

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

FINANCIAL STATEMENTS  
AND REPORT OF  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

SEPTEMBER 30, 2002



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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, 2002, 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 2001 financial statements which were audited by other auditors whose report dated January 24, 2002 expressed an unqualified opinion on those statements.

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, 2002, 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  
January 9, 2003**

## STATEMENT OF FINANCIAL POSITION

September 30, 2002 and 2001

|   | 2002                 | 2001                 |
|---|----------------------|----------------------|
| <b>ASSETS</b>   |                      |                      |
| <b>CURRENT ASSETS</b>   |                      |                      |
| Cash and cash equivalents   | \$ 2,731,514         | \$ 4,588,661         |
| Restricted cash   | 279,474              | 88,608               |
| Investments, at market (Note 2)   | 2,362,493            | 2,067,155            |
| Receivables   | 3,189,160            | 2,957,724            |
| Micro-enterprise and other loans – net (Note 3)   | 5,378,454            | 1,906,573            |
| Prepaid expenses and other assets   | <u>500,546</u>       | <u>796,653</u>       |
| <b>Total current assets</b>   | <u>14,441,641</u>    | <u>12,405,374</u>    |
| <b>PLANT AND EQUIPMENT</b>  |                      |                      |
| Plant and equipment –<br>net of accumulated depreciation (Note 4)                         | <u>6,364,789</u>     | <u>7,075,948</u>     |
| <b>Total assets</b>   | <u>\$ 20,806,430</u> | <u>\$ 19,481,322</u> |
| <b>LIABILITIES AND NET ASSETS</b>   |                      |                      |
| <b>CURRENT LIABILITIES</b>  |                      |                      |
| Accounts payable and accrued liabilities  | \$ 3,957,090         | \$ 4,421,830         |
| Deferred revenue  | 503,557              | 608,326              |
| Current portion of debt (Note 5)  | <u>1,804,574</u>     | <u>1,151,679</u>     |
| <b>Total current liabilities</b>  | <u>6,265,221</u>     | <u>6,181,835</u>     |
| <b>LONG-TERM DEBT</b> , net of current portion (Note 5)                                   | <u>1,940,094</u>     | <u>3,000,000</u>     |
| <b>Total liabilities</b>  | <u>8,205,315</u>     | <u>9,181,835</u>     |
| <b>NET ASSETS</b>   |                      |                      |
| Unrestricted  |                      |                      |
| Common stock, \$100 par value; 500 shares authorized;<br>10 shares issued and outstanding | 1,000                | 1,000                |
| Net assets  | <u>7,650,787</u>     | <u>4,140,269</u>     |
| Total unrestricted net assets   | <u>7,651,787</u>     | <u>4,141,269</u>     |
| Temporarily restricted net assets (Note 6)  | <u>4,949,328</u>     | <u>6,158,218</u>     |
| <b>Total net assets</b>   | <u>12,601,115</u>    | <u>10,299,487</u>    |
|   | <u>\$ 20,806,430</u> | <u>\$ 19,481,322</u> |

The accompanying notes are an integral part of this statement.

