

Counterpart International, Inc.

Financial Report
September 30, 2008

McGladrey & Pullen
Certified Public Accountants

Contents

Independent Auditor's Report	1
<hr/>	
Financial Statements	
Balance Sheets	2
Statements Of Activities	3
Statements Of Functional Expenses	4
Statements Of Cash Flows	5
Notes To Financial Statements	6 – 12

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Counterpart International, Inc.
Arlington, Virginia

We have audited the accompanying balance sheet of Counterpart International, Inc. (Counterpart) as of September 30, 2008, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Counterpart's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Counterpart for the year ended September 30, 2007 were audited by other auditors whose report, dated April 11, 2008, expressed an unqualified opinion on those statements.

We conducted our audit 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 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 Counterpart as of September 30, 2008 and 2007, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2009 on our consideration of Counterpart'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.

McGladrey & Pullen, LLP

Vienna, Virginia
February 26, 2009

Counterpart International, Inc.

Balance Sheets
September 30, 2008 And 2007

Assets	2008	2007
Cash And Cash Equivalents	\$ 9,235,162	\$ 4,482,014
Investments	812,103	1,016,903
Receivables, Net	32,622,508	22,763,052
Prepaid Expenses And Other Assets	476,445	244,196
Property And Equipment, Net	150,254	16,141
	<u>\$ 43,296,472</u>	<u>\$ 28,522,306</u>
Liabilities		
Liabilities		
Accounts payable and accrued expenses	\$ 1,288,468	\$ 1,445,786
Refundable advances	41,098,641	25,815,543
Notes payable	383,825	393,667
Deferred rent	90,576	-
	<u>42,861,510</u>	<u>27,654,996</u>
Commitments and Contingencies (Notes 6, 7 and 8)		
Net Assets - Unrestricted	434,962	867,310
	<u>\$ 43,296,472</u>	<u>\$ 28,522,306</u>

See Notes To Financial Statements.

Counterpart International, Inc.

Statements Of Activities
Years Ended September 30, 2008 And 2007

	2008	2007
Unrestricted support and revenue:		
Grants:		
Government grants	\$ 23,936,521	\$ 25,693,286
Non-federal grants	1,445,366	1,271,986
Contributions	230,237	451,036
Contributed services and materials	83,123,327	81,159,536
Investment (loss) income, net	(32,149)	135,444
Other income	705,653	495,572
Total unrestricted support and revenue	109,408,955	109,206,860
Expenses:		
Program services:		
Relief	71,512,277	74,092,910
Institution building	14,402,150	19,334,811
Business development	130,982	3,935,320
Natural resources and environment	2,117,717	2,646,370
Health and nutrition	21,056,768	8,527,996
Total program services	109,219,894	108,537,407
Supporting services:		
Management and general	621,409	131,696
Fundraising	-	210,856
Total supporting services	621,409	342,552
Total expenses	109,841,303	108,879,959
Changes in net assets	(432,348)	326,901
Net assets:		
Beginning	867,310	540,409
Ending	\$ 434,962	\$ 867,310

See Notes To Financial Statements.

Counterpart International, Inc.

Statements Of Functional Expenses
Years Ended September 30, 2008 And 2007

	2008			
	Program	Management and General	Fundraising	Total
Personnel	\$ 8,298,276	\$ 2,982,274	\$ -	\$ 11,280,550
Training	846,511	4,726	-	851,237
Travel	579,450	261,891	-	841,341
Equipment	81,197,685	27,597	-	81,225,282
Transportation and warehousing	4,586,342	81,665	-	4,668,007
Rent and utilities	851,247	536,344	-	1,387,591
Pass through	2,449,832	44,094	-	2,493,926
Technical assistance	216,009	68,309	-	284,318
Unallowable	-	255,804	-	255,804
Program loans	86,921	-	-	86,921
Small grants	4,102,027	-	-	4,102,027
Other direct costs	1,983,901	380,398	-	2,364,299
Indirect costs	4,021,693	(4,021,693)	-	-
	<u>\$ 109,219,894</u>	<u>\$ 621,409</u>	<u>\$ -</u>	<u>\$ 109,841,303</u>

