

*TAIT, WELLER & BAKER LLP*  
*Certified Public Accountants*

**WORLD RELIEF CORPORATION OF  
NATIONAL ASSOCIATION OF EVANGELICALS**

*FINANCIAL STATEMENTS  
AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS*

**SEPTEMBER 30, 2005**

**WORLD RELIEF CORPORATION OF  
NATIONAL ASSOCIATION OF EVANGELICALS**

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# *TAIT, WELLER & BAKER LLP*

*Certified Public Accountants*

## **REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS**

**Board of Directors  
World Relief Corporation of  
National Association of Evangelicals  
Baltimore, Maryland**

We have audited the accompanying statement of financial position of World Relief Corporation of National Association of Evangelicals (the "Organization") as of September 30, 2005, and the related statements of activities and changes in net assets, of cash flows and of functional expenses for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the Organization's 2004 financial statements and, in our report dated December 22, 2004, we expressed an unqualified opinion.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of World Relief Corporation of National Association of Evangelicals as of September 30, 2005, and the changes in its net assets, its cash flows and its functional expenses for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Tait, Weller & Baker LLP*

**Philadelphia, Pennsylvania  
December 21, 2005**

**WORLD RELIEF CORPORATION OF  
NATIONAL ASSOCIATION OF EVANGELICALS**

**STATEMENTS OF FINANCIAL POSITION**

**September 30, 2005 and 2004**

ASSETS	<u>2005</u>	<u>2004</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 6,336,089	\$ 2,594,495
Restricted cash ( <i>Note 5</i> )	838,545	654,945
Investments, at market ( <i>Note 2</i> )	816,075	930,189
Receivables:		
Grants	3,303,285	2,924,050
Pledges ( <i>Note 3</i> )	812,500	369,950
Other	677,951	557,723
Microenterprise and agricultural loans – net ( <i>Note 4</i> )	11,452,603	8,947,246
Prepaid expenses and other assets	<u>798,037</u>	<u>559,383</u>
<b>Total current assets</b>	<u>25,035,085</u>	<u>17,537,981</u>
<b>NON-CURRENT ASSETS</b>		
Pledges receivable ( <i>Note 3</i> )	384,615	637,367
Plant and equipment – net of accumulated depreciation ( <i>Note 5</i> )	<u>4,985,791</u>	<u>4,807,690</u>
<b>Total non-current assets</b>	<u>5,370,406</u>	<u>5,445,057</u>
<b>Total assets</b>	<u>\$ 30,405,491</u>	<u>\$ 22,983,038</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of debt ( <i>Note 6</i> )		
General	\$ 1,277,823	\$ 937,403
Microenterprise/agricultural development	<u>157,400</u>	<u>147,892</u>
	1,435,223	1,085,295
Accounts payable and accrued liabilities	2,898,284	2,921,188
Deferred revenue	659,703	1,020,010
Other liabilities ( <i>Note 4</i> )	<u>877,394</u>	<u>787,499</u>
<b>Total current liabilities</b>	<u>5,870,604</u>	<u>5,813,992</u>
<b>LONG-TERM DEBT, net of current portion (<i>Note 6</i>)</b>		
General	1,879,715	1,808,313
Microenterprise/agricultural development	<u>1,879,176</u>	<u>592,975</u>
	<u>3,758,891</u>	<u>2,401,288</u>
<b>Total liabilities</b>	<u>9,629,495</u>	<u>8,215,280</u>
<b>NET ASSETS</b>		
Unrestricted		
Common stock, \$100 par value; 500 shares authorized; 10 shares issued and outstanding	1,000	1,000
Net assets	<u>12,295,464</u>	<u>11,749,100</u>
<b>Total unrestricted net assets</b>	12,296,464	11,750,100
Temporarily restricted net assets ( <i>Note 7</i> )	<u>8,479,532</u>	<u>3,017,658</u>
<b>Total net assets</b>	<u>20,775,996</u>	<u>14,767,758</u>
	<u>\$ 30,405,491</u>	<u>\$ 22,983,038</u>

*The accompanying notes are an integral part of this statement.*

**WORLD RELIEF CORPORATION OF  
NATIONAL ASSOCIATION OF EVANGELICALS**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