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

Year ended September 30, 2002 with comparative totals for 2001

|  | 2002                  |  |                       | 2002                      |                      | 2001<br>Total        |
|--|-----------------------|--|-----------------------|---------------------------|----------------------|----------------------|
|  | Undesignated<br>Funds | Unrestricted<br>Designated<br>And Grants | Total<br>Unrestricted | Temporarily<br>Restricted | Total                |                      |
| <b>Support and Revenue</b>                                   |                       |  |                       |                           |                      |                      |
| Contributions and non-government grants                      | \$ 9,719,625          | \$ -                                     | \$ 9,719,625          | \$ 5,230,322              | \$ 14,949,947        | \$ 16,739,763        |
| Government grants  | -                     | 17,098,563                               | 17,098,563            | -                         | 17,098,563           | 21,785,577           |
| Other revenue  | 368,066               | 4,132,260                                | 4,500,326             | -                         | 4,500,326            | 7,307,021            |
| Net assets released from restrictions (Note 6)               | <u>26,868,084</u>     | <u>(20,428,872)</u>                      | <u>6,439,212</u>      | <u>(6,439,212)</u>        | -                    | -                    |
| <b>Total support and revenue</b>                             | <u>36,955,775</u>     | <u>801,951</u>                           | <u>37,757,726</u>     | <u>(1,208,890)</u>        | <u>36,548,836</u>    | <u>45,832,361</u>    |
| <b>Expenses (Note 8)</b>                                     |                       |  |                       |                           |                      |                      |
| Program Ministries   |                       |  |                       |                           |                      |                      |
| AIDS   | 949,520               | -  | 949,520               | -                         | 949,520              |                      |
| Child Development  | 639,151               | -  | 639,151               | -                         | 639,151              |                      |
| Post-Disaster Rehabilitation                                 | 2,533,824             | -  | 2,533,824             | -                         | 2,533,824            |                      |
| Emergency Relief   | 2,470,808             | -  | 2,470,808             | -                         | 2,470,808            |                      |
| Food Security  | 2,729,241             | -  | 2,729,241             | -                         | 2,729,241            |                      |
| Immigration and Urban Ministries                             | 1,632,534             | -  | 1,632,534             | -                         | 1,632,534            |                      |
| Maternal and Child Health                                    | 1,470,739             | -  | 1,470,739             | -                         | 1,470,739            |                      |
| Community Banking  | 3,291,586             | -  | 3,291,586             | -                         | 3,291,586            |                      |
| Refugee Care   | <u>13,616,181</u>     | -  | <u>13,616,181</u>     | -                         | <u>13,616,181</u>    |                      |
| <b>Total program ministries</b>                              | <u>29,333,584</u>     | -  | <u>29,333,584</u>     | -                         | <u>29,333,584</u>    | <u>37,115,653</u>    |
| Support Ministries   |                       |  |                       |                           |                      |                      |
| General and administrative                                   | 4,466,369             | -  | 4,466,369             | -                         | 4,466,369            | 5,996,121            |
| Fundraising  | <u>2,501,293</u>      | -  | <u>2,501,293</u>      | -                         | <u>2,501,293</u>     | <u>2,987,512</u>     |
| <b>Total support ministries</b>                              | <u>6,967,662</u>      | -  | <u>6,967,662</u>      | -                         | <u>6,967,662</u>     | <u>8,983,633</u>     |
| <b>Total expenses</b>  | <u>36,301,246</u>     | -  | <u>36,301,246</u>     | -                         | <u>36,301,246</u>    | <u>46,099,286</u>    |
| <b>Excess revenue over expenses</b>                          | 654,529               | 801,951                                  | 1,456,480             | (1,208,890)               | 247,590              | (266,925)            |
| <b>Other Changes</b>   |                       |  |                       |                           |                      |                      |
| Loans issued in prior year which were<br>previously expensed | -                     | 1,501,055                                | 1,501,055             | -                         | 1,501,055            | -                    |
| Loans received from U.S. Government                          | -                     | <u>552,983</u>                           | <u>552,983</u>        | -                         | <u>552,983</u>       | -                    |
| <b>Change in net assets</b>                                  | <u>654,529</u>        | <u>2,855,989</u>                         | <u>3,510,518</u>      | <u>(1,208,890)</u>        | <u>2,301,628</u>     | <u>(266,925)</u>     |
| <b>Net Assets</b>  |                       |  |                       |                           |                      |                      |
| Beginning of year  | <u>(995,091)</u>      | <u>5,136,360</u>                         | <u>4,141,269</u>      | <u>6,158,218</u>          | <u>10,229,487</u>    | <u>10,566,412</u>    |
| End of year  | <u>\$ (340,562)</u>   | <u>\$ 7,992,349</u>                      | <u>\$ 7,651,787</u>   | <u>\$ 4,949,328</u>       | <u>\$ 12,601,115</u> | <u>\$ 10,299,487</u> |

