) in: | | |
| Accounts payable and accrued expenses | <u>(669,125)</u> | <u>1,270,371</u> |
| Net cash provided by operating activities | <u>2,651,591</u> | <u>2,556,189</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of property and equipment | (83,040) | (4,970) |
| Proceeds from sales of stock | <u>-</u> | <u>132,718</u> |
| Net cash provided (used) by investing activities | <u>(83,040)</u> | <u>127,748</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net disbursements of micro-credit loans receivable | (2,406,479) | (2,059,513) |
| Repayments on loans payable | (16,667) | (33,333) |
| Loan proceeds disbursed to Relief International-UK | (589,661) | (110,965) |
| Loan repayments received from Relief International-UK | - | 40,367 |
| Cash drawn on line of credit | <u>350,000</u> | <u>-</u> |
| Net cash used by financing activities | <u>(2,662,807)</u> | <u>(2,163,444)</u> |
| Net increase (decrease) in cash and cash equivalents | (94,256) | 520,493 |
| Cash and cash equivalents at beginning of year | <u>2,230,619</u> | <u>1,710,126</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | <u>\$ 2,136,363</u> | <u>\$ 2,230,619</u> |

See accompanying notes to financial statements.

RELIEF INTERNATIONAL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

| | <u>2008</u> | <u>2007</u> |
|----------------------------------|-----------------|---------------|
| SUPPLEMENTAL INFORMATION: | | |
| Interest Paid | \$ <u>4,453</u> | \$ <u>959</u> |

RELIEF INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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 \$1,775,721 and \$1,278,572 in cash and cash equivalents held at financial institutions and on hand in foreign countries at December 31, 2008 and 2007, 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.

RELIEF INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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

Foreign currency translation (continued) -

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.

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.

Fair value measurements -

Relief International adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, entitled Fair Value Measurements. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. Relief International accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

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-inventorial) 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, 2008 and 2007, Relief International did not generate any unrelated business income.

RELIEF INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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

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. During the years ended December 31, 2008 and 2007, Relief International received \$831,593 and \$1,263,784 in commodities of which \$905,932 and \$1,155,682 were distributed as of fiscal year-end. As of December 31, 2008 and 2007, total inventory on hand aggregated \$33,763 and \$108,102, respectively.

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.
- **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 \$831,593 and \$1,263,784, representing the fair value of the use of these goods have been recorded as revenue in the accompanying financial statements for the years ended December 31, 2008 and 2007, 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.

RELIEF INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

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

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.

Uncertain tax positions -

In June 2006, the FASB released FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes*. FIN 48 interprets the guidance in FASB Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*. When FIN 48 is implemented, reporting entities utilize different recognition thresholds and measurement requirements when compared to prior technical literature. On December 30, 2008, the FASB Staff issued FASB Staff Position (FSP) FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. As deferred by the guidance in FSP FIN 48-3, Relief International is not required to implement the provisions of FIN 48 until fiscal years beginning after December 15, 2008. As such, Relief International has not implemented those provisions in the 2008 financial statements.

Since the provisions of FIN 48 have not been implemented in accounting for uncertain tax positions, Relief International continues to utilize its prior policy of accounting for these positions, following the guidance in SFAS No. 5, *Accounting for Contingencies*. Disclosure is not required of a loss contingency involving an unasserted claim or assessment when there has been no manifestation by a potential claimant of an awareness of a possible claim or assessment unless it is considered probable that a claim will be asserted and there is a reasonable possibility that the outcome will be unfavorable. Using that guidance, as of December 31, 2008, Relief International has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Risks and uncertainties -

Relief International invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

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, 2008 and 2007:

| | 2008 | | 2007 | |
|--------------|------------------|-----------------|-----------------|-----------------|
| | Cost | Market Value | Cost | Market Value |
| Common Stock | \$ <u>11,577</u> | \$ <u>7,498</u> | \$ <u>8,491</u> | \$ <u>8,561</u> |

RELIEF INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

2. INVESTMENTS (Continued)

Included in interest and investment income (loss) are the following:

| | <u>2008</u> | <u>2007</u> |
|--|-------------------------|---------------------------|
| Interest and dividends | \$ 47,935 | \$ 20,665 |
| Realized gain (loss) on sale of stock | <u>-</u> | <u>(34,350)</u> |
| TOTAL INTEREST AND INVESTMENT INCOME (LOSS) | <u>\$ 47,935</u> | <u>\$ (13,685)</u> |

During the year ended December 31, 2008, Relief International had an unrealized loss on its investments totaling \$(4,149). During the year ended December 31, 2007, Relief International had an unrealized gain on its investments totaling \$29,554. The unrealized loss/gain has been reflected as an other item in the accompanying Statements of Activities and Changes in Net Assets.

3. LOANS RECEIVABLE

Relief International maintains several "Group Solidarity" loans in Azerbaijan. The loans are unsecured and interest is payable monthly at 3.0% 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 20.0%. As of December 31, 2008 and 2007, total borrowings (including accrued interest), net of uncollectible balances of \$7,158 and \$484, aggregated \$328,789 and \$178,639, respectively.

Relief International maintains several microcredit loans in Afghanistan. The loans are unsecured and are generally repayable within a 12-month period. The loans are interest-bearing at 22.0% per annum. As of December 31, 2008 and 2007, total borrowings, net of uncollectible balances of \$249,952 and \$90,681, aggregated \$84,286 and \$89,350, respectively.

Relief International maintains several microcredit loans in Iraq (this portfolio represents approximately 87.6% and 83.0% of Relief International's net loans receivable worldwide as of December 31, 2008 and 2007, 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 \$166,372 and \$20,701, aggregated \$3,978,331 and \$2,049,391 as of December 31, 2008 and 2007, respectively.