	2007			
	Program	Management and General	Fundraising	Total
Personnel	\$ 8,263,063	\$ 2,975,661	\$ -	\$ 11,238,724
Training	891,187	18,410	-	909,597
Travel	869,054	221,320	-	1,090,374
Equipment	26,424,650	24,236	-	26,448,886
Transportation and warehousing	56,233,161	45,675	-	56,278,836
Rent and utilities	2,350,366	828,462	-	3,178,828
Pass through	2,560,180	-	-	2,560,180
Technical assistance	873,137	30,110	-	903,247
Unallowable - fundraising	-	116,562	209,760	326,322
Program loans	28,331	-	-	28,331
Small grants	5,916,634	-	-	5,916,634
Indirect costs	4,127,644	(4,128,740)	1,096	-
	<u>\$ 108,537,407</u>	<u>\$ 131,696</u>	<u>\$ 210,856</u>	<u>\$ 108,879,959</u>

See Notes To Financial Statements.

Counterpart International, Inc.

Statements Of Cash Flows
Years Ended September 30, 2008 And 2007

	2008	2007
Cash Flows From Operating Activities		
Changes in net assets	\$ (432,348)	\$ 326,901
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	22,645	20,205
Unrealized loss (gain)	223,166	(53,750)
Deferred rent	90,576	-
(Increase) decrease in:		
Receivables	(9,859,456)	4,984,826
Prepaid expenses and other assets	(232,249)	(26,162)
Increase (decrease) in:		
Accounts payable and accrued expenses	(157,318)	363,560
Refundable advances	15,283,098	(5,926,623)
Net cash provided by (used in) operating activities	<u>4,938,114</u>	<u>(311,043)</u>
Cash Flows From Investing Activities		
Purchase of furniture and equipment	(156,758)	(10,962)
Purchase of investments	(18,366)	(225,344)
Proceeds from sale of investments	-	176,463
Net cash used in investing activities	<u>(175,124)</u>	<u>(59,843)</u>
Cash Flows From Financing Activities		
Principal payments for the notes payable	(9,842)	-
Net cash used in financing activities	<u>(9,842)</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	4,753,148	(370,886)
Cash And Cash Equivalents		
Beginning	4,482,014	4,852,900
Ending	<u>\$ 9,235,162</u>	<u>\$ 4,482,014</u>

See Notes To Financial Statements.

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies

Nature of activities: Counterpart International, Inc. (Counterpart), formerly Counterpart Foundation, Inc., is a nonprofit organization whose primary purpose is to work with the people of the Western European Newly Independent States (WESTNIS) and the Pacific Basin in programs that assist human development. Counterpart International is building a better world by building better communities. The assistance provided transcends the spectrum of people in need: from feeding hungry children to supporting emerging democracies. Though Counterpart's projects are diverse, they share a common objective: improving the lives of those in need by giving people and local institutions the tools necessary for sustained social, economic and environmental progress in their community.

Established in 1965, Counterpart has forged strategic partnerships in over 65 countries. Its 450-person staff currently operates in 25 countries on a budget of close to \$450 million a year. Counterpart's programs encompass humanitarian aid and relief assistance, healthcare, democracy and governance, feeding the impoverished and natural resource management. In its continuing pursuit of improving lives around the world, Counterpart:

- *Promotes healthy Communities by creating a sustainable food supply.* Counterpart's work empowers local communities to improve the quality, reliability, variety, and nutrition of their food supply. It also helps families earn enough money to buy additional food. In Senegal, for example, Counterpart has trained nearly 5,000 farmers in crop diversification, proper irrigation, soil conservation and sustainable grazing. This work, coupled with Counterpart's school lunch program, allows Counterpart to feed 60,000 school children a day in West Africa.
- *Provide food, shelter and clothing assistance to communities in need.* In emerging nations and countries facing crisis, Counterpart partners with local and international organizations to reduce suffering and improve the quality of life for impoverished people. To date, Counterpart has delivered over \$1 billion of donated items to at-risk populations worldwide. In the Republic of Georgia, for example, Counterpart was one of the first responders with tents, food, and clothing to the 100,000 people displaced during the Georgia/Russia conflict in the summer of 2008.
- *Foster the growth of non-profits and community organizations that create the building blocks for strong, self-sustaining community.* Counter's Flexible and culturally adaptable approach allows to effectively build the institutional infrastructure needed for civil society and community development. Counter helps strengthen non-governmental organizations (NGOs), which in turn engage in advocacy, mobilize their communities, mitigate conflicts, address local needs and raise money for local priorities. Counterpart's support has given rise to nearly 10,000 successful community-level projects that have benefited over 7 million people in the former Soviet Union alone.
- *Assist in the conservation of natural resources through community-based resource management.* Improve the health of a community's environment, and you will improve the health of that community. For more than 40 years, Counterpart has helped communities sustained manage their scarce resources and protect their fragile ecosystem. Counterpart has developed a particular expertise in island issues, as well as fisheries, reefs and forests. The need for these efforts continues to rise as global warming and the growing scarcity of clean, fresh water further imperil the world's most vulnerable populations.

Counterpart International, Inc.

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Nature of activities (continued):

- *Place a special emphasis on helping vulnerable populations, including women, children, the elderly and the disadvantaged.* Counterpart recognizes the special place these groups play in the development of a healthy community. In Afghanistan, Counterpart is standing side-by-side with the women who are fighting for their equal role in society. In India, where in some communities more than 12 percent of the children under the age of five die from malnutrition, Counterpart operates its Child Survival program. Counterpart's staff members regularly provide children's health workshops, attend community rallies and visit the homes of families to provide healthcare and child development training.

A summary of Counterpart's significant accounting policies follows:

Basis of accounting: The accompanying financial statements are presented in accordance with the accrual basis of accounting, whereby, revenue is recognized when earned and expenses are recognized when incurred.

Basis of presentation: The financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, Counterpart is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. There were no permanently or temporarily restricted net assets at September 30, 2008 and 2007.

Cash and cash equivalents: Counterpart considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Financial risk: Counterpart maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Counterpart has not experienced any losses in such accounts. Counterpart believes it is not exposed to any significant credit risk on cash.

Investments: Investments are reflected at fair value, which is based on quoted market prices. To adjust the carrying value of investments, unrealized and realized gains and losses are included in the statements of activities as part of investment income.

Counterpart invests in professionally managed portfolios that contain mutual funds and money market. Such investments are exposed to various risks such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, Counterpart's investments have likely incurred a significant decline in fair value since September 30, 2008.

Receivables: Receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a quarterly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using the historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. There was no provision for doubtful accounts at September 30, 2008 and 2007.

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Property and equipment: Property and equipment purchased in excess of \$1,000 are capitalized and stated at cost. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. Any gains or losses recognized from the disposal of fixed assets are included in the statements of activities and changes in net assets.

Counterpart also purchases certain equipment in accordance with provisions of specific local and government grants. This equipment is expensed when purchased and charged to the applicable grant. At the end of the grant period, the equipment continues to be used to carry out the purposes and objectives of the grant project, or used in another project funded by governmental grants if approved by AID, or retired if its useful life has expired. Upon request, the equipment is returned to the grantor.

Refundable advances: Refundable advances represent the balance of obligated awards received for exchange transactions on government and private grants, for which allowable expenditures have not yet been incurred.

Support and revenue: Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All donor-restricted revenue and support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose of restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Grant support is recognized as costs qualified under the grants are incurred. Grant funds received in excess of costs incurred are recorded as refundable advances until earned. Grant costs incurred in excess of funds received are recorded as receivables. Counterpart records amounts obligated by donors - including federal donors - as a debit to receivables and credit to refundable advances. As cash is received or drawn down, the receivable balance is credited. As expenses are incurred, the refundable advance balance is debited and revenue recognized is credited. As such, all amounts obligated by the granting agencies are recorded in receivables and refundable advances. At September 30, 2008, the amount included in both accounts was approximately \$10,105,639, which represents grants signed in September 2008 but no expenses were incurred as of September 30, 2008.