## STATEMENT OF CASH FLOWS

Year ended September 30, 2002 with comparative totals for 2001

|   | <u>2002</u>         | <u>2001</u>         |
|---|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                     |                     |
| <i>Changes in net assets</i>  | \$ 2,301,628        | \$ (266,925)        |
| <i>Adjustments to reconcile changes in net assets to net cash from operating activities</i> |                     |                     |
| Depreciation and amortization   | 1,296,977           | 1,000,379           |
| (Gain) loss on disposal of fixed assets   | (10,822)            | 32,403              |
| Donation of securities  | (167,967)           | (1,312,425)         |
| Unrealized gain on investments  | (128,969)           | (77,041)            |
| Loans issued in prior year which were previously expensed                                   | (1,501,055)         | -                   |
| Loan received from U.S. Government  | (552,983)           | -                   |
| (Increase) decrease in  |                     |                     |
| Receivables   | (231,436)           | 207,660             |
| Micro-enterprise loans  | (1,417,843)         | (949,107)           |
| Prepaid expenses and other assets   | 296,107             | (734,499)           |
| Increase (decrease) in  |                     |                     |
| Accounts payable and accrued liabilities  | (464,740)           | 1,000,331           |
| Advances  | (104,769)           | (544,146)           |
| <b>Net cash used for operating activities</b>   | <u>(685,872)</u>    | <u>(1,643,370)</u>  |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                     |                     |
| Purchase and sale of investments, net   | 1,598               | 2,064,248           |
| Capital expenditures  | (574,996)           | (3,910,526)         |
| <b>Net cash used for investing activities</b>   | <u>(573,398)</u>    | <u>(1,846,278)</u>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                     |                     |
| Proceeds from lines of credit and notes payable   | 788,000             | 4,151,679           |
| Repayments of lines of credit and notes payable   | (1,195,011)         | -                   |
| <b>Net cash provided by (used for) financing activities</b>                                 | <u>(407,011)</u>    | <u>4,151,679</u>    |
| <b>Net increase (decrease) in cash and cash equivalents</b>                                 | (1,666,281)         | 662,031             |
| <b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>   |                     |                     |
| Beginning   | <u>4,677,269</u>    | <u>4,015,238</u>    |
| <b>Ending</b>   | <u>\$ 3,010,988</u> | <u>\$ 4,677,269</u> |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                                     |                     |                     |
| Cash paid during the year for interest  | <u>\$ 159,102</u>   | <u>\$ 177,915</u>   |

World Relief received \$167,967 and \$1,312,425 in donated securities as contributions during the years ended September 30, 2002 and 2001, respectively.

The accompanying notes are an integral part of this statement.

STATEMENT OF FUNCTIONAL EXPENSES Year ended September 30, 2002 with comparative totals for 2001

