

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

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

SEPTEMBER 30, 2004



WORLD RELIEF 

WORLD RELIEF CORPORATION OF
NATIONAL ASSOCIATION OF EVANGELICALS

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TAIT, WELLER & BAKER
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, 2004, and the related statements of activities and changes in net assets and of cash flows 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 2003 financial statements and, in our report dated January 8, 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, 2004, and the results of its operations, changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



Philadelphia, Pennsylvania
December 22, 2004

WORLD RELIEF CORPORATION OF
NATIONAL ASSOCIATION OF EVANGELICALS

STATEMENT OF FINANCIAL POSITION

September 30, 2004 and 2003

| | <u>2004</u> | <u>2003</u> |
|---|---------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 2,594,495 | \$ 3,364,652 |
| Restricted cash | 654,945 | 471,345 |
| Investments, at market (Note 2) | 930,189 | 894,942 |
| Receivables | | |
| Grants | 2,924,050 | 1,687,496 |
| Pledges (Note 3) | 369,950 | 863,466 |
| Other | 557,723 | 380,889 |
| Micro-enterprise and other loans – net (Note 4) | 8,947,246 | 6,968,788 |
| Prepaid expenses and other assets | <u>559,383</u> | <u>423,821</u> |
| Total current assets | <u>17,537,981</u> | <u>15,055,399</u> |
| NON-CURRENT ASSETS | | |
| Pledges receivable (Note 3) | 637,367 | 685,226 |
| Plant and equipment - net of accumulated depreciation (Note 5) | <u>4,807,690</u> | <u>5,547,470</u> |
| Total non-current assets | <u>5,445,057</u> | <u>6,232,696</u> |
| Total assets | <u>\$22,983,038</u> | <u>\$21,288,095</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 3,708,687 | \$ 3,739,615 |
| Deferred revenue | 1,020,010 | 669,702 |
| Current portion of debt (Note 6) | <u>1,085,295</u> | <u>914,567</u> |
| Total current liabilities | 5,813,992 | 5,323,884 |
| LONG-TERM DEBT , net of current portion (Note 6) | <u>2,401,288</u> | <u>2,016,024</u> |
| Total liabilities | <u>8,215,280</u> | <u>7,339,908</u> |
| NET ASSETS | | |
| Unrestricted | | |
| Common stock, \$100 par value; 500 shares authorized; 10 shares issued and outstanding | 1,000 | 1,000 |
| Net assets | <u>11,749,100</u> | <u>10,542,899</u> |
| Total unrestricted net assets | 11,750,100 | 10,543,899 |
| Temporarily restricted net assets (Note 7) | <u>3,017,658</u> | <u>3,404,288</u> |
| Total net assets | <u>14,767,758</u> | <u>13,948,187</u> |
| | <u>\$22,983,038</u> | <u>\$21,288,095</u> |

The accompanying notes are an integral part of this statement.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

Year ended September 30, 2004 with comparative totals for 2003

| | Unrestricted | Temporarily Restricted | 2004 Total | 2003 Total |
|--|---------------------|---------------------------|---------------------|---------------------|
| Support and Revenue | | | | |
| Contributions and non-government grants | \$ 4,110,011 | \$10,995,539 | \$15,105,550 | \$15,640,886 |
| Government grants | 21,110,854 | - | 21,110,854 | 16,307,034 |
| Other revenue | 5,392,795 | - | 5,392,795 | 6,453,643 |
| Net assets released from restrictions (Note 7) | <u>11,382,169</u> | <u>(11,382,169)</u> | <u>-</u> | <u>-</u> |
| Total support and revenue | <u>41,995,829</u> | <u>(386,630)</u> | <u>41,609,199</u> | <u>38,401,563</u> |
| Expenses (Note 9) | | | | |
| Program Ministries | | | | |
| USA Programs | 16,822,173 | - | 16,822,173 | 15,441,507 |
| Overseas Programs | 14,074,274 | - | 14,074,274 | 12,039,529 |
| Disaster Response | <u>2,387,265</u> | <u>-</u> | <u>2,387,265</u> | <u>2,924,776</u> |
| Total program ministries | <u>33,283,712</u> | <u>-</u> | <u>33,283,712</u> | <u>30,405,812</u> |
| Support Ministries | | | | |
| General and administrative | 4,613,794 | - | 4,613,794 | 4,194,563 |
| Fundraising | <u>2,892,122</u> | <u>-</u> | <u>2,892,122</u> | <u>2,454,116</u> |
| Total support ministries | <u>7,505,916</u> | <u>-</u> | <u>7,505,916</u> | <u>6,648,679</u> |
| Total expenses | <u>40,789,628</u> | <u>-</u> | <u>40,789,628</u> | <u>37,054,491</u> |
| Change in net assets | 1,206,201 | (386,630) | 819,571 | 1,347,072 |
| Net Assets | | | | |
| Beginning of year | <u>10,543,899</u> | <u>3,404,288</u> | <u>13,948,187</u> | <u>12,601,115</u> |
| End of year | <u>\$11,750,100</u> | <u>\$3,017,658</u> | <u>\$14,767,758</u> | <u>\$13,948,187</u> |

