

KIDSAVE INTERNATIONAL, INC.
AUDITED FINANCIAL STATEMENTS
December 31, 2008

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Drolet + Associates PLLC

CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Kidsave International, Inc.
Washington, DC

Report of Independent Auditors

We have audited the accompanying statement of financial position of Kidsave International, Inc. (the Organization) as of December 31, 2008 and the related statements of activities, functional expenses and cash flows 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.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Kidsave International, Inc. as of December 31, 2008, 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.

Drolet + Associates, PLLC

Washington, DC
January 11, 2010

KIDSAVE INTERNATIONAL, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2008

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 255,087
Contributions and grants receivable	340,160
Prepaid expenses	29,262
Restricted cash	16,109
TOTAL CURRENT ASSETS	640,618
FIXED ASSETS, net	20,702
SECURITY DEPOSITS	5,124
TOTAL ASSETS	\$ 666,444
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable and accrued expenses	\$ 112,829
Adoption assistance and sponsorships	16,109
Deferred revenue	3,745
Line of credit	70,000
Obligation under capital lease	18,819
Compensation payable	6,358
International taxes payable	56,120
TOTAL CURRENT LIABILITIES	283,980
OBLIGATION UNDER CAPITAL LEASE, net of current portion	3,447
TOTAL LIABILITIES	287,427
NET ASSETS (DEFICIT)	
Unrestricted	(82,942)
Temporarily restricted	461,959
TOTAL NET ASSETS	379,017
TOTAL LIABILITIES AND NET ASSETS	\$ 666,444

The accompanying notes are an integral part of these financial statements.

KIDSAVE INTERNATIONAL, INC.
STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2008

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Contributions and grants	\$ 2,653,303	\$ 447,643	\$ 3,100,946
Host fees	46,105		46,105
Deinstitutionalization fees	37,500		37,500
Special events	455,721		455,721
Interest and dividends	3,341		3,341
Miscellaneous income	7,233		7,233
Net assets released from restrictions	249,033	(249,033)	-0-
TOTAL SUPPORT AND REVENUE	3,452,236	198,610	3,650,846
EXPENSES			
Program services	2,801,353		2,801,353
Management and general	463,373		463,373
Fundraising	164,470		164,470
TOTAL EXPENSES	3,429,196	-0-	3,429,196
CHANGE IN NET ASSETS	23,040	198,610	221,650
NET ASSETS (DEFICIT), BEGINNING OF YEAR (Restated)	(105,982)	263,349	157,367
NET ASSETS (DEFICIT), END OF YEAR	\$ (82,942)	\$ 461,959	\$ 379,017

The accompanying notes are an integral part of these financial statements.

	Summer Miracles	Weekend Miracles	Russian Miracles	Colombia Programs
Adoption assistance				\$ 2,213
Advertising	\$ 6,003	\$ 19,594	\$ 1,105	4,093
Bad debt expense				
Bank charges	5,556	4,832	2,419	86
Conference and meetings	10,679	3,098	6,279	11,033
Contractors	79,114	83,848	7,788	35,845
Database support	190			
Depreciation and amortization				
Dues and subscriptions	2,680	558	4,007	
Entertainment				
Equipment rental and maintenance	7,373	6,918	4,664	17,420
Grants made			51,817	
Insurance	1,032	2,378	342	122
Interest				
Licenses, taxes and fees	496	746	345	26
Miscellaneous	6,480	1,464	1,157	2,195
Office expense	5,167	2,735	7,302	3,889
Other employee benefits	16,950	28,258	4,209	1,204
Salaries and wages	263,378	286,226	193,354	35,974
Payroll taxes	19,176	22,072	58,607	6,744
Photography and AV	733	541	100	100
Postage and shipping	4,918	2,713	1,488	78
Printing and publications	4,239	2,304	338	1,497
Professional development	2	2		
Professional fees	22,814	19,649	48,318	10,364
Rent	23,536	35,200	36,398	3,914
Supplies	16,603	5,674	3,103	2,067
Telephone	17,683	9,278	10,875	1,659
Training and recruitment	13,204	2,571	5,718	41,180
Translation	2,204		250	
Travel	163,994	4,274	33,125	3,514
TOTAL EXPENSES	\$ 694,204	\$ 544,933	\$ 483,108	\$ 185,217

