

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

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

**For the Year Ended December 31, 2009
(With Comparative Totals for the Year Ended
December 31, 2008)**



HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
For the Year Ended December 31, 2009
(With Comparative Totals for the Year Ended December 31, 2008)

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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, 2009, 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, 2008 financial statements and, in our reports dated March 17, 2009, 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, 2009, 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 8, 2010, 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 rate 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 8, 2010

FINANCIAL STATEMENTS

HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2009
(With Comparative Totals for December 31, 2008)

	<u>2009</u>	<u>2008</u>
Assets		
Cash and cash equivalents	\$ 2,301,182	\$ 1,967,378
Receivables	1,044,683	1,107,334
USAID grant receivable	49,833	34,388
Prepaid expenses and supplies	444,837	550,841
Prepaid support - Holt Children's Services, Korea	1,001,820	1,129,360
Investments	5,956,189	4,917,009
Land, building, and equipment, net of accumulated depreciation	<u>1,552,388</u>	<u>1,517,174</u>
Total assets	<u>\$ 12,350,932</u>	<u>\$ 11,223,484</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 504,257	\$ 606,940
International Program support payable	313,835	539,095
Deferred adoption fee revenue	3,555,474	3,625,120
Deferred transportation fees	136,940	163,540
Deferred revenue - other	1,000	6,000
Deferred compensation	95,764	112,233
Annuity obligation	<u>204,891</u>	<u>131,840</u>
Total liabilities	<u>4,812,161</u>	<u>5,184,768</u>
Net assets		
Unrestricted net assets:		
Undesignated net assets	2,902,087	2,267,736
Board designated endowment	1,564,115	985,649
Temporarily restricted net assets (Note 6)	974,418	759,690
Permanently restricted net assets (Note 7)	<u>2,098,151</u>	<u>2,025,641</u>
Total net assets	<u>7,538,771</u>	<u>6,038,716</u>
Total liabilities and net assets	<u>\$ 12,350,932</u>	<u>\$ 11,223,484</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, 2009
(With Comparative Totals for the Year Ended December 31, 2008)

	2009			Total	2008 Total
	Unrestricted	Temporarily Restricted	Permanently Restricted		
Revenues and other support					
Public support:					
Contributions	\$ 1,576,719	\$ 7,504,127	\$ 72,510	\$ 9,153,356	\$ 8,261,982
Grants received:					
USAID grant, Ukraine	528,278	-	-	528,278	726,106
USAID grant, Guatemala	-	-	-	-	86,061
Other	-	357,037	-	357,037	777,422
Revenues:					
Adoption fees	11,594,872	-	-	11,594,872	10,568,851
Transportation fees	384,260	-	-	384,260	403,570
Investment, principally interest	131,538	21,448	-	152,986	180,892
Tour charges	354,620	-	-	354,620	275,921
Adoptee services	145,030	-	-	145,030	127,467
Publication sales, net of expenses of \$40,053 in 2009 and \$34,826 in 2008	6,184	-	-	6,184	3,129
Other revenue	15,722	-	-	15,722	46,023
Gains:					
Gain on sale of assets	3,532	-	-	3,532	45
Net unrealized/realized gain (loss) on investments	659,325	247,233	-	906,558	(1,697,714)
Net assets released from restrictions (Note 8)	7,915,117	(7,915,117)	-	-	-
Total revenues and other support	<u>23,315,197</u>	<u>214,728</u>	<u>72,510</u>	<u>23,602,435</u>	<u>19,759,755</u>
Expenses					
Program services:					
U.S. Program	6,140,110	-	-	6,140,110	6,285,493
International Program	2,223,452	-	-	2,223,452	2,144,199
International Program support:					
Holt Children's Services - Korea	3,069,761	-	-	3,069,761	3,140,739
Other	5,863,317	-	-	5,863,317	5,134,858
Total program services	<u>17,296,640</u>	<u>-</u>	<u>-</u>	<u>17,296,640</u>	<u>16,705,289</u>
Supporting services:					
Management and general	2,070,851	-	-	2,070,851	2,172,736
Fundraising	2,734,889	-	-	2,734,889	2,355,738
Total supporting services	<u>4,805,740</u>	<u>-</u>	<u>-</u>	<u>4,805,740</u>	<u>4,528,474</u>
Total expenses	<u>22,102,380</u>	<u>-</u>	<u>-</u>	<u>22,102,380</u>	<u>21,233,763</u>
Change in net assets	1,212,817	214,728	72,510	1,500,055	(1,474,008)
Net assets, beginning of year	3,253,385	759,690	2,025,641	6,038,716	7,512,724
Net assets, end of year	<u>\$ 4,466,202</u>	<u>\$ 974,418</u>	<u>\$ 2,098,151</u>	<u>\$ 7,538,771</u>	<u>\$ 6,038,716</u>