|  | Program Ministries |                   |                              |                     |                     |                                  |                           |
|--|--------------------|-------------------|------------------------------|---------------------|---------------------|----------------------------------|---------------------------|
|  | AIDS               | Child Development | Post-Disaster Rehabilitation | Emergency Relief    | Food Security       | Immigration And Urban Ministries | Maternal And Child Health |
| <b>Operating Costs</b>                 |                    |                   |                              |                     |                     |                                  |                           |
| Salaries and benefits                  | \$ 84,757          | \$ -              | \$ 11,493                    | \$ 118,190          | \$ -                | \$ 41,662                        | \$ 25,094                 |
| Travel and business meetings           | 17,047             | -                 | 5,142                        | 6,714               | -                   | 5,278                            | 7,234                     |
| Communications activity                | 203                | -                 | -                            | 4                   | -                   | -                                | -                         |
| Other operating expenses               | 6,377              | -                 | 569                          | 6,390               | -                   | 979                              | 1,638                     |
| <b>Total operating costs</b>           | <u>108,384</u>     | <u>-</u>          | <u>17,204</u>                | <u>131,298</u>      | <u>-</u>            | <u>47,919</u>                    | <u>33,966</u>             |
| <b>Project Services</b>                |                    |                   |                              |                     |                     |                                  |                           |
| <b>Africa</b>                          |                    |                   |                              |                     |                     |                                  |                           |
| Salaries and benefits                  | 298,760            | 52,386            | 593,344                      | 37,369              | -                   | -                                | 339,532                   |
| Travel and business meetings           | 46,504             | 3,686             | 196,437                      | 45,332              | -                   | -                                | 47,237                    |
| General office expenses                | 179,667            | 13,314            | 454,241                      | 58,292              | 231                 | -                                | 244,889                   |
| Grants and specific assistance         | 92,849             | 14,008            | 16,684                       | 283                 | -                   | -                                | 195,515                   |
| Program resources                      | 100,482            | 2,759             | 418,388                      | 66,539              | 4,730               | -                                | 22,521                    |
| <b>Total Africa projects</b>           | <u>718,262</u>     | <u>86,153</u>     | <u>1,679,094</u>             | <u>207,815</u>      | <u>4,961</u>        | <u>-</u>                         | <u>849,694</u>            |
| <b>Asia</b>                            |                    |                   |                              |                     |                     |                                  |                           |
| Salaries and benefits                  | 16,062             | 310,946           | 11,069                       | 120,191             | -                   | -                                | 214,066                   |
| Travel and business meetings           | 3,390              | 21,085            | 967                          | 78,344              | -                   | -                                | 31,125                    |
| General office expenses                | 21,374             | 89,265            | 982                          | 38,849              | -                   | -                                | 215,415                   |
| Grants and specific assistance         | 705                | 97,147            | 1,058                        | 215,874             | -                   | -                                | 45,166                    |
| Program resources                      | 1,281              | 34,555            | 33,228                       | 1,318,685           | -                   | -                                | 9,534                     |
| <b>Total Asia projects</b>             | <u>42,812</u>      | <u>552,998</u>    | <u>47,304</u>                | <u>1,771,943</u>    | <u>-</u>            | <u>-</u>                         | <u>515,306</u>            |
| <b>Latin America</b>                   |                    |                   |                              |                     |                     |                                  |                           |
| Salaries and benefits                  | 36,300             | -                 | 37,110                       | -                   | 798,174             | -                                | 28,259                    |
| Travel and business meetings           | 1,576              | -                 | 1,112                        | -                   | 178,220             | -                                | 3,136                     |
| General office expenses                | 18,874             | -                 | 46,928                       | -                   | 248,785             | -                                | 29,902                    |
| Grants and specific assistance         | 2,800              | -                 | 270,319                      | -                   | 219,007             | -                                | 1,100                     |
| Program resources                      | 20,512             | -                 | -                            | -                   | 1,280,094           | -                                | 9,376                     |
| <b>Total Latin America projects</b>    | <u>80,062</u>      | <u>-</u>          | <u>355,469</u>               | <u>-</u>            | <u>2,724,280</u>    | <u>-</u>                         | <u>71,773</u>             |
| <b>United States</b>                   |                    |                   |                              |                     |                     |                                  |                           |
| Salaries and benefits                  | -                  | -                 | -                            | 4,712               | -                   | 1,229,840                        | -                         |
| Travel and business meetings           | -                  | -                 | -                            | 1,726               | -                   | 14,219                           | -                         |
| General office expenses                | -                  | -                 | -                            | 2,558               | -                   | 181,647                          | -                         |
| Grants and specific assistance         | -                  | -                 | -                            | 350,756             | -                   | 158,909                          | -                         |
| <b>Total United States projects</b>    | <u>-</u>           | <u>-</u>          | <u>-</u>                     | <u>359,752</u>      | <u>-</u>            | <u>1,584,615</u>                 | <u>-</u>                  |
| <b>Europe and other</b>                |                    |                   |                              |                     |                     |                                  |                           |
| Salaries and benefits                  | -                  | -                 | 171,285                      | -                   | -                   | -                                | -                         |
| Travel and business meetings           | -                  | -                 | 20,072                       | -                   | -                   | -                                | -                         |
| General office expenses                | -                  | -                 | 80,691                       | -                   | -                   | -                                | -                         |
| Grants and specific assistance         | -                  | -                 | 162,705                      | -                   | -                   | -                                | -                         |
| <b>Total Europe and other projects</b> | <u>-</u>           | <u>-</u>          | <u>434,753</u>               | <u>-</u>            | <u>-</u>            | <u>-</u>                         | <u>-</u>                  |
| <b>Total project services</b>          | <u>841,136</u>     | <u>639,151</u>    | <u>2,516,620</u>             | <u>2,339,510</u>    | <u>2,729,241</u>    | <u>1,584,615</u>                 | <u>1,436,773</u>          |
| <b>Total functional expenses</b>       | <u>\$ 949,520</u>  | <u>\$ 639,151</u> | <u>\$ 2,533,824</u>          | <u>\$ 2,470,808</u> | <u>\$ 2,729,241</u> | <u>\$ 1,632,534</u>              | <u>\$ 1,470,739</u>       |

