

**HOLT INTERNATIONAL
CHILDREN'S SERVICES, INC.**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**For the Year Ended December 31, 2007
(with Comparative Totals for the Year Ended
December 31, 2006)**



HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2007
(with Comparative Totals for the Year Ended December 31, 2006)

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5 - 6
Statement of Functional Expenses	7 - 8
Notes to Financial Statements	9 - 19
Supplementary Information:	
Schedule of Indirect Cost Rate	20 - 21
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22 - 23



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Holt International Children's Services, Inc.
Eugene, Oregon

We have audited the accompanying statement of financial position of Holt International Children's Services, Inc. (a nonprofit organization) as of December 31, 2007, and the related statements of activities, cash flows, and functional expenses for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized information has been derived from the Organization's December 31, 2006 financial statements and, in our reports dated March 15, 2007, we expressed an unqualified opinion on those financial 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 Holt International Children's Services, Inc. as of December 31, 2007, and the changes in its net assets and its cash flows for the year 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 March 14, 2008, on our consideration of Holt International Children's Services, Inc.'s internal control over financial reporting and 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.

Jones & Roth, P.C.

www.jrcpa.com

300 SW Columbia Street
Suite 201
Bend, OR 97702
(541) 382-3590
FAX (541) 382-3587

432 West 11th Avenue
P.O. Box 10086
Eugene, OR 97440
(541) 687-2320
FAX (541) 485-0960

5635 NE Elam Young Parkway
Suite 100
Hillsboro, OR 97127
(503) 648-0521
FAX (503) 648-2692

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of indirect cost is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Jones & Roth, P.C.

Jones & Roth, P.C.
Eugene, Oregon
March 14, 2008

FINANCIAL STATEMENTS

HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2007
(with Comparative Totals for December 31, 2006)

	<u>2007</u>	<u>2006</u>
Assets		
Cash and cash equivalents	\$ 1,891,195	\$ 2,506,856
Receivables	1,008,483	1,246,187
USAID grant receivable	72,118	59,631
Prepaid expenses and supplies	498,099	313,497
Prepaid support - Holt Children's Services, Korea	1,471,860	939,525
Investments	6,646,623	5,437,109
Land, building, and equipment, net of accumulated depreciation	<u>1,472,177</u>	<u>1,456,094</u>
Total assets	<u>\$ 13,060,555</u>	<u>\$ 11,958,899</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 615,025	\$ 630,244
International Program support payable	836,223	566,113
Deferred adoption fee revenue	3,612,410	3,226,822
Deferred transportation fees	239,385	163,955
Deferred revenue - other	2,750	18,200
Deferred compensation	101,335	105,069
Annuity obligation	<u>140,703</u>	<u>93,224</u>
Total liabilities	<u>5,547,831</u>	<u>4,803,627</u>
Net assets		
Unrestricted net assets:		
Undesignated net assets	2,751,415	3,321,508
Board designated endowment	1,605,521	1,335,832
Temporarily restricted net assets (Note 2)	1,194,092	754,494
Permanently restricted net assets (Note 3)	<u>1,961,696</u>	<u>1,743,438</u>
Total net assets	<u>7,512,724</u>	<u>7,155,272</u>
Total liabilities and net assets	<u>\$ 13,060,555</u>	<u>\$ 11,958,899</u>

The accompanying notes are an integral part of these statements.

HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007
(with Comparative Totals for the Year Ended December 31, 2006)

	2007			Total	2006 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues and other support					
Public support:					
Contributions	\$ 1,799,766	\$ 5,697,434	\$ 218,258	\$ 7,715,458	\$ 5,567,640
Grants received:					
USAID grant, Ukraine	740,081	-	-	740,081	1,088,245
USAID grant, Guatemala	42,854	-	-	42,854	-
Other	22,750	567,841	-	590,591	536,940
Revenues:					
Adoption fees	8,882,717	-	-	8,882,717	11,936,970
Transportation fees	281,710	-	-	281,710	381,630
Investment, principally interest	186,128	45,198	-	231,326	190,432
Tour charges	371,785	-	-	371,785	406,730
Adoptee services	115,226	-	-	115,226	83,046
Other contracts	29,234	-	-	29,234	56,054
Publication sales, net of expenses of \$58,350 in 2007 and \$43,192 in 2006	7,711	-	-	7,711	2,037
Other revenue	16,765	-	-	16,765	101,098
Gains:					
Gain on sale of assets	70	-	-	70	1,576
Net unrealized/realized gain on investments	199,804	15,515	-	215,319	504,257
Net assets released from restrictions (Note 7)	5,886,390	(5,886,390)	-	-	-
Total revenues and other support	18,582,991	439,598	218,258	19,240,847	20,856,655
Expenses					
Program services:					
U.S. Program	6,193,310	-	-	6,193,310	6,852,666
International Program	1,709,643	-	-	1,709,643	1,422,608
International Program support:					
Holt Children's Services - Korea	2,415,082	-	-	2,415,082	2,720,703
Other	4,426,056	-	-	4,426,056	4,782,143
Total program services	14,744,091	-	-	14,744,091	15,778,120
Supporting services:					
Management and general	1,799,132	-	-	1,799,132	1,717,091
Fundraising	2,340,172	-	-	2,340,172	1,977,808
Total supporting services	4,139,304	-	-	4,139,304	3,694,899
Total expenses	18,883,395	-	-	18,883,395	19,473,019
Change in net assets	(300,404)	439,598	218,258	357,452	1,383,636
Net assets, beginning of year	4,657,340	754,494	1,743,438	7,155,272	5,771,636
Net assets, end of year	\$ 4,356,936	\$ 1,194,092	\$ 1,961,696	\$ 7,512,724	\$ 7,155,272

The accompanying notes are an integral part of these statements.

HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2007
(with Comparative Totals for the Year Ended December 31, 2006)

	2007	2006
Cash flows from operating activities		
Change in net assets	\$ 357,452	\$ 1,383,636
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	156,409	151,361
Realized gain on disposal of equipment	(70)	(1,576)
Realized gain on sale of investments	(152,887)	(71,099)
Unrealized gain on investments	(62,432)	(433,158)
Contributions restricted for annuity agreement	(27,596)	-
Contributions restricted for endowments	(450,904)	(31,770)
(Increase) decrease in:		
Receivables	237,704	(399,272)
USAID grant receivable	(12,487)	(20,458)
Prepaid expenses and supplies	(184,602)	188,422
Prepaid support - Holt Children's Services, Korea	(532,335)	(98,915)
Increase (decrease) in:		
Accounts payable and accrued expenses	(15,219)	97,792
International Program support payable	270,110	320,066
Deferred revenue - other	(15,450)	(800)
Deferred adoption fee revenue	385,588	117,746
Deferred transportation fees	75,430	33,400
Deferred compensation	(3,734)	(2,824)
	<u>24,977</u>	<u>1,232,551</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Proceeds from sale of equipment	70	1,576
Purchases of building and equipment	(172,492)	(48,909)
Proceeds from sale of investments	997,082	439,945
Purchase of investments	(1,991,277)	(626,303)
	<u>(1,166,617)</u>	<u>(233,691)</u>
Net cash used by investing activities		

	<u>2007</u>	<u>2006</u>
Cash flows from financing activities		
Proceeds from contributions restricted for:		
Investment subject to annuity agreements	81,671	-
Other financing activities:		
Endowment contributions invested	450,904	31,770
Payments of annuity obligations	<u>(6,596)</u>	<u>(6,567)</u>
Net cash provided by financing activities	<u>525,979</u>	<u>25,203</u>
Net increase (decrease) in cash and cash equivalents	(615,661)	1,024,063
Cash and cash equivalents, beginning of year	<u>2,506,856</u>	<u>1,482,793</u>
Cash and cash equivalents, end of year	<u>\$ 1,891,195</u>	<u>\$ 2,506,856</u>

The accompanying notes are an integral part of these statements.

HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2007
(with Comparative Totals for the Year Ended December 31, 2006)

	Program Services			Total
	U.S. Program	International Program	International Program Support	
Salaries	\$ 3,372,831	\$ 443,963	\$ -	\$ 3,816,794
Employee health and retirement benefits	565,013	73,533	-	638,546
Payroll taxes	<u>306,525</u>	<u>22,614</u>	<u>-</u>	<u>329,139</u>
 Total salaries and related expenses	 4,244,369	 540,110	 -	 4,784,479
Grants and support	-	-	6,841,138	6,841,138
Intercountry transportation	265,034	-	-	265,034
Child care, clothes, and medicine	98,781	237,892	-	336,673
Professional fees	317,544	180,991	-	498,535
Supplies	45,391	23,611	-	69,002
Postage and shipping	207,378	2,796	-	210,174
Telephone	86,851	18,788	-	105,639
Building occupancy	169,458	62,398	-	231,856
Rental of equipment	6,379	4,848	-	11,227
Printing, publication, and other graphics	198,127	16,130	-	214,257
Travel and allowances:				
Staff	404,736	308,594	-	713,330
Board	-	-	-	-
Staff development	20,131	5,697	-	25,828
Tours and other expenses	<u>36,365</u>	<u>293,830</u>	<u>-</u>	<u>330,195</u>
 Total before depreciation	 6,100,544	 1,695,685	 6,841,138	 14,637,367
Depreciation	<u>92,766</u>	<u>13,958</u>	<u>-</u>	<u>106,724</u>
 Total expenses	 <u>\$ 6,193,310</u>	 <u>\$ 1,709,643</u>	 <u>\$ 6,841,138</u>	 <u>\$ 14,744,091</u>
 2007 percentage of total functional expenses	 32.8%	 9.1%	 36.2%	 78.1%
 2006 percentage of total functional expenses	 35.2%	 7.3%	 38.5%	 81.0%

<u>Supporting Services</u>				
<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>	<u>Total Program and Support</u>	<u>2006 Total Program and Support</u>
\$ 783,657	\$ 663,990	\$ 1,447,647	\$ 5,264,441	\$ 5,347,515
143,746	122,621	266,367	904,913	946,154
<u>72,008</u>	<u>60,710</u>	<u>132,718</u>	<u>461,857</u>	<u>437,502</u>
999,411	847,321	1,846,732	6,631,211	6,731,171
-	-	-	6,841,138	7,502,846
-	-	-	265,034	356,919
-	-	-	336,673	293,165
108,533	217,193	325,726	824,261	831,838
75,123	51,379	126,502	195,504	179,815
15,740	128,048	143,788	353,962	344,703
29,746	9,296	39,042	144,681	150,700
286,223	919	287,142	518,998	538,367
30,935	1,108	32,043	43,270	50,254
17,013	882,962	899,975	1,114,232	904,010
59,218	162,846	222,064	935,394	933,995
20,597	-	20,597	20,597	11,177
4,495	8,462	12,957	38,785	29,641
<u>122,802</u>	<u>10,249</u>	<u>133,051</u>	<u>463,246</u>	<u>463,057</u>
1,769,836	2,319,783	4,089,619	18,726,986	19,321,658
<u>29,296</u>	<u>20,389</u>	<u>49,685</u>	<u>156,409</u>	<u>151,361</u>
<u>\$ 1,799,132</u>	<u>\$ 2,340,172</u>	<u>\$ 4,139,304</u>	<u>\$ 18,883,395</u>	<u>\$ 19,473,019</u>
9.5%	12.4%	21.9%	100%	100%
8.8%	10.2%	19.0%	100%	100%

The accompanying notes are an integral part of these statements.

HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

1. Nature of Organization and Summary of Significant Accounting Policies

Holt International Children's Services, Inc. (HICS) is a not-for-profit corporation organized in the state of Oregon, with offices in Oregon, Nebraska, New Jersey, California, Iowa, Kansas, Missouri, and Arkansas. HICS coordinates and facilitates child and family services, including adoption from Europe, Africa, Asia, and Latin America for families in the United States. HICS also coordinates a variety of social service programs in the areas in which it is active.

Basis of Accounting

HICS maintains its books on the accrual basis of accounting, which means revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred.

Net Assets

The three classes of net assets of HICS are as follows:

Unrestricted Net Assets

Undesignated

The part of the net assets of HICS that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations - that is, the part of net assets resulting from (a) all revenues, expenses, gains and losses that are not changes in permanently restricted or temporarily restricted net assets and (b) reclassifications from (or to) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of HICS pursuant to those stipulations. The only limits on unrestricted net assets are broad limits resulting from the nature of HICS and the purposes specified in its articles of incorporation or bylaws.

Board Designated Endowment

HICS's Board of Directors have designated a portion of bequests to be held in perpetuity to benefit the general purposes of the organization according to policies adopted by the Board of Directors.

Temporarily Restricted Net Assets

The part of the net assets of HICS resulting from (a) contributions and other inflows of assets whose use by HICS is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of HICS pursuant to those stipulations, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassifications to (or from) other classes of net assets as a consequence of donor-imposed stipulations, their expiration by passage of time, or their fulfillment and removal by actions of HICS pursuant to those stipulations.

HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

1. Nature of Organization and Summary of Significant Accounting Policies, continued

Net Assets, continued

Permanently Restricted Net Assets

The part of the net assets of HICS resulting from (a) contributions and other inflows of assets whose use by HICS is limited by donor-imposed stipulations that neither expire by passage of time, nor can be fulfilled or otherwise removed by actions of HICS, (b) other asset enhancements and diminishments subject to the same kinds of stipulations, and (c) reclassification from (or to) other classes of net assets as a consequence of donor-imposed stipulations.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash primarily consists of interest-bearing demand deposits with a regional financial institution, as well as a variety of minor cash accounts located in the countries where HICS operates. Cash equivalents consist of highly liquid investments with original maturities of three months or less. These deposits may, from time to time, exceed the limits of depository insurance, which would subject HICS to credit risk; however, management makes deposits in institutions with high credit quality which have not historically incurred credit losses.

Receivables

HICS's accounts receivable reflect amounts due from prospective parents following assignment of the adoptive child. Substantially all balances are collected before completion of services by HICS; therefore, management believes the potential for risk of loss to HICS for uncollectible balances is not significant.

Concentrations of credit risk with respect to these receivables are limited due to a large client base and its geographic dispersion.

Investments

Investments in debt and equity securities with readily determined fair value are reflected in the financial statements at fair market value. Realized and unrealized gains and losses are reported in the statement of activities. Certificates of deposit, which are included in investments, are invested with federally insured financial institutions in amounts substantially covered by deposit insurance.

HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

1. Nature of Organization and Summary of Significant Accounting Policies, continued

Investments, continued

Investment transactions are recorded on a trade-date basis. The cost of securities sold is based on specific identification. Interest is accrued as earned and dividends are recorded on the ex-dividend date.

Prepaid Support

A portion of International Program support payments become payable to Holt Children's Services - Korea (HCS - Korea), a Korean corporation independent of HICS, when adoption fees for Korean children are received by HICS from the adopting family. Amounts paid and payable under this agreement are recorded as prepaid support until the arrival date of the child, at which time they are expensed as International Program support.

