

FINANCIAL STATEMENTS

RELIEF INTERNATIONAL

**FOR THE YEARS ENDED
DECEMBER 31, 2006 AND 2005**

RELIEF INTERNATIONAL

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GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Relief International
Los Angeles, California

We have audited the accompanying statements of financial position of Relief International as of December 31, 2006 and 2005, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Relief International's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Relief International as of December 31, 2006 and 2005, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 8, 2007 on our consideration of Relief International's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Gelman Rosenberg & Freedman

June 8, 2007

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RELIEF INTERNATIONAL
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2006 AND 2005

ASSETS	2006	2005
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,710,126	\$ 1,487,536
Investments (Note 2)	126,590	221,576
Loans receivable, net of allowance of \$138,035 in 2006 and \$70,316 in 2005 (Note 3)	395,700	413,116
Loan to Relief International-UK (Note 12)	129,100	-
Pledges receivable	-	125,000
Grants receivable	10,675,605	8,497,047
Other receivables	9,445	296
Prepaid expenses and other assets	69,419	6,663
Total current assets	13,115,985	10,751,234
PROPERTY AND EQUIPMENT		
Furniture and fixtures	2,084	2,084
Office equipment	20,132	20,132
Computer equipment	52,149	8,773
Vehicles	215,242	215,242
	289,607	246,231
Less: Accumulated depreciation	(207,157)	(126,002)
Net property and equipment	82,450	120,229
OTHER ASSETS		
Deposits	8,461	6,791
TOTAL ASSETS	\$ 13,206,896	\$ 10,878,254
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 452,808	\$ 1,184,195
LONG-TERM LIABILITIES		
Loans payable (Note 4)	50,000	83,333
Total liabilities	502,808	1,267,528
NET ASSETS		
Unrestricted	493,579	457,927
Temporarily restricted (Note 5)	12,210,509	9,152,799
Total net assets	12,704,088	9,610,726
TOTAL LIABILITIES AND NET ASSETS	\$ 13,206,896	\$ 10,878,254

See accompanying notes to financial statements.

RELIEF INTERNATIONAL

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

	2006		
	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Grants and contributions (Notes 8 and 9)	\$ 23,235	\$ 13,491,447	\$ 13,514,682
Government contracts (Notes 8 and 9)	3,586,423	-	3,586,423
Contributed food and relief commodities	2,160,148	-	2,160,148
Investment income (loss) (Note 2)	41,238	-	41,238
Other revenue	6,839	-	6,839
Net assets released from donor restrictions (Note 6)	<u>10,433,737</u>	<u>(10,433,737)</u>	<u>-</u>
Total support and revenue	<u>16,251,620</u>	<u>3,057,710</u>	<u>19,309,330</u>
EXPENSES			
Program Services:			
Community Development, Shelter and Refugee Resettlement	9,612,278	-	9,612,278
Education: Schools, Libraries and ICT in ED	1,411,339	-	1,411,339
Women Development	2,213,566	-	2,213,566
Emergency Response	534,201	-	534,201
Health, Household Food and Economic Security	<u>331,497</u>	<u>-</u>	<u>331,497</u>
Total program services	<u>14,102,881</u>	<u>-</u>	<u>14,102,881</u>
Supporting Services:			
General and Administrative	1,978,747	-	1,978,747
Fundraising	<u>52,324</u>	<u>-</u>	<u>52,324</u>
Total supporting services	<u>2,031,071</u>	<u>-</u>	<u>2,031,071</u>
Total expenses	<u>16,133,952</u>	<u>-</u>	<u>16,133,952</u>
Changes in net assets before other items	117,668	3,057,710	3,175,378
OTHER ITEMS			
Unrealized gain (loss) on investments (Note 2)	(82,016)	-	(82,016)
Reclassification of loan liability (Note 10)	-	-	-
Funds returned to donor	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net assets	35,652	3,057,710	3,093,362
Net assets at beginning of year (Note 10)	<u>457,927</u>	<u>9,152,799</u>	<u>9,610,726</u>
NET ASSETS AT END OF YEAR	<u>\$ 493,579</u>	<u>\$ 12,210,509</u>	<u>\$ 12,704,088</u>

See accompanying notes to financial statements.