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, 2009
(With Comparative Totals for the Year Ended December 31, 2008)

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities		
Change in net assets	\$ 1,500,055	\$ (1,474,008)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	152,676	123,843
Gain on sale of equipment	(3,532)	(45)
Realized gain (loss) on sale of investments	81,572	(5,603)
Unrealized (gain) loss on investments	(988,130)	1,703,317
Contributions restricted for annuity agreement	(34,337)	-
Contributions restricted for endowments	(220,765)	(347,263)
(Increase) decrease in:		
Receivables	62,651	(98,851)
USAID grant receivable	(15,445)	37,730
Prepaid expenses and supplies	106,004	(52,742)
Prepaid support - Holt Children's Services, Korea	127,540	342,500
Increase (decrease) in:		
Accounts payable and accrued expenses	(102,683)	(8,086)
International Program support payable	(225,260)	(297,127)
Deferred revenue - other	(5,000)	3,250
Deferred adoption fee revenue	(69,646)	12,710
Deferred transportation fees	(26,600)	(75,845)
Deferred compensation	(16,469)	10,898
Net cash provided (used) by operating activities	<u>322,631</u>	<u>(125,322)</u>
Cash flows from investing activities		
Proceeds from sale of equipment	4,601	45
Purchases of building and equipment	(188,960)	(168,840)
Proceeds from sale of investments	458,774	1,044,255
Purchase of investments	<u>(591,396)</u>	<u>(1,012,355)</u>
Net cash used by investing activities	<u>(316,981)</u>	<u>(136,895)</u>

	<u>2009</u>	<u>2008</u>
Cash flows from financing activities		
Proceeds from contributions restricted for:		
Investment subject to annuity agreements	116,282	-
Other financing activities:		
Endowment contributions invested	220,765	347,263
Payments of annuity obligations	<u>(8,893)</u>	<u>(8,863)</u>
Net cash provided by financing activities	<u>328,154</u>	<u>338,400</u>
Net increase in cash and cash equivalents	333,804	76,183
Cash and cash equivalents, beginning of year	<u>1,967,378</u>	<u>1,891,195</u>
Cash and cash equivalents, end of year	<u>\$ 2,301,182</u>	<u>\$ 1,967,378</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, 2009
(With Comparative Totals for the Year Ended December 31, 2008)

	Program Services			Total
	U.S. Program	International Program	International Program Support	
Salaries	\$ 3,332,643	\$ 571,843	\$ -	\$ 3,904,486
Employee health and retirement benefits	556,940	63,152	-	620,092
Payroll taxes	303,689	31,599	-	335,288
Total salaries and related expenses	4,193,272	666,594	-	4,859,866
Grants and support	-	-	8,933,078	8,933,078
Intercountry transportation	357,079	-	-	357,079
Child care, clothes, and medicine	111,114	315,037	-	426,151
Professional fees	402,620	312,678	-	715,298
Supplies	33,290	37,738	-	71,028
Postage and shipping	146,883	2,823	-	149,706
Telephone	87,038	17,547	-	104,585
Building occupancy	152,531	172,900	-	325,431
Rental of equipment	5,695	9,086	-	14,781
Printing, publication, and other graphics	150,714	33,103	-	183,817
Travel and allowances:				
Staff	395,012	288,421	-	683,433
Board	-	-	-	-
Staff development	17,332	2,629	-	19,961
Tours and other expenses	22,561	320,775	-	343,336
Total before depreciation	6,075,141	2,179,331	8,933,078	17,187,550
Depreciation	64,969	44,121	-	109,090
Total expenses	\$ 6,140,110	\$ 2,223,452	\$ 8,933,078	\$ 17,296,640
2009 percentage of total functional expenses	27.8%	10.1%	40.4%	78.3%
2008 percentage of total functional expenses	29.6%	10.1%	39.0%	78.7%