Land, Building, Equipment, and Depreciation

Land, building, and equipment are recorded at cost or, if donated, at market value at date of donation. Expenditures for maintenance and repairs are charged against income, while renewals and betterments are capitalized. The cost and accumulated depreciation of property sold or otherwise disposed of are eliminated from the accounts and the resulting gains or losses are reflected in revenue and expenses.

Depreciation is computed by the straight-line method using the estimated useful lives of the building and equipment, which generally range from 7 to 30 years for buildings and 3 to 10 years for equipment.

Deferred Adoption Fee Revenue, Public Support, Revenue, and Gains

The portion of Korean children adoption fee revenue relating to International Program support is deferred at time of assignment and recognized when the child arrives from Korea. The balance of the Korean children adoption fees and the adoption fees for children from other countries is deferred at the time of assignment. The deferred adoption fees are recognized into revenue ratably between the date of assignment and the date which adoption is finalized by the court.

Deferred Transportation Fees

Deferred transportation fees represent the amounts billed for transportation charges to be recognized as revenue when adopted children arrive in the United States and the related transportation expense has been incurred.

Contributions

Contributions received are recorded at their estimated fair value at the date of donation as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

1. Nature of Organization and Summary of Significant Accounting Policies, continued

Contributions, continued

Donor-restricted support is recorded 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.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets or decreases of liabilities or expenses, depending on the form of benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Endowment Fund Policy

The Board of Directors has established guidelines for the utilization of the Endowment Fund maintained to benefit the general purposes of the organization. The policy sets forth that HICS shall accept current and deferred gifts to the Endowment Fund. HICS policy is to maintain the principal of the fund in perpetuity. The policy allows up to 5 percent of the fair market value of the Endowment Fund, including interest earned, to be expended in a given fiscal year as determined by the President. Prior to 1998, the policy allowed up to 90 percent of the annual investment income to be expended.

Grant Revenue Recognition

HICS recognizes revenue on cost reimbursement grants as qualified expenses are incurred, subject to the amount authorized in the grant agreement. Unreimbursed grant expenses due from grantor agencies are reflected in the financial statements as receivables and revenues. HICS requests reimbursement for allowable grant expenses by a Letter of Credit Agreement.

Donated Services

No amounts have been reflected in the financial statements for donated services. HICS pays for most services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist HICS in many areas, including program services, fund raising events, and office support. HICS receives more than 10,000 volunteer hours per year.

Income Taxes

Under the provisions of the Internal Revenue Code Section 501(c)(3) and applicable state law, HICS is exempt from state and federal income taxes.

HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

1. Nature of Organization and Summary of Significant Accounting Policies, continued

Advertising Costs

HICS's advertising costs are expensed as incurred. The total expense was \$687,965 in 2007 and \$569,148 in 2006, respectively .

Prior Year Summarized Comparative Information

The financial statements include certain prior-year summarized comprehensive 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 the Organization's financial statements for the year ended December 31, 2006, from which the summarized information is derived.

2. Temporarily Restricted Net Assets

At December 31, components of temporarily restricted net assets consisted of the following:

	<u>2007</u>	<u>2006</u>
Program:		
South Korea	\$ 38,568	\$ 28,348
North Korea	136,056	21,689
Mongolia	13,048	1,347
Philippines	1,365	120
Vietnam	24,989	12,450
India	28,060	11,800
Special Needs Fund	32,558	31,290
Romania	351	150
Gift Annuity	88,463	57,485
Camps	5,485	6,585
Cambodia	20,381	-
China	94,948	68,549
Guatemala	54,134	1,560
Haiti	64,108	280
Thailand	136,068	90,918
Ukraine	50	-
Uganda	112,099	130,222
Endowment earnings	<u>343,361</u>	<u>291,701</u>
Total temporarily restricted net assets	<u>\$ 1,194,092</u>	<u>\$ 754,494</u>

HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

3. Permanently Restricted Net Assets

Permanently restricted net assets at December 31, 2007 and 2006, of \$1,961,696 and \$1,743,438 respectively, consisted of endowment funds which are permanently restricted as stipulated by the donors.