|                     |                      | Supporting Ministries |                        |                            |                     |                     |                        | Total Expenses       |                        |
|---------------------|----------------------|-----------------------|------------------------|----------------------------|---------------------|---------------------|------------------------|----------------------|------------------------|
| Community Banking   | Refugee Care         | 2002 Total            | 2001 Comparative Total | General And Administrative | Fundraising         | 2002 Total          | 2001 Comparative Total | 2002 Total           | 2001 Comparative Total |
| \$ 64,376           | \$ 483,001           | \$ 828,573            | \$ 1,115,114           | \$ 2,343,821               | \$ 1,191,570        | \$ 3,535,391        | \$ 5,188,948           | \$ 4,363,964         | \$ 6,304,062           |
| 1,669               | 42,149               | 85,233                | 217,958                | 187,166                    | 119,763             | 306,929             | 544,627                | 392,162              | 762,585                |
| -                   | -                    | 207                   | 2,640                  | 3,761                      | 104,565             | 108,326             | 102,649                | 108,533              | 105,289                |
| 102,511             | 106,659              | 225,123               | 703,193                | 1,931,621                  | 1,085,395           | 3,017,016           | 3,147,409              | 3,242,139            | 3,850,602              |
| 168,556             | 631,809              | 1,139,136             | 2,038,905              | 4,466,369                  | 2,501,293           | 6,967,662           | 8,983,633              | 8,106,798            | 11,022,538             |
| 977,935             | -                    | 2,299,326             | 2,099,424              | -                          | -                   | -                   | -                      | 2,299,326            | 2,099,424              |
| 98,000              | -                    | 437,196               | 348,857                | -                          | -                   | -                   | -                      | 437,196              | 348,857                |
| 684,511             | -                    | 1,635,145             | 1,646,247              | -                          | -                   | -                   | -                      | 1,635,145            | 1,646,247              |
| 45,187              | -                    | 364,526               | 1,114,956              | -                          | -                   | -                   | -                      | 364,526              | 1,114,956              |
| 165,422             | -                    | 780,841               | 1,227,498              | -                          | -                   | -                   | -                      | 780,841              | 1,227,498              |
| 1,971,055           | -                    | 5,517,034             | 6,436,982              | -                          | -                   | -                   | -                      | 5,517,034            | 6,436,982              |
| 338,985             | -                    | 1,011,319             | 832,910                | -                          | -                   | -                   | -                      | 1,011,319            | 832,910                |
| 14,769              | -                    | 149,680               | 139,888                | -                          | -                   | -                   | -                      | 149,680              | 139,888                |
| 247,456             | -                    | 613,341               | 520,125                | -                          | -                   | -                   | -                      | 613,341              | 520,125                |
| 102,280             | -                    | 462,230               | 568,354                | -                          | -                   | -                   | -                      | 462,230              | 568,354                |
| 24,298              | -                    | 1,421,581             | 496,194                | -                          | -                   | -                   | -                      | 1,421,581            | 496,194                |
| 727,788             | -                    | 3,658,151             | 2,557,471              | -                          | -                   | -                   | -                      | 3,658,151            | 2,557,471              |
| 52,879              | -                    | 952,722               | 1,504,823              | -                          | -                   | -                   | -                      | 952,722              | 1,504,823              |
| 3,484               | -                    | 187,528               | 249,734                | -                          | -                   | -                   | -                      | 187,528              | 249,734                |
| 29,233              | -                    | 373,722               | 1,927,816              | -                          | -                   | -                   | -                      | 373,722              | 1,927,816              |
| 230,341             | -                    | 723,567               | 716,935                | -                          | -                   | -                   | -                      | 723,567              | 716,935                |
| 3,730               | -                    | 1,313,712             | 2,608,362              | -                          | -                   | -                   | -                      | 1,313,712            | 2,608,362              |
| 319,667             | -                    | 3,551,251             | 7,007,670              | -                          | -                   | -                   | -                      | 3,551,251            | 7,007,670              |
| -                   | 6,636,460            | 7,871,012             | 10,605,758             | -                          | -                   | -                   | -                      | 7,871,012            | 10,605,758             |
| -                   | 245,703              | 261,648               | 529,071                | -                          | -                   | -                   | -                      | 261,648              | 529,071                |
| -                   | 1,584,273            | 1,768,478             | 2,383,518              | -                          | -                   | -                   | -                      | 1,768,478            | 2,383,518              |
| -                   | 4,517,936            | 5,027,601             | 4,475,088              | -                          | -                   | -                   | -                      | 5,027,601            | 4,475,088              |
| -                   | 12,984,372           | 14,928,739            | 17,993,435             | -                          | -                   | -                   | -                      | 14,928,739           | 17,993,435             |
| 117,173             | -                    | 288,458               | 425,012                | -                          | -                   | -                   | -                      | 288,458              | 425,012                |
| 16,525              | -                    | 36,597                | 28,454                 | -                          | -                   | -                   | -                      | 36,597               | 28,454                 |
| (29,178)            | -                    | 51,513                | 230,357                | -                          | -                   | -                   | -                      | 51,513               | 230,357                |
| -                   | -                    | 162,705               | 397,367                | -                          | -                   | -                   | -                      | 162,705              | 397,367                |
| 104,520             | -                    | 539,273               | 1,081,190              | -                          | -                   | -                   | -                      | 539,273              | 1,081,190              |
| 3,123,030           | 12,984,372           | 28,194,448            | 35,076,748             | -                          | -                   | -                   | -                      | 28,194,448           | 35,076,748             |
| <u>\$ 3,291,586</u> | <u>\$ 13,616,181</u> | <u>\$ 29,333,584</u>  | <u>\$ 37,115,653</u>   | <u>\$ 4,466,369</u>        | <u>\$ 2,501,293</u> | <u>\$ 6,967,662</u> | <u>\$ 8,983,633</u>    | <u>\$ 36,301,246</u> | <u>\$ 46,099,286</u>   |