2005		
Unrestricted	Temporarily Restricted	Total
\$ 107,338	\$ 12,999,428	\$ 13,106,766
4,155,552	-	4,155,552
3,932,788	-	3,932,788
(7,490)	-	(7,490)
981	-	981
<u>10,699,087</u>	<u>(10,699,087)</u>	<u>-</u>
<u>18,888,256</u>	<u>2,300,341</u>	<u>21,188,597</u>
13,591,943	-	13,591,943
1,344,678	-	1,344,678
329,795	-	329,795
823,795	-	823,795
<u>578,218</u>	<u>-</u>	<u>578,218</u>
<u>16,668,429</u>	<u>-</u>	<u>16,668,429</u>
2,113,712	-	2,113,712
<u>28,293</u>	<u>-</u>	<u>28,293</u>
<u>2,142,005</u>	<u>-</u>	<u>2,142,005</u>
<u>18,810,434</u>	<u>-</u>	<u>18,810,434</u>
77,822	2,300,341	2,378,163
62,727	-	62,727
-	474,723	474,723
<u>-</u>	<u>(11,430)</u>	<u>(11,430)</u>
140,549	2,763,634	2,904,183
<u>317,378</u>	<u>6,389,165</u>	<u>6,706,543</u>
<u>\$ 457,927</u>	<u>\$ 9,152,799</u>	<u>\$ 9,610,726</u>

See accompanying notes to financial statements.

RELIEF INTERNATIONAL

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

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

See accompanying notes to financial statements.

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

See accompanying notes to financial statements.

RELIEF INTERNATIONAL

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Program Services			
	Community Development, Shelter and Refugee Resettlement	Education: Schools, Libraries and ICT in ED	Women Development	Emergency Response
Salaries and related benefits (Note 7)	\$ 1,786,438	\$ 445,890	\$ 96,559	\$ 118,812
Consultants	-	2,230	-	-
Contributed food and relief commodities	3,932,788	-	-	-
Depreciation	-	-	-	-
Projects	5,964,057	130,125	157,915	452,366
Subrecipient expenses	335,572	13,326	-	5
International freight	5,046	-	-	5,377
Vehicles and equipment expense	173,722	33,419	-	103,572
Office furniture and fixtures	10,169	2,064	209	3,074
Office expense	40,649	30,483	958	8,511
Supplies	148,627	198,496	27,350	7,762
Insurance	62,172	10,484	1,880	10,533
Interest	-	153	-	5
New country initiatives	-	-	-	-
Bank charges	36,148	1,697	35	7,088
Books and periodicals	237	967	-	22
Communications	77,639	25,240	2,529	9,276
Security	4,404	524	179	2,415
Household supplies	8,351	170	314	677
Postage	2,383	2,538	13	2,107
Printing and copying	7,211	2,264	264	2,749
Public relations	2,408	13,539	-	951
Meetings and events	10,995	3,212	-	84
Office rent and utilities (Note 7)	208,042	41,705	9,440	17,263
Equipment/vehicle rental, maintenance and fuel	524,387	75,750	21,832	32,728
Training	94,233	246,286	1,853	8,035
Travel	135,377	62,642	5,465	38,539
Membership fees	1,200	-	-	-
Accounting and audit	16,066	1,274	3,000	-
Legal fees	322	200	-	10
Bad debt	3,300	-	-	(8,166)
TOTAL	\$ 13,591,943	\$ 1,344,678	\$ 329,795	\$ 823,795

See accompanying notes to financial statements.