KIDSAVE INTERNATIONAL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended December 31, 2008

Advocacy	Child Assistance	Permanency Program	Total Program	Management and General	Fundraising	Total
			\$ 2,213			\$ 2,213
\$ 2,501		\$ 93,915	127,211		\$ 1,245	128,456
			-0-	\$ 920	100	1,020
283	\$ 23	1,497	14,696	9,382	7,952	32,030
85,759	37,985	21,424	176,257	858	79,167	256,282
32,337	275	112,947	352,154	13,960	10,503	376,617
			190			190
			-0-	29,125		29,125
		612	7,857	4	1,623	9,484
			-0-		672	672
		5,969	42,344	8,634	3,495	54,473
			51,817			51,817
560		1,295	5,729	813	106	6,648
			-0-	2,765		2,765
	830	173	2,616	2,283	111	5,010
6,026		5,137	22,459	10,536	1,769	34,764
1,196		5,579	25,868	14,164	347	40,379
5,730	21	17,835	74,207	40,740	1,611	116,558
58,382	653	190,706	1,028,673	159,106	37,483	1,225,262
5,731	23	17,389	129,742	12,396	1,070	143,208
		416	1,890		485	2,375
4,451	89	2,868	16,605	5,138	2,866	24,609
23,617		8,496	40,491	17	7,290	47,798
		67	71	636		707
2,231		20,914	124,290	68,089	1,033	193,412
6,195		26,501	131,744	72,768	3,910	208,422
7,347		9,022	43,816			43,816
1,264	21	4,274	45,054	7,635	1,319	54,008
29,373		23,112	115,158	414		115,572
			2,454	1,485		3,939
6,597		4,243	215,747	1,505	313	217,565
\$ 279,580	\$ 39,920	\$ 574,391	\$ 2,801,353	\$ 463,373	\$ 164,470	\$ 3,429,196

The accompanying notes are an integral part of these financial statements.

KIDSAVE INTERNATIONAL, INC.
STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2008

CASH FLOWS FROM OPERATING ACTIVITIES	
Inflows:	
Cash received from contributions and grants	\$ 2,731,959
Cash received from client fees	83,605
Interest and dividends received	3,341
Other operating cash receipts	452,020
Total Inflows:	3,270,925
Outflows:	
Cash paid to employees	1,214,761
Interest paid	2,765
Other operating expenses paid	2,175,584
Total Outflows:	3,393,110
NET CASH USED IN OPERATING ACTIVITIES	(122,185)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases or donations of investments	(4,020)
Proceeds from sale or redemption of investments	3,941
NET CASH USED IN INVESTING ACTIVITIES	(79)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from line of credit	70,000
Payments for compensation payable	(39,875)
Payments on capital lease obligations	(27,621)
NET CASH PROVIDED BY FINANCING ACTIVITIES	2,504
NET CHANGE IN CASH AND CASH EQUIVALENTS	(119,760)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	374,847
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 255,087

The accompanying notes are an integral part of these financial statements.

KIDSAVE INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Kidsave International, Inc. (the Organization), a not-for-profit organization, was founded in 1997. The Organization's mission is to transform child welfare systems so that no child is forgotten and every child grows up in a family with love and hope for a successful future. The Organization's programmatic cornerstone is its Family Visit Model, an innovative method for engaging adults and children and providing children with caring advocates who can help them find permanent families.