The accompanying notes are an integral part of this statement.

**(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. The financial statements present the financial position, results of operations and changes in net assets of World Relief.

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, 2002 and 2001, was to increase (decrease) net assets by \$114,174 and (\$127,376), 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 policy 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 \$9,785,967 and \$6,722,309 as of September 30, 2002 and 2001, respectively. Management did not transfer any net assets to independent entities during fiscal year 2002 and 2001.

### **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).

### **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. Unrestricted net assets are further classified into general funds and designated and grant funds. All types of funds consist of expendable resources – those currently available for use in the ministries of World Relief. Designated and grant funds consist of these contributions that are designated by the Board for a specific purpose or are from grants that represent exchange transactions.

***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.”

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

World Relief provides, or makes available, goods and voluntary services to resettled refugees. These resources and services are provided by refugee sponsors, churches, individuals and organizations. Sponsor resources have a significant impact on making the refugee resettlement program an effective ministry. Although contributed services include specialized skills required by World Relief and would otherwise need to be purchased, the estimated amount of these specialized skill services is not significant to the financial statements and therefore is not reflected in the 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).

**RECLASSIFICATIONS**

In 2002, World Relief changed its policy of reporting donor-restricted contributions whose restrictions expire in the same fiscal year as unrestricted to recording such contributions as temporarily restricted net assets. When the restrictions expire, the net assets are reclassified to unrestricted net assets.

**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, 2001, from which the summarized information was derived.

**(2) INVESTMENTS**

At September 30, 2002 and 2001, investments consisted of the following:

|                         | <u>2002</u>         |                     | <u>2001</u>         |                     |
|-------------------------|---------------------|---------------------|---------------------|---------------------|
|                         | <u>Cost</u>         | <u>Market</u>       | <u>Cost</u>         | <u>Market</u>       |
| Common Stock *          | \$ 1,004,338        | \$ 1,004,338        | \$ 1,117,025        | \$ 1,117,025        |
| Corporate Bonds         | -                   | -                   | 250,000             | 204,113             |
| Mutual Funds            | 1,274,147           | 1,297,138           | 778,751             | 718,660             |
| Certificates of Deposit | <u>61,017</u>       | <u>61,017</u>       | <u>27,357</u>       | <u>27,357</u>       |
|                         | <u>\$ 2,339,502</u> | <u>\$ 2,362,493</u> | <u>\$ 2,173,133</u> | <u>\$ 2,067,155</u> |

At September 30, 2002 and 2001, investments had unrealized gains (losses) of \$22,991 and \$(105,978), respectively.