**Year ended September 30, 2005 with comparative totals for 2004**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2005 Total</u>	<u>2004 Total</u>
<b>Support and Revenue</b>				
Contributions and non-government grants	\$ 4,126,257	\$ 20,921,773	\$ 25,048,030	\$ 15,105,550
Government grants	25,714,894	-	25,714,894	21,110,854
Other revenue	6,674,330	-	6,674,330	5,392,795
Net assets released from restrictions ( <i>Note 7</i> )	<u>15,459,899</u>	<u>(15,459,899)</u>	<u>-</u>	<u>-</u>
<b>Total support and revenue</b>	<u>51,975,380</u>	<u>5,461,874</u>	<u>57,437,254</u>	<u>41,609,199</u>
<b>Expenses</b>				
Program Ministries				
USA Programs	17,082,358	-	17,082,358	16,822,173
Overseas Programs	18,869,397	-	18,869,397	14,074,274
Disaster Response	<u>7,679,585</u>	<u>-</u>	<u>7,679,585</u>	<u>2,387,265</u>
<b>Total program ministries</b>	<u>43,631,340</u>	<u>-</u>	<u>43,631,340</u>	<u>33,283,712</u>
Support Ministries				
General and administrative	4,945,622	-	4,945,622	4,613,794
Fundraising	<u>2,852,054</u>	<u>-</u>	<u>2,852,054</u>	<u>2,892,122</u>
<b>Total support ministries</b>	<u>7,797,676</u>	<u>-</u>	<u>7,797,676</u>	<u>7,505,916</u>
<b>Total expenses</b>	<u>51,429,016</u>	<u>-</u>	<u>51,429,016</u>	<u>40,789,628</u>
<b>Change in net assets</b>	546,364	5,461,874	6,008,238	819,571
<b>Net Assets</b>				
Beginning of year	<u>11,750,100</u>	<u>3,017,658</u>	<u>14,767,758</u>	<u>13,948,187</u>
<b>End of year</b>	<u>\$12,296,464</u>	<u>\$ 8,479,532</u>	<u>\$20,775,996</u>	<u>\$14,767,758</u>

**WORLD RELIEF CORPORATION OF  
NATIONAL ASSOCIATION OF EVANGELICALS**

**STATEMENTS OF CASH FLOWS**

**Year ended September 30, 2005 with comparative totals for 2004**

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<i>Changes in net assets</i>	\$ 6,008,238	\$ 819,571
<i>Adjustments to reconcile changes in net assets to net cash from operating activities</i>		
Depreciation and amortization	488,576	1,112,407
Gain on disposal of fixed assets	(97,622)	(17,303)
Donation of securities	(324,210)	(144,415)
Net realized and unrealized (gain) loss on investments	28,335	(34,280)
Increase in		
Receivables	(689,261)	(872,013)
Prepaid expenses and other assets	(238,654)	(135,562)
Increase (decrease) in		
Accounts payable and accrued liabilities	(22,904)	(199,286)
Deferred revenue	<u>(360,307)</u>	<u>350,308</u>
<b>Net cash provided by operating activities</b>	<u>4,792,191</u>	<u>879,427</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase and sale of investments, net	409,989	143,448
Capital expenditures	(569,055)	(355,324)
Net change in microenterprise and agricultural activities:		
Loans	(2,505,357)	(1,978,458)
Other liabilities (savings deposits)	<u>89,895</u>	<u>168,358</u>
<b>Net cash used for investing activities</b>	<u>(2,574,528)</u>	<u>(2,021,976)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from lines of credit and notes payable	3,735,426	1,251,735
Repayments of lines of credit and notes payable	<u>(2,027,895)</u>	<u>(695,743)</u>
<b>Net cash provided by financing activities</b>	<u>1,707,531</u>	<u>555,992</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	3,925,194	(586,557)
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>		
Beginning	<u>3,249,440</u>	<u>3,835,997</u>
<b>Ending</b>	<u>\$ 7,174,634</u>	<u>\$ 3,249,440</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the year for interest	<u>\$ 254,178</u>	<u>\$ 202,534</u>

