

**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)

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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.

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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 | \$ 5,437,109 | \$ 4,746,494 |
| 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.

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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