The accompanying notes are an integral part of this statement.

STATEMENT OF CASH FLOWS

Year ended September 30, 2004 with comparative totals for 2003

| | <u>2004</u> | <u>2003</u> |
|---|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| <i>Changes in net assets</i> | \$ 819,571 | \$ 1,347,072 |
| <i>Adjustments to reconcile changes in net assets to net cash from operating activities</i> | | |
| Depreciation and amortization | 1,112,407 | 1,043,287 |
| Gain on disposal of fixed assets | (17,303) | (2,603) |
| Donation of securities | (144,415) | (35,531) |
| Net realized and unrealized (gain) loss on investments | (34,280) | 77,368 |
| Increase (decrease) in | | |
| Receivables | (872,013) | (427,917) |
| Micro-enterprise loans | (1,978,458) | (1,590,334) |
| Prepaid expenses and other assets | (135,562) | 76,725 |
| Increase (decrease) in | | |
| Accounts payable and accrued liabilities | (30,928) | (217,475) |
| Advances | 350,308 | 166,145 |
| Net cash (used for) provided by operating activities | <u>(930,673)</u> | <u>436,737</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase and sale of investments, net | 143,448 | 1,425,714 |
| Capital expenditures | <u>(355,324)</u> | <u>(223,365)</u> |
| Net cash (used for) provided by investing activities | <u>(211,876)</u> | <u>1,202,349</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from lines of credit and notes payable | 1,251,735 | - |
| Repayments of lines of credit and notes payable | <u>(695,743)</u> | <u>(814,077)</u> |
| Net cash provided by (used for) financing activities | <u>555,992</u> | <u>(814,077)</u> |
| Net (decrease) increase in cash and cash equivalents | (586,557) | 825,009 |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH | | |
| Beginning | <u>3,835,997</u> | <u>3,010,988</u> |
| Ending | <u>\$ 3,249,440</u> | <u>\$ 3,835,997</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash paid during the year for interest | <u>\$ 202,534</u> | <u>\$ 194,483</u> |

World Relief received \$144,415 and \$35,531 in donated securities as contributions during the years ended September 30, 2004 and 2003, respectively.

The accompanying notes are an integral part of this statement.