Contributed services and materials: Counterpart receives contributed services, equipment and supplies, recorded in the period received as unrestricted support and expenses based on their estimated fair value. Contributed services, equipment and supplies are also received by the field offices, and are recorded as support and expenses. Services, equipment and supplies contributed to field offices totaled \$83,123,327 and \$81,159,536 for the years ended September 30, 2008 and 2007, respectively.

Functional allocation of expenses: The costs of providing Counterparts various programs and supporting services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Foreign currency translation: Those elements of the financial statements reflecting Counterpart's operations in foreign countries are translated into U.S. dollars using applicable exchange rates. For assets, liabilities, and revenue and expense items, translation is performed using rates in effect at the date of the transaction or average rates for the month for multiple transactions.

Counterpart International, Inc.

Notes To Financial Statements

Note 1. Nature Of Activities And Significant Accounting Policies (Continued)

Foreign currency translation (continued): In accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 52, *Foreign Currency Translation*, the local currencies in Counterpart's foreign operations are considered to be the functional currency of those operations. Counterpart incurred foreign currency translation loss of \$631,760 and gain of \$368,628, for the years ended September 30, 2008 and 2007.

Income taxes: Under provisions of Section 501(c)(3) of the Internal Revenue Code and the applicable income tax regulations of the District of Columbia, Counterpart is exempt from taxes on income, other than taxes on unrelated business income. Accordingly, no provision for income taxes has been made in the accompanying financial statements. Counterpart is not a private foundation.

Estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain items in the September 30, 2007 financial statements have been reclassified to conform to the September 30, 2008 financial statement presentation. These reclassifications had no effect on the previously reported change in net assets.

Recent accounting pronouncements: In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement 109*. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. If there are changes in net assets as a result of application FIN 48, these will be accounted for as an adjustment to the opening balance of retained earnings. Additional disclosures about the amounts of such liabilities will be required also. Counterpart presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies*. Counterpart has elected to defer the application of Interpretation 48 in accordance with FASB Staff Position FIN 48-3. This FSP defers the effective date of Interpretation 48 for nonpublic enterprises included within its scope to the annual financial statements for fiscal years beginning after December 15, 2008. Counterpart will be required to adopt FIN 48 for its 2010 annual financial statements. Management is currently assessing the impact of FIN 48 on its consolidated financial position and results of activities and has not determined if the adoption of FIN 48 will have a material effect on its financial statements.

In September 2006, SFAS No. 157, *Fair Value Measurements*, was issued and, as amended, is effective for financial statements issued for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157* which delays the effective date of FASB statement No. 157 until fiscal years beginning after November 15, 2008, for fair value measurements of all nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The SFAS defines fair value, establishes a framework for measuring fair value and expands the disclosures about fair value measurements. Counterpart is in the process of determining if the adoption of FAS 157 will have a material impact on its financial statements.

Counterpart International, Inc.

Notes To Financial Statements

Note 2. Cash And Cash Equivalents

Cash and Cash equivalents consist of the following at September 30, 2008 and 2007:

	2008	2007
Cash held in domestic financial institutions	\$ 384,996	\$ 600,407
Cash held in foreign countries	8,850,166	3,881,607
	<u>\$ 9,235,162</u>	<u>\$ 4,482,014</u>

Note 3. Investments

Investments consist of the following at September 30, 2008 and 2007:

	2008	2007
Mutual funds	\$ 801,618	\$ 1,013,020
Money funds	10,485	3,883
	<u>\$ 812,103</u>	<u>\$ 1,016,903</u>

Investment (loss) income consists of the following for the year ended September 30, 2008 and 2007:

	2008	2007
Interest and dividends	\$ 191,017	\$ 81,694
Unrealized (loss) gain	(223,166)	53,750
	<u>\$ (32,149)</u>	<u>\$ 135,444</u>

Note 4. Receivables

Receivables consist of the following at September 30, 2008 and 2007:

	2008	2007
USAID grants receivable	\$ 14,218,664	\$ 10,681,504
Other federal grants receivable	17,135,784	10,803,541
Receivable from related party - EnviroVentruus	879,098	880,543
Contributions receivable	132,134	22,150
Other receivable	256,828	375,314
	<u>\$ 32,622,508</u>	<u>\$ 22,763,052</u>

Counterpart International, Inc.