**WORLD RELIEF CORPORATION OF  
NATIONAL ASSOCIATION OF EVANGELICALS**

**STATEMENT OF FUNCTIONAL EXPENSES**

**Year ended September 30, 2005 with comparative totals for 2004**

	Program Ministries					Supporting Ministries				Total Expenses	
	USA Programs	Overseas Programs	Disaster Response	2005 Total	2004 Comparative Total	General And Administrative	Fundraising	2005 Total	2004 Comparative Total	2005 Total	2004 Comparative Total
Salaries and Related Expenses	\$ 7,240,234	\$ 6,320,865	\$1,101,965	\$14,663,064	\$12,116,378	\$2,407,954	\$1,175,947	\$3,583,901	\$3,464,280	\$18,246,965	\$15,580,658
Personnel Benefits	1,707,883	910,858	254,094	2,872,835	2,340,470	508,405	218,236	726,641	695,285	3,599,476	3,035,755
Other Personnel Expenses	56,263	200,926	42,691	299,880	239,776	45,746	1,845	47,591	34,670	347,470	274,446
Initial Refugee Grants	2,063,921	-	-	2,063,921	2,126,658	-	-	-	-	2,063,921	2,126,658
Other Grants & Specific Assistance	4,188,939	1,542,268	2,642,281	8,373,488	6,196,881	-	-	-	1,000	8,373,488	6,197,881
Direct Program Costs	-	4,378,617	1,877,456	6,256,073	2,789,088	-	-	-	268	6,256,074	2,789,356
Travel	343,655	1,197,782	410,021	1,951,458	1,386,646	136,513	233,632	370,145	370,916	2,321,603	1,757,562
Board Meeting Expenses	-	179	-	179	-	43,220	748	43,968	32,452	44,147	32,452
Communications and Printing	264,705	502,230	93,549	860,484	685,531	138,703	379,532	518,235	475,779	1,378,719	1,161,310
Office Expenses	389,714	491,681	60,653	942,048	874,367	59,381	226,813	286,194	191,573	1,228,242	1,065,940
Equipment Costs	65,953	1,436,160	696,358	2,198,471	1,920,537	90,733	3,016	93,749	29,190	2,292,220	1,949,727
Occupancy Costs	532,059	541,012	179,796	1,252,867	894,394	370,719	18,830	389,549	307,457	1,642,416	1,201,851
Consulting and Professional Fees	138,514	246,367	178,675	563,556	466,798	326,804	497,129	823,933	867,003	1,387,489	1,333,801
Computer Expense	28,461	86,516	35,702	150,679	86,482	29,339	20,575	49,914	55,163	200,593	141,645
Books and Subscriptions	21,103	11,768	2,018	34,889	41,030	8,651	5,344	13,995	5,376	48,884	46,406
Property and Liability Insurance	-	643	349	992	1,098	244,759	-	244,759	286,514	245,751	287,612
Interest Expense	13,231	91,625	-	104,856	41,401	137,683	11,639	149,322	160,631	254,178	202,032
Depreciation and Amortization	-	354,284	62,603	416,887	719,607	71,689	-	71,689	392,800	488,576	1,112,407
Bad Debt Expense	-	202,499	-	202,499	175,760	-	-	-	-	202,499	175,760
Loss (gain) on foreign currency	-	128,813	15,133	143,946	(33,807)	425	-	425	1,163	144,371	(32,644)
Other Expenses	<u>27,723</u>	<u>224,304</u>	<u>26,241</u>	<u>278,268</u>	<u>214,617</u>	<u>324,898</u>	<u>58,768</u>	<u>383,666</u>	<u>134,396</u>	<u>661,934</u>	<u>349,013</u>
<b>Total Expenses</b>	<b><u>\$17,082,358</u></b>	<b><u>\$18,869,397</u></b>	<b><u>\$7,679,585</u></b>	<b><u>\$43,631,340</u></b>	<b><u>\$33,283,712</u></b>	<b><u>\$4,945,622</u></b>	<b><u>\$2,852,054</u></b>	<b><u>\$7,797,676</u></b>	<b><u>\$7,505,916</u></b>	<b><u>\$51,429,016</u></b>	<b><u>\$40,789,628</u></b>

# WORLD RELIEF CORPORATION OF NATIONAL ASSOCIATION OF EVANGELICALS

## NOTES TO FINANCIAL STATEMENTS

September 30, 2005 and 2004

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### (1) SIGNIFICANT ACCOUNTING POLICIES

#### **ORGANIZATION AND PURPOSE**

World Relief Corporation of National Association of Evangelicals is a not-for-profit, charitable organization and a wholly owned subsidiary of The National Association of Evangelicals, a not-for-profit religious organization. World Relief is a 100% shareholder and a 74% shareholder in two microenterprise entities. The financial statements present the financial position, results of operations and changes in net assets of World Relief and the two majority-owned microenterprise entities (“*World Relief*”).