\* Includes an investment in non-public common stock valued at \$1,000,000 in 2002 and 2001.

The following summarizes the investment return for the year ended September 30, 2002:

|                       |                   |
|-----------------------|-------------------|
| Net investment income | \$ 77,402         |
| Net realized loss     | (57,190)          |
| Net unrealized gain   | <u>128,969</u>    |
|                       | <u>\$ 149,181</u> |

**(3) MICRO-ENTERPRISE AND OTHER LOANS**

World Relief has the following loans receivable at September 30:

|  | <u>2002</u>         | <u>2001</u>         |
|--|---------------------|---------------------|
| Micro-enterprise loans (net of allowance of \$196,758 in 2002 and \$152,058 in 2001) | \$ 2,641,843        | \$ 1,906,573        |
| Agricultural loans (net of allowance of \$23,613 in 2002)                            | <u>2,736,611</u>    | <u>-</u>            |
|  | <u>\$ 5,378,454</u> | <u>\$ 1,906,573</u> |

The purpose of the micro-enterprise loans is to provide assistance to start-up businesses in developing or post-conflict countries, as well as help refugees coming to the United States. 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 \$419,939 and \$314,273, as of September 30, 2002 and 2001, respectively, and is recorded in accounts payable and accrued liabilities in the accompanying financial statements.

**(4) PLANT AND EQUIPMENT**

The cost of such assets are as follows:

|                                       | <u>2002</u>         | <u>2001</u>         |
|---------------------------------------|---------------------|---------------------|
| Land                                  | \$ 227,587          | \$ 227,587          |
| Buildings                             | 2,723,818           | 2,666,916           |
| Computers, office and other equipment | 4,334,539           | 4,770,858           |
| Vehicles                              | <u>3,170,772</u>    | <u>3,015,211</u>    |
|                                       | 10,456,716          | 10,680,572          |
| Less: accumulated depreciation        | <u>4,091,927</u>    | <u>3,604,624</u>    |
| Net value                             | <u>\$ 6,364,789</u> | <u>\$ 7,075,948</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, 2002 and 2001, the escrow deposit was \$279,474 and \$88,608, 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, 2002 and 2001, prepaid rent was \$296,671 and \$344,767, respectively.

NOTES TO FINANCIAL STATEMENTS (Continued) September 30, 2002 and 2001

(5) DEBT

A summary of long-term debt is as follows:

|   | <u>2002</u>  | <u>2001</u>  |
|---|--------------|--------------|
| <p>\$5,000,000 declining credit agreement bearing interest at the lower of the bank's prime rate or the London Inter Bank Offering Rate (LIBOR) plus 2.50% expiring March 31, 2004. The interest rate at September 30, 2002 and 2001 was 4.32% and 5.39%, respectively. The use of proceeds under this credit line is limited to certain expenses, as defined in the credit agreement, related to the relocation to Baltimore, Maryland. In accordance with the terms of the credit agreement, World Relief must reduce the outstanding balance to \$3,000,000 by April 1, 2002 and \$1,500,000 by April 1, 2003. The credit agreement has certain covenants including a covenant to maintain a tangible net worth of at least \$8 million. The bank defines tangible net worth as the total of all net assets, both unrestricted and temporarily restricted, excluding intangible assets. This agreement is secured by substantially all the assets of World Relief.</p> | \$ 2,760,868 | \$ 3,617,700 |
| <p>Revolving line of credit bearing interest at the lower of prime rate or LIBOR plus 2.75% expiring March 31, 2003. The interest rate at September 30, 2002 and 2001 was 4.56% and 5.39%, respectively. This line of credit is unsecured.</p>  | 500,000      | 500,000      |
| <p>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 on the second loan is accrued, but deferred along with the principal for three years at which time the interest and principal are payable in full on a pro-rated amount based on the number of new jobs, if any, created by World Relief.</p>   | 241,455      | -            |
| <p>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.</p>  | 220,366      | -            |