<u>Supporting Services</u>				
<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>	<u>2009 Total Program and Support</u>	<u>2008 Total Program and Support</u>
\$ 838,446	\$ 805,489	\$ 1,643,935	\$ 5,548,421	\$ 5,499,349
157,635	149,284	306,919	927,011	906,307
77,896	73,268	151,164	486,452	491,987
<u>1,073,977</u>	<u>1,028,041</u>	<u>2,102,018</u>	<u>6,961,884</u>	<u>6,897,643</u>
-	-	-	8,933,078	8,286,281
-	-	-	357,079	389,416
-	-	-	426,151	474,907
238,011	257,649	495,660	1,210,958	922,217
55,209	13,337	68,546	139,574	205,016
11,014	166,531	177,545	327,251	394,809
35,157	16,971	52,128	156,713	159,962
277,197	1,182	278,379	603,810	661,267
60,727	75	60,802	75,583	61,156
<u>14,270</u>	<u>1,060,097</u>	<u>1,074,367</u>	<u>1,258,184</u>	<u>1,165,273</u>
46,917	140,332	187,249	870,682	998,679
25,739	-	25,739	25,739	25,118
7,693	2,917	10,610	30,571	29,188
<u>199,708</u>	<u>29,403</u>	<u>229,111</u>	<u>572,447</u>	<u>438,988</u>
<u>2,045,619</u>	<u>2,716,535</u>	<u>4,762,154</u>	<u>21,949,704</u>	<u>21,109,920</u>
<u>25,232</u>	<u>18,354</u>	<u>43,586</u>	<u>152,676</u>	<u>123,843</u>
<u>\$ 2,070,851</u>	<u>\$ 2,734,889</u>	<u>\$ 4,805,740</u>	<u>\$ 22,102,380</u>	<u>\$ 21,233,763</u>
9.4%	12.4%	21.7%	100%	100%
10.2%	11.1%	21.3%	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, Washington, 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.

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.

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.

Advertising Costs

HICS's advertising costs are expensed as incurred. The total expense was \$826,825 in 2009 and \$681,714 in 2008, respectively.

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

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

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 has designated a portion of bequests to be held in perpetuity to benefit the general purposes of HICS 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.

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.

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

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

Endowment Fund Policy

The Board of Directors has established guidelines for the utilization of the Endowment Fund maintained to benefit the general purposes of HICS. 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.

HICS's endowment investment strategy is to emphasize long-term growth as measured by total return, while avoiding excessive risk. The primary investment objective is to achieve a balanced return of income consistent with principal growth and to achieve a rate of return, net of fees, to exceed a return of relevant indices or other benchmarks as determined by HICS's Investment Committee and the Investment Manager.

Endowment fund investments are limited to individual marketable securities or funds in cash equivalents, fixed income securities, equity securities, mutual funds, and real estate investment trusts.

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 HICS's financial statements for the year ended December 31, 2008, from which the summarized information is derived.

2. Cash and Cash Equivalents

At December 31, cash and cash equivalents consisted of the following:

	<u>2009</u>	<u>2008</u>
Cash on hand	\$ 4,810	\$ 4,268
Checking accounts	443,215	572,506
Money markets	<u>1,853,157</u>	<u>1,390,604</u>
Total cash and cash equivalents	<u>\$ 2,301,182</u>	<u>\$ 1,967,378</u>

At December 31, 2009 and 2008, bank balances of \$1,977,472 and \$1,599,480, respectively, were not covered by federal depository insurance. These amounts are based on bank balances that have not been reduced for outstanding checks.

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

3. Investments

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

	Fair Value	
	2009	2008
Certificates of deposit	\$ 558,643	\$ 759,235
Corporate bonds	20,000	96,696
Equity securities	54,856	67,685
Mutual funds (various funds):		
Multi-Financial Securities Corp.	3,951,053	2,984,530
U.S. Bank	1,364,620	1,001,453
Other funds	7,017	7,410
 Total fair value of investments	 <u>\$ 5,956,189</u>	 <u>\$ 4,917,009</u>