#### **ACCOUNTING ESTIMATES**

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

#### **CONCENTRATION OF CREDIT AND OTHER RISKS**

World Relief operates in foreign countries, many of which do not have stable governments or economies. To the extent negative events occur in these countries, World Relief may not be able to recover its assets or remove its cash from these countries.

Loans receivable are in connection with World Relief’s microenterprise development and agricultural activities (*See Note 4*). Although collateral is required on most of the loans, the loans are exposed to the risk of default on repayment. World Relief manages this risk through its underwriting process.

World Relief occasionally maintains deposits in excess of federally insured limits. Statement of Financial Accounting Standards No. 105 identifies these items as a concentration of credit risk requiring disclosure, regardless of the degree of risk. The risk is managed by maintaining all deposits in high quality financial institutions.

#### **FOREIGN CURRENCY TRANSLATION**

World Relief has foreign branch offices in many countries. Assets and liabilities for these foreign branch offices are translated at the rates of exchange at the balance sheet date while income statement accounts are translated at the average exchange rates in effect during the period. The effect of such translation adjustments for the years ending September 30, 2005 and 2004, was to decrease net assets by \$144,133 and increase net assets by \$32,644, respectively.

#### **INCOME TAXES**

World Relief is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the “*Code*”) and has been classified as a public charity under Section 509(a)(1) of the Code.

# **WORLD RELIEF CORPORATION OF NATIONAL ASSOCIATION OF EVANGELICALS**

## ***NOTES TO FINANCIAL STATEMENTS – (Continued)***

**September 30, 2005 and 2004**

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### ***CONTRIBUTIONS TO INDEPENDENT ENTITIES***

Wherever possible, it is World Relief's practice that its overseas ministry programs eventually become independent entities. Upon completion of an overseas program, the Board of Directors of World Relief may approve transfers of various net assets to its overseas independent entities. After the contribution decision is made, World Relief also transfers its assets at net book value to the organization. Net assets of World Relief's overseas ministry programs were \$14,347,070 and \$12,441,414 as of September 30, 2005 and 2004, respectively. Management did not transfer any net assets to independent entities during fiscal year 2005 and 2004. However, net assets (principally loan receivables and related liabilities) relating to overseas Microenterprise Development activities and the agricultural loans relating to the Nicaragua Country Program are in various stages of discussions and agreements to transfer such assets to various entities which may or may not be controlled by World Relief. As of September 30, 2005 and 2004, these net assets totaled approximately \$8.7 million and \$7.6 million, respectively (total microenterprise/agricultural development net assets \$10.2 million in 2005 and \$8.7 million in 2004).

### ***CASH AND CASH EQUIVALENTS***

World Relief considers cash and cash equivalents to include currency on hand, demand deposits with banks and short-term investments with maturities of less than three months when purchased.

### ***INVESTMENTS***

World Relief records investments in securities at fair market value with the resulting gains and losses reported in the statement of activity. The fair market value of investments traded on a securities exchange is determined based on quoted market prices for those investments.

### ***PROPERTY AND EQUIPMENT***

Property and equipment are capitalized at cost and depreciated over their estimated useful lives on the straight-line basis (buildings – 29 years, computer, office and other equipment – 3-8 years and vehicles – 5 years).

World Relief receives various federal, state, city and private grants and contracts relating to refugee immigration, relief and disaster response. Property and equipment purchased through grants/contracts are expensed in the period purchased. The property and equipment is retained by World Relief or returned to the grantor based upon the grant/contract.