STATEMENT OF FUNCTIONAL EXPENSES

Continued on next page ►

Year ended September 30, 2004 with comparative totals for 2003

| | Program Ministries | | | | |
|--------------------------------------|---------------------|----------------------|----------------------|---------------------|------------------------------|
| | USA Programs | Overseas Programs | Disaster Response | 2004 Total | 2003 Comparative Total |
| Salaries & Related Expenses | \$ 6,874,076 | \$ 4,953,719 | \$ 288,583 | \$12,116,378 | \$11,316,878 |
| Personnel Benefits | 1,616,819 | 672,459 | 51,192 | 2,340,470 | 2,536,464 |
| Travel | 337,956 | 872,339 | 176,351 | 1,386,646 | 967,505 |
| Board Expenses | - | - | - | - | - |
| Communications | 190,006 | 333,662 | 36,654 | 560,322 | 419,717 |
| Office Expenses | 410,439 | 450,150 | 13,778 | 874,367 | 696,339 |
| Printing Expense | 23,707 | 86,817 | 1,697 | 112,221 | 66,875 |
| Equipment Costs | 74,966 | 639,586 | 25,982 | 740,534 | 357,787 |
| Vehicle Expense | 28,397 | 1,003,625 | 147,981 | 1,180,003 | 592,409 |
| Repairs & Maintenance | 15,684 | 66,737 | 15 | 82,436 | 65,941 |
| Building Expenses | 2,751 | 6,508 | 195 | 9,454 | 12,182 |
| Personnel Expenses | 65,464 | 166,770 | 7,542 | 239,776 | 261,404 |
| Repairs & Maintenance – Headquarters | 472 | 555 | - | 1,027 | 323 |
| Consulting and Professional Fees | 137,114 | 227,740 | 24,552 | 389,406 | 295,854 |
| Computer Expense | 27,455 | 50,894 | 8,133 | 86,482 | 96,159 |
| Accounting Fees | - | 45,653 | 535 | 46,188 | 34,700 |
| Dues & Assessments | 8,578 | 11,461 | 740 | 20,779 | 27,366 |
| Outsourcing | - | - | - | - | - |
| Books & Subscriptions | 19,119 | 21,908 | 3 | 41,030 | 34,252 |
| Property & Liability Insurance | - | 1,098 | - | 1,098 | 500 |
| Legal Fees | 4,880 | 26,174 | 150 | 31,204 | 38,957 |
| Interest Expense | - | 40,485 | 916 | 41,401 | 47,241 |
| Depreciation & Amortization | - | 677,825 | 41,782 | 719,607 | 717,219 |
| Bad Debt Expense | - | 175,760 | - | 175,760 | 280,108 |
| Office Rental & Space Fees | 478,900 | 301,984 | 20,593 | 801,477 | 683,423 |
| Miscellaneous | 6,530 | 90,757 | 16,293 | 113,580 | 108,583 |
| Foreign Exchange | - | (34,006) | 199 | (33,807) | 164,326 |
| Agricultural Commodities | - | 69,718 | - | 69,718 | 34,560 |
| Non Cash Operating Expenses | - | - | - | - | 9,961 |
| Advertising | 1,491 | 4,256 | - | 5,747 | 1,685 |
| Marketing Communications | 10,315 | 2,624 | 49 | 12,988 | 13,840 |
| Events | 4,793 | - | - | 4,793 | 8,683 |
| Initial Refugee Grants | 2,126,658 | - | - | 2,126,658 | 1,708,156 |
| Other Grants & Specific Assistance | 4,355,603 | 1,548,738 | 292,540 | 6,196,881 | 6,057,456 |
| Direct Program Expenses | - | 1,558,278 | 1,230,810 | 2,789,088 | 2,748,959 |
| Total Cost Before Exclusions | <u>\$16,822,173</u> | <u>\$14,074,274</u> | <u>\$ 2,387,265</u> | <u>\$33,283,712</u> | <u>\$30,405,812</u> |

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| Supporting Ministries | | | | Total Expenses | |
|--------------------------|---------------------|---------------------|------------------------|---------------------|------------------------|
| General & Administrative | Fundraising | 2004 Total | 2003 Comparative Total | 2004 Total | 2003 Comparative Total |
| \$ 2,268,732 | \$ 1,195,548 | \$ 3,464,280 | \$ 3,187,582 | \$15,580,658 | \$14,504,460 |
| 420,720 | 274,565 | 695,285 | 589,986 | 3,035,755 | 3,126,450 |
| 157,611 | 213,305 | 370,916 | 375,836 | 1,757,562 | 1,343,341 |
| 30,240 | 2,212 | 32,452 | 23,096 | 32,452 | 23,096 |
| 88,996 | 23,610 | 112,606 | 102,561 | 672,928 | 522,278 |
| 62,835 | 128,738 | 191,573 | 215,311 | 1,065,940 | 911,650 |
| 14,292 | 195,565 | 209,857 | 236,256 | 322,078 | 303,131 |
| 27,581 | - | 27,581 | 18,962 | 768,115 | 376,749 |
| 1,609 | - | 1,609 | 1,851 | 1,181,612 | 594,260 |
| 4,350 | 325 | 4,675 | 802 | 87,111 | 66,743 |
| 136,075 | - | 136,075 | 118,652 | 145,529 | 130,834 |
| 32,994 | 1,676 | 34,670 | 53,309 | 274,446 | 314,713 |
| 96,065 | 345 | 96,410 | 70,492 | 97,437 | 70,815 |
| 121,357 | 310,785 | 432,142 | 274,294 | 821,548 | 570,148 |
| 31,821 | 23,342 | 55,163 | 64,185 | 141,645 | 160,344 |
| 112,490 | - | 112,490 | 97,416 | 158,678 | 132,116 |
| 24,524 | 2,155 | 26,679 | 68,196 | 47,458 | 95,562 |
| - | 310,799 | 310,799 | 124,368 | 310,799 | 124,368 |
| 4,242 | 1,134 | 5,376 | 7,109 | 46,406 | 41,361 |
| 286,514 | - | 286,514 | 217,849 | 287,612 | 218,349 |
| 1,180 | 10,392 | 11,572 | 46,305 | 42,776 | 85,262 |
| 149,693 | 10,938 | 160,631 | 144,028 | 202,032 | 191,269 |
| 392,800 | - | 392,800 | 326,068 | 1,112,407 | 1,043,287 |
| - | - | - | - | 175,760 | 280,108 |
| 52,253 | 18,044 | 70,297 | 71,898 | 871,774 | 755,321 |
| 85,569 | 18,682 | 104,251 | 75,996 | 217,831 | 184,579 |
| 1,163 | - | 1,163 | 1,318 | (32,644) | 165,644 |
| - | - | - | - | 69,718 | 34,560 |
| - | - | - | 3,228 | - | 13,189 |
| - | 1,265 | 1,265 | 9,211 | 7,012 | 10,896 |
| 7,820 | 145,496 | 153,316 | 116,670 | 166,304 | 130,510 |
| - | 2,201 | 2,201 | - | 6,994 | 8,683 |
| - | - | - | - | 2,126,658 | 1,708,156 |
| - | 1,000 | 1,000 | 5,100 | 6,197,881 | 6,062,556 |
| 268 | - | 268 | 744 | 2,789,356 | 2,749,703 |
| <u>\$ 4,613,794</u> | <u>\$ 2,892,122</u> | <u>\$ 7,505,916</u> | <u>\$ 6,648,679</u> | <u>\$40,789,628</u> | <u>\$37,054,491</u> |