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

	2009	2008
Balance, January 1	<u>\$ 4,917,009</u>	<u>\$ 6,646,623</u>
Investment activity:		
Purchase of investments	591,396	1,012,355
Sale of investments	<u>(458,774)</u>	<u>(1,044,255)</u>
Net principal increase (decrease)	<u>132,622</u>	<u>(31,900)</u>
Investment returns:		
Realized and unrealized gains (losses)	<u>906,558</u>	<u>(1,697,714)</u>
Balance, December 31	<u>\$ 5,956,189</u>	<u>\$ 4,917,009</u>

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

	2009	2008
Interest and dividends	\$ 152,986	\$ 180,892
Unrealized gains (losses)	988,130	(1,703,317)
Realized gains (losses)	<u>(81,572)</u>	<u>5,603</u>
 Total return on investments	 <u>\$ 1,059,544</u>	 <u>\$ (1,516,822)</u>

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

4. Fair Value Measurement

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability, in the absence of a principle market, the most advantageous market. Valuation techniques that are consistent with the market, income, or cost approach, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities HICS's has been able to access.
- Level 2: Inputs (other than quoted prices included within Level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include HICS's own data.)

The following table present HICS's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2009.

	Assets at Fair Value as of December 31, 2009			
	Level 1	Level 2	Level 3	Total
Investments	\$ 5,956,189	\$ -	\$ -	\$ 5,956,189

5. Land, Building, and Equipment

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

	2009	2008
Construction-in-progress	\$ 185,574	\$ 185,574
Land	702,716	702,716
Building	1,015,588	1,015,588
Office equipment	1,338,314	1,212,809
Transportation equipment	127,670	96,437
	3,369,862	3,213,124
Accumulated depreciation	(1,817,474)	(1,695,950)
Land, building, and equipment, net of accumulated depreciation	\$ 1,552,388	\$ 1,517,174

Depreciation expense for 2009 and 2008 was \$152,676 and \$123,843, respectively.

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

6. Temporarily Restricted Net Assets

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

	<u>2009</u>	<u>2008</u>
Program:		
South Korea	\$ 96,455	\$ 4,501
North Korea	-	51,732
Mongolia	-	18,210
Philippines	1,205	200
Vietnam	8,787	8,601
India	1,300	5,115
Special Needs Fund	6,677	28,212
Romania	-	215
Gift Annuity	93,447	35,314
Camps	2,797	5,410
Cambodia	393	12,766
China	59,561	95,947
Ethiopia	10,075	-
Guatemala	302,790	222,940
Haiti	41,074	106,800
Ukraine	21,028	4,714
Uganda	79,906	96,065
Endowment earnings	<u>248,923</u>	<u>62,948</u>
 Total temporarily restricted net assets	 <u>\$ 974,418</u>	 <u>\$ 759,690</u>

7. Permanently Restricted Net Assets

Permanently restricted net assets at December 31, 2009 and 2008, of \$2,098,151 and \$2,025,641, respectively, consisted of endowment funds which are permanently restricted as stipulated by the donors.

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

8. 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. The amounts released during the year are as follows:

	<u>2009</u>	<u>2008</u>
Purpose of restriction:		
Program services:		
U.S. Program	\$ 596,998	\$ 428,213
International Program	854,392	869,517
International Program support:		
Holt Children's Services – Korea	537,717	689,852
Other	3,706,377	3,446,934
Supporting services:		
Management and general	115,891	54,223
Fund raising	<u>2,103,742</u>	<u>1,791,683</u>
Total net assets released from restrictions	<u>\$ 7,915,117</u>	<u>\$ 7,280,422</u>

9. Endowment Fund

At December 31, the Endowment Fund consisted of the following:

	<u>2009</u>	<u>2008</u>
Unrestricted – Board designated	\$ 1,564,115	\$ 985,649
Temporary restricted earnings	248,923	62,948
Permanently restricted	<u>2,098,151</u>	<u>2,025,641</u>
Total Endowment Fund	<u>\$ 3,911,189</u>	<u>\$ 3,074,238</u>

A summary of Endowment Fund activity was as follows:

	<u>2009</u>	<u>2008</u>
Balance, January 1	\$ <u>3,074,238</u>	\$ <u>3,910,578</u>
Contributions	<u>220,765</u>	<u>347,263</u>
Appropriated expenditures	<u>(178,359)</u>	<u>(130,657)</u>
Investment returns:		
Unrealized gain (loss) on endowment	727,986	(1,135,113)
Return on endowment investments	<u>66,559</u>	<u>82,167</u>
Investment returns, net	<u>794,545</u>	<u>(1,052,946)</u>
Balance, December 31	<u>\$ 3,911,189</u>	<u>\$ 3,074,238</u>

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

10. 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.