### ***NET ASSETS***

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

***Unrestricted Net Assets*** – Net assets that are not subject to donor-imposed restrictions.

***Temporarily Restricted Net Assets*** – Net assets that are subject to donor-imposed restrictions.

# **WORLD RELIEF CORPORATION OF NATIONAL ASSOCIATION OF EVANGELICALS**

## ***NOTES TO FINANCIAL STATEMENTS – (Continued)***

**September 30, 2005 and 2004**

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### ***CONTRIBUTIONS***

World Relief reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are classified to unrestricted net assets and reported in the statement of activities as ***“net assets released from restrictions.”***

### ***GIFTS IN-KIND AND VOLUNTARY SERVICES***

#### ***GIFTS IN-KIND***

World Relief provides, or makes available, in-kind goods for resettled refugees and for emergency interventions and other overseas programs. These resources are provided by refugee sponsors, churches, individuals and organizations. The value of in-kind contributions made to World Relief were \$910,938 in 2005 and \$466,283 in 2004. In addition, refugee sponsors and others often provide goods and services directly to resettled refugees; however, the value of these goods and services is not included in the financial statements.

#### ***VOLUNTARY SERVICES***

Worldwide, volunteers comprise 95 percent of the World Relief workforce, multiplying many times over the impact of its global ministries. In many cases volunteers provide the primary role in the services that are delivered. In fiscal year 2005, more than 31,000 people volunteered with World Relief. The value of these non-paid workers is not reflected in the financial statements.

### ***U.S. GOVERNMENT GRANTS***

World Relief has various grants with federal, state and local governments. World Relief generally recognizes revenue under these contracts when the related expenses are incurred (exchange transactions).

### ***FUNCTIONAL ALLOCATION OF EXPENSES***

World Relief’s costs of program and support activities have been summarized on a functional basis in the statement of activities and changes in net assets. The costs of certain multipurpose activities have been allocated based on level of effort among program and support ministry categories.

### ***RECLASSIFICATIONS***

Certain reclassifications have been made to the 2004 financial statements to conform to 2005 presentation.

### ***PRIOR YEAR INFORMATION***

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with World Relief’s audited financial statements for the year ended September 30, 2004, from which the summarized information was derived.

**WORLD RELIEF CORPORATION OF  
NATIONAL ASSOCIATION OF EVANGELICALS**

*NOTES TO FINANCIAL STATEMENTS – (Continued)*

**September 30, 2005 and 2004**

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**(2) INVESTMENTS**

At September 30, 2005 and 2004, investments consisted of the following:

	<u>2005</u>		<u>2004</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Common Stock	\$ 109	\$ 32	\$ 22,265	\$ 22,188
Mutual Funds	787,521	772,903	707,617	719,322
Certificates of Deposit	<u>43,140</u>	<u>43,140</u>	<u>188,679</u>	<u>188,679</u>
	<u>\$830,770</u>	<u>\$816,075</u>	<u>\$918,561</u>	<u>\$930,189</u>

At September 30, 2005 and 2004, investments had unrealized gains (losses) of \$(14,695) and \$11,628, respectively.

The following summarizes the investment return for the year ended September 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Net investment income	\$ 56,324	\$29,673
Net realized gain (loss)	(2,012)	22,650
Net unrealized gain (loss)	<u>(26,323)</u>	<u>23,227</u>
	<u>\$ 27,989</u>	<u>\$75,550</u>

**(3) PLEDGES RECEIVABLE**

Unconditional promises to give are included in the financial statements as pledges receivable. Pledges are recorded after discounting to the present value of the future cash flows.

Unconditional promises to give at September 30, 2005 and 2004 are expected to be realized as follows:

	<u>2005</u>	<u>2004</u>
In one year or less	\$ 812,500	\$ 369,950
In one to five years	<u>400,000</u>	<u>730,000</u>
	1,212,500	1,099,950
Less discount at 4.0% to present value	<u>15,385</u>	<u>92,633</u>
Net contributions receivable	<u>\$1,197,115</u>	<u>\$1,007,317</u>

**WORLD RELIEF CORPORATION OF  
NATIONAL ASSOCIATION OF EVANGELICALS**

*NOTES TO FINANCIAL STATEMENTS – (Continued)*

**September 30, 2005 and 2004**

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**(4) MICROENTERPRISE AND AGRICULTURAL LOANS**

World Relief had the following loans receivable at September 30:

	<u>2005</u>	<u>2004</u>
Microenterprise loans (net of allowance of \$224,866 in 2005 and \$300,999 in 2004)	\$ 8,475,144	\$6,143,914
Agricultural loans (net of allowance of \$104,726 in 2005 and \$48,668 in 2004)	<u>2,977,459</u>	<u>2,803,332</u>
	<u>\$11,452,603</u>	<u>\$8,947,246</u>

The purpose of the microenterprise loans is to provide assistance to start-up income generation activities in developing or post-conflict countries, and the interest from these loans is used to sustain the loan program. When repaid, these loans are either recycled as additional loans or, as approved by program management, used to sustain the loan program. Agricultural loans are granted for the purpose of improving the delivery of agricultural services to small farmers in Nicaragua.