Notes To Financial Statements

Note 5. Property And Equipment

Property and equipment for the years ended September 30, 2008 and 2007, consist of the following:

	2008	2007
Furniture and fixtures	\$ 39,866	\$ 30,890
Equipment	244,852	244,832
Deferred leasing costs	124,946	12,594
Vehicles	35,410	-
	<u>445,074</u>	<u>288,316</u>
Less accumulated depreciation	(294,820)	(272,175)
	<u>\$ 150,254</u>	<u>\$ 16,141</u>

Depreciation expense totaled \$22,645 and \$20,205 for the years ended September 30, 2008 and 2007, respectively.

Note 6. Lease Commitments

Counterpart is obligated under operating leases for its headquarters office space and for office equipment located in headquarters. The headquarters office lease expires on November 14, 2020. Equipment leases expire at various dates in fiscal years 2008 – 2009. Counterpart also pays rent in foreign locations on a month-to-month basis.

The headquarters lease includes certain rent abatements and an escalation clause of 3% annually. Minimum rent is expensed on a straight-line basis over the term of the lease. Therefore, a liability is reflected in the balance sheet for rent expensed in excess of rent paid under the lease.

The future minimum lease payments under operating lease agreements for

Future minimum lease payments required under the new lease are as follows:

Year Ending September 30,	
2009	\$ 482,912
2010	497,399
2011	512,321
2012	527,691
2013	552,207
2014-2021	4,472,680
	<u>\$ 7,045,210</u>

Rental expense under lease agreements consist of the following for the years ended September 30, 2008 and 2007:

	2008	2007
Local field and affiliates office rentals	\$ 636,284	\$ 618,513
Headquarters administration office	508,200	415,616
	<u>\$ 1,144,484</u>	<u>\$ 1,034,129</u>

Counterpart International, Inc.

Notes To Financial Statements

Note 7. Pension Plan

Counterpart maintains a defined contribution 403(b) retirement plan (the Plan) for its employees. The Plan allows participants, subject to certain service requirements, to defer pre-tax income into a qualified plan. An eligible employee may defer pre-tax earnings annually, up to a limit of \$15,000 for employees under 50 years old and \$20,000 for employees 50 years and older. Counterpart contributes 10% of the employee's salary, which vests immediately. Counterpart's contributions to the Plan totaled \$431,471 and \$451,416 for the years ended September 30, 2008 and 2007, respectively.

Note 8. Commitments And Contingencies

Counterpart is substantially dependent on U.S. government grants and subcontracts that are subject to audit. The ultimate determination of amounts received under these programs is generally based upon allowable costs incurred, required to be reported to and subject to audit by the government. Until such audits have been completed and final settlements reached, there exists a contingent liability to refund any amounts received in excess of allowable costs. Counterpart's management is of the opinion that no significant adjustment to these financial statements, if any, would result from audit findings.

Counterpart maintains an unsecured line of credit that allows borrowings up to \$350,000. Interest accrues on any outstanding balances at 8.25% per annum. For the years ended September 30, 2008 and 2007, Counterpart had zero balances outstanding.

Counterpart and EnviroVentures, Inc. entered into a facility agreement on July 1, 2001 with Overseas Private Investment Corporation (OPIC), under which OPIC has agreed to provide up to \$750,000 to enable Counterpart to conduct an enterprise program in the Philippines. Interest accrues on outstanding balances at the rate specified by each note; 1.5% over the U.S. Department of Treasury rate. For the years ended September 30, 2008 and 2007, Counterpart had borrowings of \$383,825 and \$393,667, respectively, under this facility agreement.