Relief International maintains several microcredit loans in Pakistan, Sudan, Indonesia, Lebanon, Palestine and Sri Lanka. The loans have been extended to local associations and individuals (including group loans), 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 13.0%. Total microcredit loans receivable, net of uncollectible balances of \$32,448 and \$10,834, aggregated \$152,392 and \$153,169 as of December 31, 2008 and 2007, respectively.

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 (Note 3).

RELIEF INTERNATIONAL

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007**

4. LOANS PAYABLE (Continued)

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 (Note 3). 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, 2008, there are no outstanding borrowings. As of December 31, 2007, the total amount due under this agreement aggregated \$16,667.

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2008 and 2007:

| | <u>2008</u> | <u>2007</u> |
|---|-----------------------------|-----------------------------|
| Community Development, Shelter and Refugee Resettlement | \$ 19,078,220 | \$ 2,100,100 |
| Education: Schools, Libraries and ICT in ED | 3,127,282 | 2,447,683 |
| Women Development | 204,657 | 172,468 |
| Emergency Response | 1,650,916 | 1,125,425 |
| Health, Household Food and Economic Security | 3,515,413 | 1,559,422 |
| Micro-Credit Loan Capital Restricted for Lending - Federal Donors | 4,854,457 | 4,420,894 |
| Micro-Credit Loan Capital Restricted for Lending - Non-Federal Donors | 165,725 | 142,186 |
| Donated computer equipment | <u>16,101</u> | <u>10,618</u> |
| | <u>\$ 32,612,771</u> | <u>\$ 11,978,796</u> |

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>2008</u> | <u>2007</u> |
|---|-----------------------------|-----------------------------|
| Community Development, Shelter and Refugee Resettlement | \$ 15,135,400 | \$ 11,601,039 |
| Education: Schools, Libraries and ICT in ED | 2,101,433 | 1,811,227 |
| Women Development | 47,143 | - |
| Emergency Response | 965,832 | 608,528 |
| Health, Household Food and Economic Security | 2,009,411 | 629,388 |
| Depreciation of donated computer equipment | <u>9,601</u> | <u>4,573</u> |
| | <u>\$ 20,268,820</u> | <u>\$ 14,654,755</u> |

RELIEF INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

7. LINE OF CREDIT

Relief International maintains a \$375,000 line of credit with a local financial institution. Amounts borrowed under this agreement bear interest based on the Wall Street Journal prime rate plus 2.0% (5.25% at December 31, 2008). As of December 31, 2008, the outstanding balance on the line of credit was \$350,000. The line is secured by all cash and accounts receivable.

8. LEASE COMMITMENT

Relief International leases its principal office space in Los Angeles, California, under an operating rental agreement which expires on August 31, 2013. 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, 2008 and 2007 was \$990,110 and \$673,098, respectively.

Future minimum lease payments required under this lease agreement are as follows:

Year Ended December 31,

| | |
|------|-------------------|
| 2009 | \$ 167,808 |
| 2010 | 174,520 |
| 2011 | 181,501 |
| 2012 | 188,761 |
| 2013 | <u>129,152</u> |
| | <u>\$ 841,742</u> |

9. 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 2008. 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, 2008 and 2007, 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 \$6,600,000 and \$4,000,000, respectively, which represents 19% and 29% of Relief International's total assets as of December 31, 2008 and 2007, respectively.

RELIEF INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2008 AND 2007

10. ECONOMIC DEPENDENCY

Approximately 44% and 83% of Relief International's support and revenue (excluding contributed food and relief commodities) for the years ended December 31, 2008 and 2007, respectively, 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.

11. 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, 2008 and 2007, the retirement plan expense totaled \$22,505 and \$28,087, respectively.

12. 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. During 2008 and 2007, Relief International provided \$589,661 and \$110,965, respectively, of financing to RI-UK; in addition, during 2008 Relief International forgave \$199,697 of the total amount due from RI-UK (representing the entire December 31, 2007 balance). The forgiveness of the aggregate amount due from RI-UK was recorded in "New Country Initiatives" expense in the accompanying 2008 Statement of Functional Expenses. As of December 31, 2008 and 2007, the aggregate amount due from RI-UK totaled \$589,661 and \$199,697, respectively.

13. FAIR VALUE MEASUREMENTS

In accordance with Statement of Financial Accounting Standards (SFAS) No. 157, Relief International has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market Relief International has the ability to access.

Level 2. These are investments where values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full-term of the investments.

RELIEF INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

13. FAIR VALUE MEASUREMENTS (Continued)

Level 3. These are investments where values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions of management about assumptions market participants would use in pricing the investments. These investments include non-readily marketable securities that do not have an active market.

Financial assets recorded on the Statements of Financial Position are categorized based on the inputs to the valuation technique as follows for the year ended December 31, 2008:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total December 31, 2008</u> |
|------------------------------|-----------------|----------------|----------------|--|
| Asset Category - Investments | \$ <u>7,498</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>7,498</u> |

14. MERGER AGREEMENT

Relief International has entered into an agreement and plan of merger and reorganization dated June 30, 2009 with Enterprise Works/Vita, Inc. (EWV), a Washington DC not-for-profit corporation exempt from income tax under Internal Revenue Code Section 501(c)(3). In accordance with the terms of the agreement and plan of merger and reorganization, EWV shall be merged with and into Relief International, and the separate corporate existence of EWV shall cease and Relief International shall continue as the surviving corporation. Accordingly, all property, rights, privileges, powers and franchises of EWV shall vest in the Surviving Corporation, and all debts, liabilities and duties of EWV shall become the debts, liabilities and duties of the Surviving Corporation.