Certain microenterprise loan programs have a mandatory savings requirement which require the borrower to pay a certain amount above principal and interest. This savings requirement, which is retained by the local World Relief microfinance institution and can be applied towards balances in default, was \$877,394 and \$787,499, as of September 30, 2005 and 2004, respectively.

**(5) PLANT AND EQUIPMENT**

The cost of such assets are as follows:

	<u>2005</u>	<u>2004</u>
Land	\$ 203,546	\$ 203,546
Buildings	3,005,117	2,713,083
Computers, office and other equipment	4,398,522	4,349,132
Vehicles	<u>3,442,017</u>	<u>3,468,578</u>
	11,049,202	10,734,339
Less: accumulated depreciation	<u>6,063,411</u>	<u>5,926,649</u>
Net value	<u>\$ 4,985,791</u>	<u>\$ 4,807,690</u>

During the year ended September 30, 2001, World Relief paid \$1,753,576 before certain settlement adjustments for the purchase of a building, the rent of a second adjoining building through December 2008, and the option to purchase the second adjoining building in December 2008 for approximately the fair market of the building, estimated to be \$1,400,000. This agreement also requires World Relief to fund an escrow account to accumulate approximately \$1,400,000 by December 2008 by making lease payments (\$15,300 per month) equal to the amount necessary to amortize the purchase price of the building. As of September 30, 2005 and 2004, the escrow deposit was \$838,545 and \$654,945, respectively.

World Relief capitalized the amount estimated to be the fair value of the building and recorded the remaining amount as prepaid rent. Prepaid rent is being amortized on a straight-line basis over the life of the lease. At September 30, 2005 and 2004, prepaid rent was \$152,383 and \$200,479, respectively.

**WORLD RELIEF CORPORATION OF  
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*NOTES TO FINANCIAL STATEMENTS – (Continued)*

**September 30, 2005 and 2004**

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**(6) DEBT**

A summary of long-term debt is as follows:

	<u>2005</u>	<u>2004</u>
<b><u>General</u></b>		
\$1,500,000 term loan bearing interest at the London Inter Bank Offering (LIBOR) rate plus 2.75% expiring November 1, 2008. Interest only was due through September 30, 2003, monthly installments of \$8,333 were due thereafter. The use of proceeds for this loan is to provide financing for real estate in Baltimore, Maryland. The loan agreement has certain covenants and is secured by a first mortgage on the property.	\$1,308,333 <sup>(a)</sup>	\$1,408,333 <sup>(a)</sup>
\$560,868 term loan bearing interest at LIBOR plus 3.00% expiring December 31, 2005. Installments are due according to a customized amortization schedule. The use of proceeds and covenants are the same as those in the note listed above. This agreement is secured by substantially all assets of World Relief.	120,000	420,000
Revolving \$1,000,000 line of credit bearing interest at the lower of prime rate or LIBOR plus 2.75% expiring February 28, 2006. The interest rate at September 30, 2005 and 2004 was 6.44% and 4.59%, respectively. This line of credit is secured by substantially all assets of World Relief and subject to various liquidity and debt ratio covenants, which World Relief has complied with as of September 30, 2005.	1,000,000	500,000
Two \$125,000 loans payable to the City of Baltimore bearing 4% interest and maturing November 1, 2011. The first loan is payable in monthly installments of \$1,266. Interest and principal on the second loan is deferred for three years and then the amount is payable in full on a pro-rated amount based on the number of new jobs, if any, created by World Relief.	206,037	218,603
Note payable with a bank in monthly installments of \$2,100 with an interest rate of 6.75%. All principal and accrued interest is due and payable on August 31, 2006. The note is subject to certain financial covenants and is secured by a mortgage on land and a building in Atlanta, Georgia.	186,811	198,780
Other notes payable	<u>336,357</u>	<u>-</u>
Total general debt	<u>3,157,538</u>	<u>2,745,716</u>

**WORLD RELIEF CORPORATION OF  
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*NOTES TO FINANCIAL STATEMENTS – (Continued)*