Supporting Services						
Health, Household Food and Economic Security	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	Total Expenses	
\$ 3,664	\$ 2,451,363	\$ 1,277,723	\$ 3,076	\$ 1,280,799	\$ 3,732,162	
-	2,230	-	-	-	2,230	
-	3,932,788	-	-	-	3,932,788	
-	-	48,109	-	48,109	48,109	
553,740	7,258,203	-	-	-	7,258,203	
-	348,903	-	-	-	348,903	
-	10,423	2,552	-	2,552	12,975	
-	310,713	29,765	-	29,765	340,478	
-	15,516	2,351	-	2,351	17,867	
159	80,760	30,271	2,044	32,315	113,075	
17,061	399,296	619	-	619	399,915	
-	85,069	29,062	-	29,062	114,131	
-	158	945	-	945	1,103	
-	-	197,037	-	197,037	197,037	
883	45,851	5,627	-	5,627	51,478	
-	1,226	1,416	-	1,416	2,642	
117	114,801	32,295	1,398	33,693	148,494	
-	7,522	-	-	-	7,522	
-	9,512	934	-	934	10,446	
-	7,041	3,053	3,116	6,169	13,210	
59	12,547	(1,780)	7,264	5,484	18,031	
-	16,898	537	-	537	17,435	
-	14,291	18,192	10,101	28,293	42,584	
-	276,450	138,631	-	138,631	415,081	
850	655,547	29,388	-	29,388	684,935	
-	350,407	7,067	-	7,067	357,474	
377	242,400	68,842	1,294	70,136	312,536	
-	1,200	10,059	-	10,059	11,259	
308	20,648	48,961	-	48,961	69,609	
-	532	578	-	578	1,110	
1,000	(3,866)	131,478	-	131,478	127,612	
\$ 578,218	\$ 16,668,429	\$ 2,113,712	\$ 28,293	\$ 2,142,005	\$ 18,810,434	

See accompanying notes to financial statements.

RELIEF INTERNATIONAL
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 3,093,362	\$ 2,904,183
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	81,155	48,109
Receipt of stock	(5,370)	(121,361)
Donation of software	(43,376)	-
Unrealized (gain) loss on investments	82,016	(62,727)
Realized (gain) loss on sale of stock	(5,481)	9,170
(Increase) decrease in:		
Pledges receivable	125,000	174,300
Grants receivable	(2,178,559)	(2,884,207)
Other receivables	(9,149)	837
Prepaid expenses and other assets	(62,756)	(154)
Deposits	(1,670)	(2,555)
Increase (decrease) in:		
Accounts payable and accrued expenses	<u>(731,385)</u>	<u>593,156</u>
Net cash provided by operating activities	<u>343,787</u>	<u>658,751</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	-	(50,209)
Proceeds from sales of stock	23,820	157,383
Loan proceeds disbursed to Relief International-UK	<u>(129,100)</u>	<u>-</u>
Net cash provided (used) by investing activities	<u>(105,280)</u>	<u>107,174</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net repayments (disbursements) of micro-credit loans receivable	17,416	(407,692)
Repayments on loans payable	<u>(33,333)</u>	<u>(16,667)</u>
Net cash used by financing activities	<u>(15,917)</u>	<u>(424,359)</u>
Net increase in cash and cash equivalents	222,590	341,566
Cash and cash equivalents at beginning of year	<u>1,487,536</u>	<u>1,145,970</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,710,126</u>	<u>\$ 1,487,536</u>

See accompanying notes to financial statements.

RELIEF INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

As of December 31, 2003, Relief International merged its operations with another California-based organization known as Schools Online. The accompanying financial statements include the financial activity of both entities. Accordingly, the December 31, 2003 assets, liabilities and net assets of Relief International have been restated to properly reflect the merger as of that date .

Relief International was founded in June 1990 and formally incorporated in the State of California on November 30, 1990 as a non-profit charitable organization. Relief International is a humanitarian agency with the aim of saving lives and rebuilding livelihoods in manmade and natural disasters by transitioning relief to development. Relief International is non-sectarian and non-political in its mission. Relief International's transitional programs are holistic and cross-sectoral, including services and capacity development programs in health, shelter, food, education, economic security, community development and rural livelihoods. Past and current programs have included assistance to refugees, displaced and other needy individuals in Afghanistan, Albania, Azerbaijan, Bangladesh, Bulgaria, Burundi, Georgia, Iran, Iraq, Jordan, Kosovo, Pakistan, Sri Lanka, Sudan, Tajikistan, Tanzania, Turkey and Vietnam.

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

Founded in 1996, with the mission to help ensure that all schools have effective access to the communication and information resources of the Internet, Schools Online has brought connectivity to schools in several countries within the Americas, Middle East, Africa, Asia and Europe. Working with its partners, Schools Online provided appropriate technology, teacher development workshops and continuous teacher support to engage them in online collaborative projects.