NOTES TO FINANCIAL STATEMENTS

September 30, 2004 and 2003

(1) SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND PURPOSE

World Relief Corporation of National Association of Evangelicals ("World Relief") 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 83% 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 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.

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 RISK

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 numerous foreign branch offices. 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, 2004 and 2003, was to increase (decrease) net assets by \$32,644 and \$(165,644), 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.

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 \$12,441,414 and \$11,360,514 as of September 30, 2004 and 2003, respectively. Management did not transfer any net assets to independent entities during fiscal year 2004 and 2003. 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, 2004, these net assets totaled approximately \$7.7 million.

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.

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2004 and 2003

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).

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.

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 \$466,283 in 2004 and \$2,018,450 in 2003. 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 our global ministries. In many cases volunteers provide the primary role in the services we deliver. In fiscal year 2004, more than 31,000 people volunteered with World Relief. The value of these non-paid workers is not reflected in our financial statements.

U.S. GOVERNMENT GRANTS

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

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses include expenses for certain program staff who support program activities but are not allocated to specific projects.

RECLASSIFICATIONS

Certain reclassifications have been made to the 2003 financial statements to conform to the 2004 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, 2003, from which the summarized information was derived.

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2004 and 2003

(2) INVESTMENTS

At September 30, 2004 & 2003, investments consisted of the following:

| | 2004 | | 2003 | |
|-------------------------|------------------|------------------|------------------|------------------|
| | Cost | Market | Cost | Market |
| Common Stock | \$ 22,265 | \$ 22,188 | \$ 3,184 | \$ 3,260 |
| Mutual Funds | 707,617 | 719,322 | 839,363 | 827,688 |
| Certificates of Deposit | 188,679 | 188,679 | 63,994 | 63,994 |
| | <u>\$918,561</u> | <u>\$930,189</u> | <u>\$906,541</u> | <u>\$894,942</u> |

At September 30, 2004 and 2003, investments had unrealized gains (losses) of \$11,628 and \$(11,599), respectively.