**September 30, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
<b><u>Microenterprise/Agricultural Development</u></b>		
Loan payable with a bank with a stated interest rate of 0%. Under the agreement, World Relief must use the funds to make loans through their microenterprise development program in Kosovo. World Relief is required to pay an insurance fee equal to 6% of the outstanding balance, payable June 30 and December 31 of each year. The loan is subject to certain financial covenants and all principal is due and payable on December 31, 2006.	722,543	492,975
Loan payable with the Government of the Kingdom of Denmark with no interest. Under the agreement, World Relief must use the funds to make loans through their microenterprise development program in Kosovo. World Relief is required to pay a 2% fee on funds received in years 1 and 2 and a 1% fee on funds received in year 3. Payment of the fee shall be made quarterly every March 31 <sup>st</sup> , June 30 <sup>th</sup> , September 30 <sup>th</sup> , and December 31 <sup>st</sup> .	906,633	-
Line of credit in the amount of 200,000 EURO at an annual interest rate of 10% expiring on March 31, 2006. This line of credit is secured by substantially all assets of World Relief.	59,237	-
Other notes payable	<u>348,163</u>	<u>247,892</u>
Total microenterprise/agricultural development debt	<u>2,036,576</u>	<u>740,867</u>
Total debt	5,194,114	3,486,583
Less: Current Portion	<u>1,435,223</u>	<u>1,085,295</u>
	<u>\$3,758,891</u>	<u>\$2,401,288</u>

<sup>(a)</sup> As part of the debt refinancing, World Relief entered into an interest rate swap agreement, which matures on November 1, 2008, on the \$1.5 million term loan. The agreement provides for World Relief to swap their variable rate of interest to a fixed rate of interest at 5.84%. At September 30, 2005 and 2004, the fair value of the swap instrument was not materially different than the value at the date of issuance.

Principal reduction of long-term debt for succeeding years are as follows:

2006	\$1,435,223
2007	932,919
2008	1,170,353
2009	1,175,628
2010	71,070
2011 and thereafter	<u>408,921</u>
	<u>\$5,194,114</u>

Interest expense for the years ended September 30, 2005 and 2004 was \$254,178 and \$202,032, respectively.

**WORLD RELIEF CORPORATION OF  
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*NOTES TO FINANCIAL STATEMENTS – (Continued)*

**September 30, 2005 and 2004**

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**(7) NET ASSETS**

Unrestricted net assets at September 30, 2005 and 2004 consist of the following:

	<u>2005</u>	<u>2004</u>
Microenterprise/agricultural development activities	\$10,234,235	\$ 8,713,140
General unrestricted	<u>2,062,229</u>	<u>3,036,960</u>
	<u>\$12,296,464</u>	<u>\$11,750,100</u>

Temporarily restricted net assets at September 30, 2005 and 2004 are available for the following purposes:

	<u>2005</u>	<u>2004</u>
USA Programs	\$ 145,553	\$ 197,806
Overseas Programs	1,438,421	1,073,194
Disaster Response	5,698,443	661,188
Time restricted contributions	<u>1,197,115</u>	<u>1,007,317</u>
	8,479,532	2,939,505
Available for various purposes	<u>-</u>	<u>78,153</u>
	<u>\$8,479,532</u>	<u>\$3,017,658</u>

Net assets were released from donor restrictions by incurring expenses which satisfied the restricted purposes as follows:

Purposes restrictions accomplished:

USA Programs	\$ 790,645
Overseas Programs	6,933,234
Disaster Response	7,175,873
Infrastructure	129,945
Satisfaction of time restrictions	<u>430,202</u>
	<u>\$15,459,899</u>

**(8) PENSION PLAN**

All salaried employees, excluding foreign nationals of the overseas offices who have separate local pension plans, of World Relief who have attained the age of 21 and have completed six months of service are eligible to participate in the World Relief 401(k) defined contribution plan. World Relief matches employee deferrals up to 3 percent. In addition, for the calendar years 2005 and 2004, World Relief has elected to make a discretionary contribution of 4% of salaries for all eligible employees. Total expense charged for contributions to the plan was approximately \$523,500 and \$541,500 for the years ended September 30, 2005 and 2004, respectively.