The Organization's major programs are as follows:

Summer Miracles - The Organization's Summer Miracles Program brings orphaned children from foreign countries to the USA for five weeks every summer, connecting them with individuals and families in the community. Host families help the children enjoy a rich cultural experience and, more importantly, advocate for the children – reaching out to their circles of friends to find families interested in adoption.

Weekend Miracles - Through partnerships with the Los Angeles Department of Children and Family Services and the District of Columbia Child and Family Services Agency, the Organization is building and testing Weekend Miracles, a program for youth ages 9 to 21 which is designed to shine a light on children waiting for adoption. Through Weekend Miracles, children are introduced to people in the community who have the opportunity to host them in their homes for a series of weekends and help the children find permanent families.

Russian Miracles - Russian Miracles offers orphans hope, family and love. Over the last four years the Organization has helped engage regional ministries of education in St. Petersburg, Yuzhno Sahkalinsk and Smolensk, in the Family Visit Model. Additionally, children nearing the age of emancipation are attending the Organization's School of Life (Moscow, Smolensk, St. Petersburg) to learn basic independent living skills. In St. Petersburg, the Organization is also supporting orphan teen moms and pregnant teens to help them learn how to care for their babies and not put them into an orphanage.

Colombia Programs - Kidsave Colombia operates "Encuentros Milagrosos" (Miraculous Encounters) in partnership with the Instituto Colombiano Bienestar Familiar (ICBF). Children and interested adults have opportunities to get acquainted at monthly sponsored events, which are designed to encourage interaction between orphans and interested families. Many of the Encuentros families and children also participate in the Organization's 'Project of Life' program, which is designed to enable the host families to work with the children to help them develop the personal and social skills they will need to succeed in society. The Organization's goal is to test the program in Bogota and then help ICBF expand it nationwide.

KIDSAVE INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2008

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Organization
(Continued)

Advocacy - As a global voice for change, the Organization conducts community events to build awareness of the global, and the local, problems of children without parents. These events include luncheons, golf tournaments, galas, walks and other events. The focus of these events combines advocacy, seeking support for outreach, and recruiting host families, volunteers and advocates for the children. The Organization also speaks out in government forums, hearings and through the media to share information about the problems related to lack of family care, to advocate for greater attention and funding to help more children move into permanent families.

Permanency Program - The Organization continues to speak out as the voice for change in the treatment of orphans and foster youth. Work done that is not under the scope of an existing program that focuses on helping individual children, countries, or regions in their permanency efforts, is accounted for under the Permanency Program category.

Financial Statement
Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets, as applicable: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Cash and Cash
Equivalents

For purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments available for current use with a maturity of three months or less when purchased to be cash equivalents.

Fixed Assets

The Organization capitalizes all computer equipment of \$750 and above and all other fixed assets acquisitions of \$1,000 and above. Fixed assets are recorded at cost, if purchased, or fair market value at date of donation, if contributed. Depreciation and amortization is provided on the straight-line basis over the estimated useful lives of the assets.

Advertising Costs

Advertising costs are expensed as incurred and amounted to approximately \$128,000 for the year ended December 31, 2008.

Deferred Revenue

The Organization records grant revenue as deferred revenue until it is expended for the purpose of the grant/contract, at which time it is recognized as revenue. The balance in deferred revenue at December 31, 2008 represents amounts received that will be expended in the next fiscal year in accordance with the grant/contract period.

KIDSAVE INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2008

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Revenue Recognition	Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Contributions are then reclassified to unrestricted net assets upon expiration of the time and programmatic restriction. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. Similarly, all income, gains, and losses from investments of restricted contributions are recognized as unrestricted unless specified as restricted by the donor.
Functional Expenses	General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies.
Donated Services	Donated services are recognized as contributions in accordance with SFAS No. 116, <i>Accounting for Contributions Received and Contributions Made</i> , if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Volunteers also provided services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria under SFAS No. 116 were not met.
Use of Estimates	Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could vary from the estimates that were used.
Income Taxes	No provision has been made for Federal and state income taxes because the Organization is exempt from such taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state regulations. In addition, the Internal Revenue Service has determined that the Organization is not a private foundation within the meaning of Section 509(a) of the Code.