Basis of presentation -

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

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

Cash and cash equivalents -

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

Relief International had \$1,163,413 and \$964,278 in cash and cash equivalents held at financial institutions and on hand in foreign countries at December 31, 2006 and 2005, respectively. The majority of the funds invested in foreign countries is uninsured.

RELIEF INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006 AND 2005

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

Cash and cash equivalents (continued) -

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

Foreign currency translation -

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

Investments -

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

Property and equipment -

Property and equipment purchased with unrestricted funds (with a cost basis exceeding \$1,000 or more) are stated at cost and are depreciated on the straight-line basis over their related estimated useful lives, generally three to five years. Property and equipment purchased with donor-restricted funds are expensed and charged to the corresponding program. Maintenance, repairs and renewals that neither materially add value to existing property (nor prolong its life) are expensed as incurred.

Relief International purchases equipment for its overseas programs with funding received from the U.S. Government and other donors. Under the terms of these agreements, title to equipment remains with Relief International, but the donor generally retains control of the equipment disposition at the end of the award period. In most cases (and under the direction of the donor), Relief International donates this equipment to local humanitarian organizations at the end of the award period. Therefore, equipment purchased under these programs are expensed when incurred and such assets are not reflected as capital assets in the accompanying Statements of Financial Position.

Income taxes -

Relief International is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. Relief International is not a private foundation as described in Section 509(a)(2) of the Internal Revenue Code. Relief International is subject to unrelated business income taxes under Section 512 of the Internal Revenue Code. During the years ended December 31, 2006 and 2005, Relief International did not generate any unrelated business income.

RELIEF INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006 AND 2005

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

Net asset classification -

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

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of Relief International and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of Relief International and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.

Grants and contributions -

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

Contributed food and relief commodities -

Contributed food and relief commodities consisted of donated food, supplies and other relief commodities. The value of these contributions are recorded at their fair market value as of the date the goods were provided. Contributions of \$2,160,148 and \$3,932,788, representing the fair value of the use of these goods have been recorded as revenue and expense in the accompanying financial statements for the years ended December 31, 2006 and 2005, respectively. Relief International also receives additional contributed goods for which an estimate of the fair value is not determinable.

Use of estimates -

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

Functional allocation of expenses -

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

RELIEF INTERNATIONAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005

2. INVESTMENTS

Investments consisted of the following at December 31, 2006 and 2005:

	2006		2005	
	Cost	Market Value	Cost	Market Value
Common Stock	<u>\$ 156,074</u>	<u>\$ 126,590</u>	<u>\$ 169,043</u>	<u>\$ 221,576</u>

Included in investment income are the following:

	2006	2005
Interest and dividends	\$ 35,757	\$ 1,680
Realized gain (loss) on sale of stock	<u>5,481</u>	<u>(9,170)</u>
TOTAL INVESTMENT INCOME (LOSS)	<u>\$ 41,238</u>	<u>\$ (7,490)</u>

During the years ended December 31, 2006 and 2005, Relief International had an unrealized gain (loss) on its investments totaling \$(82,016) and \$62,727, respectively. The unrealized gain (loss) has been reflected as an Other Item in the accompanying Statements of Activities and Changes in Net Assets.

3. LOANS RECEIVABLE

During 2003, Relief International entered into several "Group Solidarity" loans in Azerbaijan. The loans are unsecured, and interest is payable monthly at 1-1/2% fixed or at 3% on the declining principal balance. Interest is not charged during the first and second month of the loan period resulting in an annual interest rate of approximately 16.5% to 18.0%. As of December 31, 2006 and 2005, total borrowings (including accrued interest), net of uncollectible balances of \$5,000 and \$11,143, aggregated \$100,993 and \$94,476, respectively.

During 2005, Relief International entered into several microcredit loans in Afghanistan. The loans are unsecured and are repayable within one year. As of December 31, 2006 and 2005, total borrowings, net of uncollectible balances of \$101,780 and \$59,173, aggregated \$128,150 and \$318,640, respectively.

During 2006, Relief International engaged in microcredit lending activity in Iraq, Pakistan and Sudan. All loans were provided to individuals, in accordance with the terms of Relief International's local programmatic activities. Total microcredit loans receivable, net of uncollectible balances of \$31,255, aggregated \$166,557 as of December 31, 2006.