The following summarizes the investment return for the year ended September 30, 2004 and 2003:

| | 2004 | 2003 |
|----------------------------|------------------|-------------------|
| Net investment income | \$ 29,673 | \$ 16,329 |
| Net realized gain (loss) | 22,650 | (33,103) |
| Net unrealized gain (loss) | <u>23,227</u> | <u>(44,265)</u> |
| | <u>\$ 75,550</u> | <u>\$(61,039)</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, 2004 and 2003 are expected to be realized as follows:

| | 2004 | 2003 |
|--|--------------------|--------------------|
| In one year or less | \$ 369,950 | \$ 863,466 |
| In one to five years | <u>730,000</u> | <u>760,000</u> |
| | 1, 099,950 | 1, 623,466 |
| Less discount at 4.0% to present value | <u>92,633</u> | <u>74,774</u> |
| Net contributions receivable | <u>\$1,007,317</u> | <u>\$1,548,692</u> |

(4) MICRO-ENTERPRISE AND OTHER LOANS

World Relief has the following loans receivable at September 30:

| | 2004 | 2003 |
|---|--------------------|---------------------|
| Micro-enterprise loans (net of allowance of \$300,999 in 2004 and \$181,356 in 2003) | \$6,143,914 | \$ 3,776,633 |
| Agricultural loans (net of allowance of \$48,668 in 2004 and \$169,316 in 2003) | <u>2,803,332</u> | <u>3,192,155</u> |
| | <u>\$8,947,246</u> | <u>\$ 6,968,788</u> |

The purpose of the micro-enterprise 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 micro-enterprise 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 World Relief and can be applied towards balances in default, was \$787,499 and \$619,141, as of September 30, 2004 and 2003, respectively, and is recorded in accounts payable and accrued liabilities in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2004 and 2003

(5) PLANT AND EQUIPMENT

The cost of such assets are as follows:

| | 2004 | 2003 |
|---------------------------------------|---------------------|---------------------|
| Land | \$ 203,546 | \$ 227,587 |
| Buildings | 2,713,083 | 2,735,529 |
| Computers, office and other equipment | 4,349,132 | 4,342,134 |
| Vehicles | <u>3,468,578</u> | <u>3,255,637</u> |
| | 10,734,339 | 10,560,887 |
| Less: accumulated depreciation | <u>5,926,649</u> | <u>5,013,417</u> |
| Net value | <u>\$ 4,807,690</u> | <u>\$ 5,547,470</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, 2004 and 2003, the escrow deposit was \$654,945 and \$471,345, 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 will be amortized on a straight-line basis over the life of the lease. At September 30, 2004 and 2003, prepaid rent was \$200,479 and \$248,575, respectively.

(6) DEBT

A summary of long-term debt is as follows:

| | 2004 | 2003 |
|---|----------------------------|----------------------------|
| \$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 including a covenant to maintain tangible net assets of at least \$10,000,000. This agreement is secured by a first mortgage on the property. | \$1,408,333 ^(a) | \$1,500,000 ^(a) |
| \$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. | 420,000 | 540,868 |
| Revolving \$1,000,000 line of credit bearing interest at the lower of prime rate or LIBOR plus 2.75% expiring February 28, 2005. The interest rate at September 30, 2004 and 2003 was 4.59% and 3.87%, respectively. This line of credit is secured by substantially all assets of World Relief. | 500,000 | 450,000 |
| 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. | 218,603 | 229,801 |
| 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. | 198,780 | 209,922 |

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2004 and 2003

| | | |
|--|---------------------|---------------------|
| 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 micro finance 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. | 492,975 | - |
| Other notes payable. | <u>247,892</u> | <u>-</u> |
| | 3,486,583 | 2,930,591 |
| Less: Current Portion | <u>1,085,295</u> | <u>914,567</u> |
| | <u>\$ 2,401,288</u> | <u>\$ 2,016,024</u> |

^(a) As part of the debt refinancing, World Relief entered into an interest rate swap agreement 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, 2004 and 2003, 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:

| | |
|---------------------|---------------------|
| 2005 | \$ 1,085,295 |
| 2006 | 263,784 |
| 2007 | 638,917 |
| 2008 | 148,199 |
| 2009 and thereafter | <u>1,350,388</u> |
| | <u>\$ 3,486,583</u> |

Interest expense for the years ended September 30, 2004 and 2003 was \$202,032 and \$149,535, respectively.