KIDSAVE INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2008

NOTE B - RESTRICTED CASH

As of December 31, 2008 restricted cash of approximately \$16,000 is available for Adoption Assistance and Sponsorships.

NOTE C - FIXED ASSETS

The Organization held the following fixed assets as of December 31, 2008:

Description	Amount
Furniture and equipment	\$ 16,699
Website	28,262
Software under capital lease	52,430
Total fixed assets	97,391
Less: accumulated depreciation and amortization	(76,689)
Fixed assets, net	\$ 20,702

NOTE D - CAPITAL LEASE OBLIGATIONS

The Organization is the lessee of software under capital leases which have various terms. The assets and the liabilities under the leases are recorded at the present value of the minimum lease payments. The assets are being depreciated over their estimated useful lives. Depreciation under the leases is included in depreciation expense. As of December 31, 2008, the accumulated depreciation related to the leases was approximately \$41,000.

Minimum future lease payments under the leases as of December 31, 2008 are as follows:

Year Ended December 31,	Amount
2009	\$ 19,358
2010	3,489
Total minimum lease payments	22,847
Less amount representing interest	(581)
Present value of total minimum lease payments	\$ 22,266

KIDSAVE INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2008

NOTE E - OPERATING LEASES

The Organization leases office space in several cities with various lease terms. The Organization is obligated under these leases through 2010.

Under the terms of the Washington, DC lease, the base rent increases annually based on scheduled increases provided for in the lease. Subsequent to year-end, the Organization entered into a sublease agreement for office space in Culver City, CA. The sublease commenced on June 1, 2009 and will expire on June 30, 2010.

As of December 31, 2008, future minimum lease payments under operating leases entered into by the Organization that have remaining lease terms in excess of one year are as follows:

<i>Year Ending December 31,</i>	<i>Amount</i>
2009	\$ 68,527
2010	29,562
<hr/>	
Total future minimum lease payments	\$ 98,089

Rent expense for the year ended December 31, 2008 was approximately \$208,000.

NOTE F - TEMPORARILY RESTRICTED NET ASSETS

As of December 31, 2008, temporarily restricted net assets were available for the following programs:

Description	Amount
Summer Miracles	\$ 16,845
Weekend Miracles	119,419
Russian Miracles	38,261
Colombia Programs	618
Other restrictions	1,000
Time restriction	285,816
<hr/>	
Total	\$ 461,959

KIDSAVE INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2008

NOTE F - TEMPORARILY RESTRICTED NET ASSETS (Continued)

For the year ended December 31, 2008, net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors as follows:

Description	Amount
Summer Miracles	\$ 28,145
Weekend Miracles	148,126
Colombia Programs	24,238
Communications	11,024
Time restriction	37,500
Total releases	\$ 249,033

NOTE G - SCHEDULE RECONCILING CHANGE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES

	Amount
CHANGE IN NET ASSETS	\$ 221,650
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization expense	29,125
Loss on investment	79
Loss on disposal of fixed assets	3,854
Increase in contributions receivable	(244,457)
Increase in prepaid expenses	(4,691)
Increase in restricted cash	(10,176)
Decrease in accounts payable and accrued expenses	(19,759)
Increase in adoption assistance and sponsorship	10,176
Decrease in deferred revenue	(107,986)
NET CASH USED IN OPERATING ACTIVITIES	\$ (122,185)

NOTE H - FOREIGN OFFICES

The Organization has offices in Russia and Colombia. The only significant asset in each country is cash. As of December 31, 2008, the total cash held in Russia was approximately \$14,600. The total cash held in Colombia was approximately \$15,500.