International Program services provided were as follows:

	<u>2009</u>	<u>2008</u>
Cambodia	\$ 26,463	\$ 27,953
China	199,712	75,866
Ecuador	-	2,628
Ethiopia	715,311	620,047
Guatemala	223,792	147,523
Haiti	4,319	-
India	4,427	6,161
Kazakhstan	-	38,829
Kyrgyzstan	-	10,370
Mongolia	2,000	869
Nepal	61,054	19,702
North Korea	2,077	7,120
Russia	-	29,365
South Korea	154,360	163,983
Thailand	-	18,790
Uganda	8,913	13,158
Ukraine	423,824	494,094
Vietnam	<u>397,200</u>	<u>467,741</u>
Total International Program services provided	<u>\$ 2,223,452</u>	<u>\$ 2,144,199</u>

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

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

Program Services, continued

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>2009</u>	<u>2008</u>
Fees	\$ 2,455,428	\$ 2,400,990
Contributions restricted for HCS - Korea	537,717	689,852
Support	<u>76,616</u>	<u>49,897</u>
 Total International Program support HCS - Korea	 <u>\$ 3,069,761</u>	 <u>\$ 3,140,739</u>

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>2009</u>	<u>2008</u>
Bulgaria	\$ 13,645	\$ 4,588
Cambodia	44,555	29,466
China	3,064,322	2,584,414
Ethiopia	549,095	45,573
Guatemala	40,656	115,262
Haiti	360,196	300,492
India	525,345	535,099
Kazakhstan	-	742
Kyrgyzstan	-	81
Mongolia	10,588	68,010
Nepal	34,105	30,591
North Korea	127,704	126,676
Philippines	209,788	251,035
Romania	365,238	325,950
South Africa	-	250
Thailand	276,955	333,443
Uganda	167,345	183,149
Ukraine	<u>73,780</u>	<u>200,037</u>
 Total International Program support, other	 <u>\$ 5,863,317</u>	 <u>\$ 5,134,858</u>

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

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

Program Services, continued

Supporting Services

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

11. 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 \$305,909 in 2009 and \$317,338 in 2008.

12. Commitments and Contingencies

Operating Leases

Rental expense was \$316,436 and \$308,441 in 2009 and 2008, respectively. 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>	
2010	\$ 162,011
2011	126,723
2012	34,692
2013	14,788
2014	-
Thereafter	-
Total future minimum rental payments	<u>\$ 338,214</u>

13. 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.

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

14. Concentration of Risk - Adoption Services

Approximately 49 percent in 2009 and 53 percent in 2008 of HICS's revenue was derived from the adoption services it provided in various countries, including Korea, China, Ethiopia, 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.

15. Subsequent Events

Management evaluates events and transactions that occur after the balance sheet date as potential subsequent events. Management has performed this evaluation through the date of the report.

SUPPLEMENTARY INFORMATION

HOLT INTERNATIONAL CHILDREN'S SERVICES, INC.
SCHEDULE OF INDIRECT COST RATE
For the Year Ended December 31, 2009

Salaries	\$	838,446
Employee health and retirement benefits		157,635
Payroll taxes		<u>77,896</u>
Total salaries and related expenses		1,073,977
Professional fees		238,011
Supplies		55,209
Postage and shipping		11,014
Telephone		35,157
Building occupancy		277,197
Rental of equipment		60,727
Printing, publications, and graphics		14,270
Travel and allowances:		
Staff		46,917
Board		25,739
Staff development		7,693
Tours and other expenses, less unallowable costs		186,429
Depreciation		<u>25,232</u>
Total allowable management and general expenses		<u>\$ 2,057,572</u>
Direct U.S. and International Program services	\$	8,363,562
Fundraising		<u>2,734,889</u>
Total direct U.S. and International Program services and fundraising expenses		<u>\$ 11,098,451</u>
Indirect cost rate		<u>18.5%</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, 2009

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, plus total fundraising expense.

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, 2009, and have issued our report thereon dated March 8, 2010. 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 deficiency in internal control 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered 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 8, 2010