RELIEF INTERNATIONAL

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4. LOANS PAYABLE

On September 10, 2002, Relief International entered into a credit agreement with the Social Fund for Internally Displaced People (SFDI) in Azerbaijan. The loan proceeds are to be used for microcredit lending on a revolving fund basis (Note 3). Borrowings under the agreement are non-interest bearing, and the loan balance is due on April 30, 2008. The loan is secured by Relief International's cash held in Azerbaijan. As of December 31, 2006 and 2005, outstanding borrowings totaled \$50,000 and \$83,333, respectively.

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2006 and 2005:

	2006	2005
Community Development, Shelter and Refugee Resettlement	\$ 7,508,705	\$ 4,561,882
Education: Schools, Libraries and ICT in ED	1,816,379	2,131,434
Women Development	50,440	332,456
Emergency Response	1,551,443	1,652,304
Health, Household Food and Economic Security	176,132	-
Micro-Credit Loan Capital Restricted for Lending	1,107,410	474,723
	\$ 12,210,509	\$ 9,152,799

6. NET ASSETS RELEASED FROM RESTRICTIONS

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

	2006	2005
Community Development, Shelter and Refugee Resettlement	\$ 8,071,265	\$ 8,204,554
Education: Schools, Libraries and ICT in ED	1,411,339	1,344,678
Women Development	411,839	318,939
Emergency Response	534,201	823,795
Health, Household Food and Economic Security	5,093	7,121
	\$ 10,433,737	\$ 10,699,087

RELIEF INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006 AND 2005

7. LEASE COMMITMENT

Relief International leases its principal office space in Los Angeles, California under an operating rental agreement which expires on September 30, 2007. Future minimum lease payments required under this lease agreement during 2007 total approximately \$89,000. Relief International also leases office space in several foreign countries under short-term lease agreements. Total rent expense (including office utilities and related costs) for the years ended December 31, 2006 and 2005 was \$462,391 and \$415,081, respectively.

8. CONTINGENCIES

United States Government funding -

Relief International receives grants and contracts from various agencies of the United States Government. Such awards are subject to audit under the provisions of OMB Circular A-133. The ultimate determination of amounts received under the United States Government awards is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the provisions of OMB Circular A-133 have been completed for all required fiscal years through 2006. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

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

As of December 31, 2006 and 2005, Relief International had cash and other assets in Afghanistan, Azerbaijan, Bangladesh, Iran, Iraq, Jordan, Pakistan, Palestine, Sri Lanka, Sudan, Tajikistan and Tanzania totaling approximately \$1,795,000 and \$1,613,000, respectively, which represents 14% and 15% of Relief International's total assets as of December 31, 2006 and 2005, respectively.

9. ECONOMIC DEPENDENCY

Approximately 86% and 63% of Relief International's support and revenue (excluding contributed food and relief commodities) for the years ended December 31, 2006 and 2005 was derived from grants and contracts awarded by the United States Government and various pass-through entities. Relief International has no reason to believe that relationships with these entities will be discontinued in the foreseeable future. However, any interruption of these relationships (i.e., the failure to renew agreements or withholding of funds) would adversely affect Relief International's ability to finance ongoing operations.

RELIEF INTERNATIONAL

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2006 AND 2005

10. CORRECTION OF AN ERROR

During 2005, Relief International started providing loans to beneficiaries in several countries in which it conducts its current programmatic activities. The microcredit loan capital provided to beneficiaries was recorded as loans payable, as it was expected the funds were due to the donor (or restricted to the specific country for continued lending activities) at the expiration of the grant agreement. Accordingly the aggregate amount of the loans provided, totaling \$474,723, have been properly reclassified as temporarily restricted net assets during 2005 in the accompanying current year financial statements.

11. RETIREMENT PLAN

Relief International has adopted a retirement plan under Section 403(b)(7) of the Internal Revenue Code. Employees are eligible to participate in the plan after one year of service to the organization. Employee contributions are limited to \$15,000 per year, and Relief International will match those annual contributions up to \$3,750. During the years ended December 31, 2006 and 2005, the retirement plan expense totaled \$23,992 and \$18,600, respectively.

12. LOAN TO RELIEF INTERNATIONAL - UK

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