KIDSAVE INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2008

NOTE I - CONCENTRATIONS

The Organization maintains cash balances at financial institutions, which at times during the year, exceeded Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

For the year ended December 31, 2008, approximately \$550,000 of grant revenue was received from one foundation or 15% of total revenue.

As of December 31, 2008, approximately 73% of the contributions and grants receivable were from one donor and 15% from the Federal government.

NOTE J - GOVERNMENT GRANTS

Approximately \$324,000 of the Organization's revenue is derived from a grant with the federal government, which is subject to audit by various agencies. A contingent liability exists to refund any amounts received in excess of allowable costs incurred and revenue recognized. Management believes that the adjustments, if any, resulting from such audits will not be material to the financial statements.

NOTE K - LINE OF CREDIT

During 2008, the Organization had a \$150,000 secured revolving line of credit from a bank that bears interest at the prime rate as published in the Wall Street Journal. Interest is payable monthly. The line of credit expires on April 1, 2010.

The line of credit is secured by substantially all of the assets of the Organization and contains restrictive covenants including the submission of interim financial statements within 45 days after the end of each quarter and audited financial statements within 120 days after the close of the fiscal year. The Bank has delayed these requirements for the first quarter interim statements of 2009 and the audited financial statements for the year ended December 31, 2008.

NOTE L - RELATED PARTIES

In a prior year and in 2007 the Chief Executive Officer (CEO) and President, chose to defer a portion of their compensation due to cash flow constraints. No formal payment terms exist. The total balance due is reflected as compensation payable.

The former Chair Emeritus of the Board and current board member is a partner in a law firm which provided approximately \$71,000 of pro-bono legal services to the Organization during the year ended December 31, 2008.

A member of the Board is a principal in a law firm which provided approximately \$11,000 of pro-bono legal services to the Organization for the year ended December 31, 2008.

A member of the Board is an employee of a company which provided approximately \$12,000 of pro-bono consulting services to the Organization for the year ended December 31, 2008.

KIDSAVE INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2008

NOTE M - PENSION PLAN

Effective January 1, 2008, the Organization adopted a 401(k) savings plan (the Plan). The Plan is a defined contribution plan covering all eligible full-time employees who have completed one year of service and have obtained age 21. Participants may elect to make voluntary contributions to the Plan. The Organization will make a safe harbor matching contribution of the lesser of 100% of a participant's aggregate deferral contribution for the entire Plan year, or 4% of eligible compensation for the Plan year. The Organization may also make additional discretionary profit sharing contributions which vest over a period of six years. Contributions made by the Organization were approximately \$19,000 in 2008.

NOTE N - DONATED SERVICES

For the year ended December 31, 2008, donated services included legal and other professional fees which are included in the financial statements as follows:

Description	Amount
Summer Miracles	\$ 10,733
Weekend Miracles	10,733
Russian Programs	35,122
Colombia Programs	8,108
Permanency Programs	8,108
Management and general	44,476
Fundraising	7,250
Total	\$ 124,530

NOTE O - INTERNATIONAL TAXES PAYABLE

During 2008, the Organization hired an outside consultant to review certain previous fundraising activities in Russia to determine the potential tax liability related to those activities. Based on the results of the review, the Organization has incurred an estimated tax liability of approximately \$56,000, including penalties and interest.

NOTE P - NET ASSET RESTATEMENT

The unrestricted and temporarily restricted net asset balance as of January 1, 2008 has been restated to reflect the proper classification of the net assets. Unrestricted net assets as of January 1, 2008 decreased by approximately \$83,000 and temporarily restricted net assets increased by approximately \$83,000.

KIDSAVE INTERNATIONAL, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
December 31, 2008

NOTE Q - JOINT COST ALLOCATION

The Organization incurred joint costs in 2008 for informational materials and special events that included fundraising appeals. The costs were allocated as follows:

Description	Amount
Advocacy	\$ 102,606
Fundraising	25,652
Total	\$ 128,258