4. Endowments

At December 31, endowments consisted of the following :

	<u>2007</u>	<u>2006</u>
Unrestricted – Board designated	\$ 1,605,521	\$ 1,335,832
Temporary restricted earnings	343,361	291,701
Permanently restricted	<u>1,961,696</u>	<u>1,743,438</u>
 Total endowments	 <u>\$ 3,910,578</u>	 <u>\$ 3,370,971</u>

5. Investments

At December 31, a summary of investments was as follows:

	<u>2007</u>	<u>2006</u>
Balance, January 1	\$ <u>5,437,109</u>	\$ <u>4,746,494</u>
Investment activity:		
Purchase of investments	1,991,277	626,303
Sale of investments	<u>(997,082)</u>	<u>(439,945)</u>
Net principal increase	<u>994,195</u>	<u>186,358</u>
Investment returns:		
Realized and unrealized gain	<u>215,319</u>	<u>504,257</u>
Balance, December 31	<u>\$ 6,646,623</u>	<u>\$ 5,437,109</u>

For the year ended December 31, return on investment s consisted of the following :

	<u>2007</u>	<u>2006</u>
Interest and dividends	\$ 231,326	\$ 190,432
Unrealized gains	62,432	433,158
Realized gains	<u>152,887</u>	<u>71,099</u>
 Total return on investments	 <u>\$ 446,645</u>	 <u>\$ 694,689</u>

HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

5. Investments, continued

At December 31, HICS's investments consisted of the following :

	Fair Value	
	2007	2006
Certificates of deposit	\$ 1,322,450	\$ 718,559
Government securities	61,673	98,375
Corporate bonds	95,961	145,635
Equity securities	97,575	83,703
Mutual funds (various funds):		
Multi-Financial Securities Corp.	3,694,586	3,476,606
U.S. Bank	1,366,393	906,246
Other funds	7,985	7,985
	<u>6,646,623</u>	<u>5,437,109</u>
Total fair value of investments	<u>\$ 6,646,623</u>	<u>\$ 5,437,109</u>

6. Land, Building, and Equipment

At December 31, land, building, and equipment consisted of the following :

	2007	2006
Construction -in-progress	\$ 185,574	\$ 185,574
Land	702,716	702,716
Building	1,010,889	942,214
Office equipment	1,118,328	1,063,094
Transportation equipment	48,450	48,450
	<u>3,065,957</u>	<u>2,942,048</u>
Accumulated depreciation	<u>(1,593,780)</u>	<u>(1,485,954)</u>
Net land, building, and equipment	<u>\$ 1,472,177</u>	<u>\$ 1,456,094</u>

Depreciation expense for 2007 and 2006 was \$156,409 and \$151,361 , respectively.

HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

7. Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of events specified by the donors, or by the change of restrictions specified by the donors. These amounts released during the year are as follows:

	2007	2006
Purpose of restriction:		
Program services:		
U.S. Program	\$ 293,993	\$ 362,652
International Program	669,434	418,938
International Program support:		
Holt Children's Services – Korea	554,031	516,271
Other	2,935,194	2,360,303
Supporting services:		
Management and general	5,584	2,975
Fundraising	1,426,912	1,080,627
Acquisition of assets:		
Computer	1,242	-
Total net assets released from restrictions	\$ 5,886,390	\$ 4,741,766

8. Functional Expenses, Program, and Supporting Services

Expenses for HICS are summarized according to function classification of program services and supporting services. Certain expenses are allocated among functions based on a variety of methods. Program services include U.S. Program and International Program expenses. Support services include management and general, and fundraising expenses.

Program Services

U.S. Program

U.S. Program services consist of United States based expenses for professional services incurred in connection with placing children for adoption, including family preparation, post-placement counseling, and international processing, which includes transportation, public education concerning adoption issues, and management assistance and program development for international programs.