(7) NET ASSETS

Temporarily restricted net assets at September 30, 2004 and 2003 are available for the following purposes:

| | 2004 | 2003 |
|--------------------------------|---------------------|---------------------|
| USA Programs | \$ 197,806 | \$ 635,372 |
| Overseas Programs | 1,073,194 | 603,619 |
| Disaster Response | 661,188 | 616,605 |
| Time restricted contributions | <u>1,007,317</u> | <u>1,548,692</u> |
| | 2,939,505 | 3,404,288 |
| Available for various purposes | <u>78,153</u> | <u>-</u> |
| | <u>\$ 3,017,658</u> | <u>\$ 3,404,288</u> |

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

Purposes restrictions accomplished:

| | |
|-----------------------------------|---------------------|
| USA Programs | \$ 817,114 |
| Overseas Programs | 7,354,814 |
| Disaster Response | 1,912,201 |
| Infrastructure | 368,665 |
| Satisfaction of time restrictions | <u>929,375</u> |
| | <u>\$11,382,169</u> |

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2004 and 2003

(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 2004 and 2003, 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 \$541,500 and \$597,400 for the years end September 30, 2004 and 2003, respectively.

(9) 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.

(10) COMMITMENTS AND CONTINGENCIES

COMMITMENTS

World Relief incurred approximately \$846,000 and \$712,000 of expenses related to operating leases for the years ending September 30, 2004 and 2003, respectively.

Future minimum payments under these leases which are in excess of one year as of September 30, 2004, were as follows:

| <u>Year ending September 30,</u> | <u>Amount</u> |
|----------------------------------|---------------|
| 2005 | \$ 151,000 |
| 2006 | 139,000 |
| 2007 | 107,000 |
| 2008 | 89,000 |
| 2009 | <u>18,000</u> |
| | \$ 504,000 |

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 ("Bureau"), 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 and should be refunded to the Bureau. The remaining questioned costs of approximately \$2,034,000 of which approximately \$1,983,000 related to salaries was classified as unsupported because of either inadequate or lack of documentation and the Bureau is requesting supporting documentation for these costs. The audit concluded that World Relief was adequately providing service in accordance with the agreement. World Relief is contesting some of the interpretations that led to the identification of the unauthorized and unallowable costs and is engaged in an effort to assemble documentation sufficient to support the questioned costs.

NOTES TO FINANCIAL STATEMENTS - Continued

September 30, 2004 and 2003

(11) EXPENSES BY REGION

Program expenses by region for the year ended September 30, 2004 and summarized for 2003 as follows:

| | Technical Units | USA | Great Lakes Africa | Latin America | South And Southeast Asia | Southern Africa | West Africa | Other Regions* | 2004 Total | 2003 Total |
|------------------------------------|---------------------|---------------------|-----------------------|---------------------|--------------------------------|---------------------|-------------------|---------------------|---------------------|---------------------|
| Emergency Relief | \$ 42,420 | \$ 65,242 | \$ 508,285 | \$ 24,322 | \$ 13,077 | \$ 746,370 | \$ 70,171 | \$ 1,025,253 | \$ 2,495,140 | \$ 2,983,000 |
| Post Disaster Rehab | - | - | 2,964 | 23,386 | - | - | 103,054 | 844,538 | 973,942 | 2,003,674 |
| AIDS | 406,163 | - | 571,270 | 161,556 | 28,522 | 2,093,638 | 220,703 | 185,183 | 3,667,035 | 1,600,637 |
| Maternal & Child Health | 130,721 | - | 342,128 | 40,151 | 293,682 | 626,213 | - | - | 1,432,895 | 1,472,042 |
| Community Banking | 459,060 | - | 1,210,297 | 38,829 | 860,627 | 1,224,410 | 51,925 | 343,768 | 4,188,916 | 4,473,635 |
| Food Security | - | - | - | 1,643,251 | - | 1,011,632 | - | - | 2,654,883 | 1,831,225 |
| Child Development | - | - | - | - | 570,263 | 45,523 | 90,636 | - | 706,422 | 638,711 |
| Immigration & Other | 25,261 | 1,505,474 | - | - | - | - | - | - | 1,530,735 | 3,157,028 |
| Refugee Care | 1,180,165 | 14,113,205 | - | - | - | 327,579 | 12,795 | - | 15,633,744 | 12,245,860 |
| Grand Total | <u>\$ 2,243,790</u> | <u>\$15,683,921</u> | <u>\$ 2,634,944</u> | <u>\$ 1,931,495</u> | <u>\$ 1,766,171</u> | <u>\$ 6,075,365</u> | <u>\$ 549,284</u> | <u>\$ 2,398,742</u> | <u>\$33,283,712</u> | <u>\$30,405,812</u> |

* Other regions include Sudan (Darfur and Southern), Chad, Kenya, Turkey, Kosovo, China, Mongolia, Iran and Iraq.

WORLD RELIEF

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