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*NOTES TO FINANCIAL STATEMENTS – (Continued)*

**September 30, 2005 and 2004**

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**(9) COMMITMENTS AND CONTINGENCIES**

***COMMITMENTS***

World Relief incurred approximately \$1,023,000 and \$846,000 of expenses related to operating leases for the years ending September 30, 2005 and 2004, respectively.

Future minimum payments under these leases which are in excess of one year as of September 30, 2005, were as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2006	\$ 290,100
2007	180,500
2008	92,900
2009	<u>18,000</u>
	<u>\$581,500</u>

***CONTINGENCIES***

World Relief receives grant funds, principally from the United States Government, for various programs. Certain expenditures of these funds are subject to audit by the grantors, and World Relief is contingently liable to refund amounts received in excess of allowable expenditures or amounts spent for unallowable purposes. On December 7, 2004, the United States Department of State, Bureau of Population, Refugees, and Migration (“*Department*”), notified World Relief that as a result of the Department of State’s Office of the Inspector General’s review of the Refugee Reception and Placement Program for fiscal year 2000-2002, approximately \$2.2 million was identified as questioned costs, of which approximately \$154,000 was deemed to be unauthorized or unallowable under the terms of the agreements. World Relief refunded to the U.S. Government \$154,000 for the costs identified as unauthorized or unallowable. In addition, World Relief has implemented certain recommendations. The remaining questioned costs of approximately \$2.0 million, of which approximately \$1.9 million related to salaries, was classified as unsupported because of inadequate documentation, however the audit concluded that World Relief was adequately providing service in accordance with the agreement. World Relief has made arrangements with the Department to implement certain recommendations, and is currently awaiting a final response from the Department.

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*NOTES TO FINANCIAL STATEMENTS – (Continued)*

**September 30, 2005 and 2004**

**(10) EXPENSES BY REGION**

Program expenses by Region for the year ended September 30, 2005 and summarized for 2004 as follows:

	<u>Technical Units</u>	<u>USA</u>	<u>Latin America</u>	<u>Great Lakes Africa</u>	<u>Southern Africa</u>	<u>West Africa</u>	<u>South And Southeast Asia</u>	<u>Other Regions*</u>	<u>2005 Total</u>	<u>2004 Total</u>
Emergency Relief	\$ 739,410	\$ 604,229	\$ 444,051	\$ 24,848	\$ 696,917	\$ -	\$ 4,158,372	\$ 541,389	\$ 7,209,216	\$ 2,495,140
Post Disaster Rehab	4,089	-	-	516,985	-	607,318	-	114,350	1,242,742	973,942
AIDS	456,150	-	460,705	2,512,686	2,342,782	91,190	121,215	602,472	6,587,200	3,667,035
Maternal and Child Health	231,187	-	40,181	386,371	839,352	2	315,827	1,158,003	2,970,923	1,432,895
Community Banking	447,603	-	211,759	1,417,452	1,144,155	61,122	1,018,587	925,820	5,226,498	4,188,916
Food Security	-	-	1,548,365	33,797	458,914	-	-	-	2,041,076	2,654,883
Child Development	19,293	-	-	-	-	86,816	341,928	-	448,037	706,422
Immigration and Urban	227,015	2,032,782	-	85,206	73,412	134,680	45,301	-	2,598,396	1,530,735
Refugee Care	<u>804,228</u>	<u>14,003,338</u>	<u>-</u>	<u>-</u>	<u>499,686</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,307,252</u>	<u>15,633,744</u>
2005 Totals	<u>\$ 2,928,975</u>	<u>\$ 16,640,349</u>	<u>\$ 2,705,061</u>	<u>\$ 4,977,345</u>	<u>\$ 6,055,218</u>	<u>\$ 981,128</u>	<u>\$ 6,001,230</u>	<u>\$ 3,342,034</u>	<u>\$ 43,631,340</u>	
2004 Totals	<u>\$ 2,243,790</u>	<u>\$ 15,683,921</u>	<u>\$ 1,931,495</u>	<u>\$ 2,634,944</u>	<u>\$ 6,075,365</u>	<u>\$ 549,284</u>	<u>\$ 1,766,171</u>	<u>\$ 2,398,742</u>		<u>\$ 33,283,712</u>

\* Other Regions include Sudan (Darfur and Southern), Kenya, Turkey, Kosovo, China, Mongolia and Iran.