International Program

International Program services consist of direct expenses incurred by HICS in other countries for adoption services, permanency planning services for children, social work training for indigenous staff, counseling and assistance for displaced families and individuals, and management assistance and program development for international programs.

HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

8. Functional Expenses, Program, and Supporting Services, continued

Program Services, continued

International Program, continued

International Program services provided were as follows:

	<u>2007</u>	<u>2006</u>
Cambodia	\$ 13,579	\$ 10,067
China	77,950	114,842
Ecuador	4,386	48,053
Ethiopia	126,398	-
Guatemala	76,733	12,988
India	8,392	5,228
Kazakhstan	46,665	4,675
Kyrgyzstan	7,988	-
Liberia	-	5,617
Mongolia	6,332	7,982
Nepal	15,465	-
North Korea	5,129	-
Philippines	16,016	13,497
Romania	11,699	-
Russia	23,168	12,040
South Korea	236,848	253,064
Uganda	49,179	51,515
Ukraine	525,193	536,965
Vietnam	<u>458,523</u>	<u>346,075</u>
Total International Program services provided	<u>\$ 1,709,643</u>	<u>\$ 1,422,608</u>

International Program Support

HICS provides financial support to various organizations which operate under the control of a separate Board of Directors that are independent of HICS.

The support furnished to HCS - Korea consists of a negotiated amount of adoption fees related to Korean children, contributions received that are designated for HCS - Korea, plus such other grants that may be made at the discretion of HICS Board of Directors.

For the year ended December 31, support for HCS - Korea consisted of the following :

	<u>2007</u>	<u>2006</u>
Fees	\$ 1,780,362	\$ 2,112,460
Contributions restricted for HCS - Korea	554,031	516,271
Support	<u>80,689</u>	<u>91,972</u>
Total International Program support HCS - Korea	<u>\$ 2,415,082</u>	<u>\$ 2,720,703</u>

HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

8. Functional Expenses, Program, and Supporting Services, continued

Program Services, continued

International Program Support, continued

Payments to other foreign organizations are based on fiscal policies and agreements for support of the respective in-country programs. For the year ended December 31, support provided was as follows:

	<u>2007</u>	<u>2006</u>
Bulgaria	\$ -	\$ 5,865
Cambodia	28,153	9,108
China	2,089,881	2,476,539
Ecuador	-	100
Guatemala	178,856	187,724
Haiti	181,343	170,540
India	464,980	420,547
Kazakhstan	4,525	4,900
Kyrgyzstan	3,505	-
Mongolia	79,213	78,465
Nepal	13,203	-
North Korea	107,368	31,500
Philippines	232,327	206,534
Romania	331,065	232,983
South Africa	6,000	-
Thailand	353,962	352,540
Uganda	170,213	121,084
Ukraine	<u>181,462</u>	<u>483,714</u>
Total International Program support, other	<u>\$ 4,426,056</u>	<u>\$ 4,782,143</u>

Supporting Services

- ◆ Management and general - Costs not identifiable with a single program or fund raising activity, but are indispensable to those activities and to the organization.
- ◆ Fundraising - Costs incurred to obtain contributions for which the contributor will receive no direct economic benefit.

9. Pension Plan

Substantially all employees with two years of service are covered by a defined contribution money-purchase pension plan. HICS makes monthly contributions to the plan equal to the accrued pension cost. Pension expense represents 7 percent of an eligible employee's salary. In addition, Ukrainian government requires pension contributions for local hire employees based on 33.2 percent of monthly wage up to maximum. Total pension expense was \$323,126 in 2007 and \$315,088 in 2006.

HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
NOTES TO FINANCIAL STATEMENTS

10. Commitments and Contingencies

Operating Leases

Rental expense was \$262,588 in 2007 and \$231,877 in 2006. HICS is obligated under certain noncancelable operating leases which call for periodic adjustments to the minimum rental payments. Estimated future minimum rental payments are as follows:

<u>For the Year Ending December 31.</u>	
2008	\$ 166,563
2009	80,599
2010	41,938
2011	7,120
2012	-
Thereafter	<u>-</u>
Total future minimum rental payments	<u>\$ 296,220</u>

11. Grants

Amounts received or receivable from grantor agencies are subject to audit and adjustment by such agencies. Any disallowed costs could become a liability of HICS. Management believes that unallowable costs, if any, would not be significant and would not have a material effect on HICS's financial position.

12. Concentration of Risk - Adoption Services

Approximately 46 percent in 2007 and 57 percent in 2006 of HICS's revenue was derived from the adoption services it provided in various countries, including Korea, China, and India. A significant delay in the adoption process or the loss of the ability to coordinate adoptions in these countries could adversely affect operations. However, management believes it has good relations with these countries, and does not expect any significant delays or hindrances in providing these services.

SUPPLEMENTARY INFORMATION

HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
SCHEDULE OF INDIRECT COST RATE
For the Year Ended December 31, 2007

Salaries	\$ 783,657
Employee health and retirement benefits	143,746
Payroll taxes	<u>72,008</u>
Total salaries and related expenses	999,411
Professional fees	108,533
Supplies	75,123
Postage and shipping	15,740
Telephone	29,746
Building occupancy	286,223
Rental of equipment	30,935
Printing, publications, and graphics	17,013
Travel and allowances:	
Staff	59,218
Board	20,597
Staff development	4,495
Tours and other expenses, less unallowable costs	117,130
Depreciation	<u>29,296</u>
Total allowable management and general expenses	<u>\$ 1,793,460</u>
Total direct U.S. and International Program services	\$ 7,902,953
Fundraising	<u>2,340,172</u>
Total direct program services and fundraising expenses	<u>\$ 10,243,125</u>
Indirect cost rate	<u><u>17.5%</u></u>

Indirect Cost Pool

Indirect costs (management and general) represent expenses incurred at the corporate headquarters and United States branch offices of Holt International Children's Services, Inc., which benefit all of the HICS's programs and projects. These costs are maintained in one pool, which is then allocated between program services and fundraising. Both functions benefit to approximately the same degree and, therefore, only one indirect cost rate is calculated.

The indirect cost pool excludes the following unallowable costs:

- Fundraising expenses
- Entertainment expenses
- Interest expense
- Bad debt allowance

HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
SCHEDULE OF INDIRECT COST RATE, Continued
For the Year Ended December 31, 2007

Indirect Cost Base

The base amount used in calculating the indirect cost rate is the total direct program service cost incurred for both U.S. and International Program operations, excluding International Program support for HICS overseas affiliate programs and capital expenditures.

Rate Calculation

The indirect cost rate is calculated as follows:

$$\frac{\text{Total Management and General Costs}}{\text{Total Program Service Costs plus Total Fundraising Expenses}} = \underline{\text{Indirect Cost Rate}}$$



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors
Holt International Children's Services, Inc.
Eugene, Oregon

We have audited the financial statements of Holt International Children's Services, Inc. (a nonprofit organization) as of and for the year ended December 31, 2007, and have issued our report thereon dated March 14, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Holt International Children's Services, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Holt International Children's Services Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Jones & Roth, P.C.

www.jrcpa.com

300 SW Columbia Street
Suite 201
Bend, OR 97702
(541) 382-3590
FAX (541) 382-3587

432 West 11th Avenue
P.O. Box 10086
Eugene, OR 97440
(541) 687-2320
FAX (541) 485-0960

5635 NE Elam Young Parkway
Suite 100
Hillsboro, OR 97127
(503) 648-0521
FAX (503) 648-2692

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Holt International Children's Services, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Jones & Roth, P.C.

Jones & Roth, P.C.
Eugene, Oregon
March 14, 2008