**NOTES TO FINANCIAL STATEMENTS** (Continued) September 30, 2002 and 2001

|  | <u>2002</u>        | <u>2001</u>        |
|--|--------------------|--------------------|
| Line of credit expiring April 25, 2003 with an interest rate at 5.75% and 7.50% for September 30, 2002 and 2001, respectively. This line of credit is unsecured. | 21,979             | 33,979             |
|  | 3,744,668          | 4,151,679          |
| Less: Current Portion  | <u>1,804,574</u>   | <u>1,151,679</u>   |
|  | <u>\$1,940,094</u> | <u>\$3,000,000</u> |

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

|                     |                    |
|---------------------|--------------------|
| 2003                | \$1,804,600        |
| 2004                | 1,522,900          |
| 2005                | 32,700             |
| 2006                | 36,200             |
| 2007 and thereafter | <u>348,300</u>     |
|                     | <u>\$3,744,700</u> |

Interest expense for the years ended September 30, 2002 and 2001 was \$159,102 and \$177,915, respectively.

**(6) NET ASSETS**

Temporarily restricted net assets at September 30, 2002 and 2001 are available for the following purposes:

|                                  | <u>2002</u>        | <u>2001</u>        |
|----------------------------------|--------------------|--------------------|
| AIDS                             | \$ 220,599         | \$ 72,840          |
| Child Development                | 402,814            | 362,318            |
| Post-Disaster Rehabilitation     | 879,688            | 630,738            |
| Emergency Relief                 | 866,111            | 2,109,521          |
| Food Security                    | 25,487             | 34,020             |
| Immigration and Urban Ministries | 116,991            | 221,129            |
| Maternal and Child Health        | 126,063            | 139,544            |
| Community Banking                | 99,499             | (70,082)           |
| Refugee Care                     | <u>1,395,122</u>   | <u>2,281,268</u>   |
|                                  | 4,132,374          | 5,781,296          |
| Available for various purposes   | <u>816,954</u>     | <u>376,922</u>     |
|                                  | <u>\$4,949,328</u> | <u>\$6,158,218</u> |

**NOTES TO FINANCIAL STATEMENTS** (Continued) September 30, 2002 and 2001

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

Purposes restrictions accomplished:

|                                  |                     |
|----------------------------------|---------------------|
| AIDS                             | \$ 332,023          |
| Child Development                | 167,968             |
| Post-Disaster Rehabilitation     | 1,325,839           |
| Emergency Relief                 | 2,803,628           |
| Food Security                    | 119,165             |
| Immigration and Urban Ministries | 234,112             |
| Maternal and Child Health        | 158,611             |
| Community Banking                | 149,999             |
| Refugee Care                     | <u>1,147,867</u>    |
|                                  | <u>\$ 6,439,212</u> |

**(7) 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 2002 and 2001, 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 were approximately \$592,400 and \$560,200 for the year end September 30, 2002 and 2001, respectively.

**(8) 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. During the year ended September 30, 2002, World Relief changed its financial reporting of program ministries to better reflect its programmatic structure. As such, the program expenses for the year ended September 30, 2001 are not comparative and are disclosed only in total on the statement of activities and changes in net assets.

**(9) COMMITMENTS AND CONTINGENCIES**

**COMMITMENTS**

World Relief incurred approximately \$989,000 and \$853,000 of expenses related to operating leases for the years ending September 30, 2002 and 2001, respectively.

Future minimum payments under these leases which are in excess of one year as of September 30, 2002, were as follows:

| <u>Year ending September 30,</u> | <u>Amount</u>     |
|----------------------------------|-------------------|
| 2003                             | \$ 244,000        |
| 2004                             | 80,000            |
| 2005                             | 73,000            |
| 2006                             | 68,000            |
| 2007                             | 70,000            |
| 2008                             | 18,000            |
|                                  | <u>\$ 553,000</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. Management believes there are no material instances of noncompliance or any non-allowable cost and, accordingly, they believe that no refund is required as of September 30, 2002.