

**KIDSAVE INTERNATIONAL, INC.**  
**AUDITED FINANCIAL STATEMENTS**  
**December 31, 2007**

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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, 2007 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. The prior year summarized comparative information has been derived from the Organization's December 31, 2006 financial statements, and in our report dated November 12, 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. 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, 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.

*Drolet + Associates, PLLC*

Washington, DC  
September 29, 2008

**KIDSAVE INTERNATIONAL, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2007**  
(With Summarized Financial Information for December 31, 2006)

|   | 2007              | 2006              |
|---|-------------------|-------------------|
| <b>ASSETS</b>   |                   |                   |
| <b>CURRENT ASSETS</b>   |                   |                   |
| Cash and cash equivalents                                     | \$ 374,847        | \$ 481,171        |
| Investments   | -0-               | 18,211            |
| Employee receivable   | -0-               | 23,296            |
| Contributions and grants receivable                           | 95,703            | 212,437           |
| Prepaid expenses  | 24,571            | 25,640            |
| <b>TOTAL CURRENT ASSETS</b>                                   | <b>495,121</b>    | <b>760,755</b>    |
| <b>FIXED ASSETS, net</b>                                      | <b>53,681</b>     | <b>62,934</b>     |
| <b>SECURITY DEPOSITS</b>                                      | <b>5,124</b>      | <b>5,124</b>      |
| <b>RESTRICTED CASH</b>  | <b>5,933</b>      | <b>10,578</b>     |
| <b>TOTAL ASSETS</b>   | <b>\$ 559,859</b> | <b>\$ 839,391</b> |
| <b>LIABILITIES AND NET ASSETS</b>                             |                   |                   |
| <b>CURRENT LIABILITIES</b>                                    |                   |                   |
| Accounts payable and accrued expenses                         | \$ 132,588        | \$ 140,884        |
| Adoption assistance and sponsorships                          | 5,933             | 10,578            |
| Deferred revenue  | 111,731           | 12,165            |
| Line of credit  | -0-               | 41,723            |
| Obligation under capital lease                                | 27,601            | 21,531            |
| Compensation payable  | 46,233            | 63,318            |
| International taxes payable                                   | 56,120            | -0-               |
| <b>TOTAL CURRENT LIABILITIES</b>                              | <b>380,206</b>    | <b>290,199</b>    |
| <b>OBLIGATION UNDER CAPITAL LEASE, net of current portion</b> | <b>22,286</b>     | <b>31,762</b>     |
| <b>TOTAL LIABILITIES</b>                                      | <b>402,492</b>    | <b>321,961</b>    |
| <b>NET ASSETS</b>   |                   |                   |
| Unrestricted  | (22,826)          | 127,336           |
| Temporarily restricted  | 180,193           | 390,094           |
| <b>TOTAL NET ASSETS</b>                                       | <b>157,367</b>    | <b>517,430</b>    |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>                       | <b>\$ 559,859</b> | <b>\$ 839,391</b> |

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

**KIDSAVE INTERNATIONAL, INC.**  
**STATEMENT OF ACTIVITIES**  
**For The Year Ended December 31, 2007**  
(With Summarized Financial Information for the Year Ended December 31, 2006)

|                                       | Unrestricted       | Temporarily<br>Restricted | 2007<br>Total     | 2006<br>Total     |
|---------------------------------------|--------------------|---------------------------|-------------------|-------------------|
| <b>SUPPORT AND REVENUE</b>            |                    |                           |                   |                   |
| Contributions and grants              | \$ 2,367,363       | \$ 172,102                | \$ 2,539,465      | \$ 2,603,874      |
| Host fees                             | 55,770             |                           | 55,770            | 24,910            |
| Deinstitutionalization fees           | 40,200             |                           | 40,200            | 95,500            |
| Special events                        | 557,901            |                           | 557,901           | 882,242           |
| Interest and dividends                | 7,270              |                           | 7,270             | 487               |
| Miscellaneous income                  | -0-                |                           | -0-               | 16,322            |
| Net assets released from restrictions | 382,003            | (382,003)                 | -0-               | -0-               |
| <b>TOTAL SUPPORT AND REVENUE</b>      | <b>3,410,507</b>   | <b>(209,901)</b>          | <b>3,200,606</b>  | <b>3,623,335</b>  |
| <b>EXPENSES</b>                       |                    |                           |                   |                   |
| Program services                      | 2,917,254          |                           | 2,917,254         | 2,419,933         |
| Management and general                | 466,651            |                           | 466,651           | 563,051           |
| Fundraising                           | 176,764            |                           | 176,764           | 227,913           |
| <b>TOTAL EXPENSES</b>                 | <b>3,560,669</b>   | <b>-0-</b>                | <b>3,560,669</b>  | <b>3,210,897</b>  |
| <b>CHANGE IN NET ASSETS</b>           | <b>(150,162)</b>   | <b>(209,901)</b>          | <b>(360,063)</b>  | <b>412,438</b>    |
| <b>NET ASSETS, BEGINNING OF YEAR</b>  | <b>127,336</b>     | <b>390,094</b>            | <b>517,430</b>    | <b>104,992</b>    |
| <b>NET ASSETS, END OF YEAR</b>        | <b>\$ (22,826)</b> | <b>\$ 180,193</b>         | <b>\$ 157,367</b> | <b>\$ 517,430</b> |

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

|                                  | <b>Summer<br/>Miracles</b> | <b>Weekend<br/>Miracles</b> | <b>Russian<br/>Miracles</b> | <b>Colombia<br/>Programs</b> | <b>Advocacy</b>   |
|----------------------------------|----------------------------|-----------------------------|-----------------------------|------------------------------|-------------------|
| Adoption assistance              |                            |                             |                             |                              |                   |
| Advertising                      | \$ 1,584                   | \$ 57,172                   | \$ 2,631                    | \$ 6,164                     |                   |
| Bad debt expense                 |                            |                             |                             |                              |                   |
| Bank charges                     | 5,540                      | 6,940                       | 3,792                       | 554                          | \$ 2,874          |
| Conference and meetings          | 27,958                     | 1,204                       | 5,857                       | 15,298                       | 215,966           |
| Contractors                      | 72,258                     | 96,343                      | 9,121                       | 60,717                       | 27,445            |
| Database support                 |                            |                             |                             |                              | 800               |
| Depreciation                     | 5,666                      | 8,161                       | 1,836                       | 317                          | 2,685             |
| Dues and subscriptions           | 482                        | 804                         | 38                          | 353                          |                   |
| Entertainment                    |                            |                             |                             |                              | 12,150            |
| Equipment rental and maintenance | 16,467                     | 16,810                      | 4,533                       | 4,119                        | 4,737             |
| Grants made                      |                            |                             | 103,071                     |                              |                   |
| Insurance                        | 150                        |                             |                             |                              | 767               |
| Interest                         |                            |                             |                             |                              | 2,497             |
| International event taxes        |                            |                             |                             |                              |                   |
| Licenses, taxes and fees         | 4,679                      | 2,866                       | 110                         | 94                           | 685               |
| Miscellaneous                    | 13,682                     | 4,112                       | 39                          | 203                          | 1,651             |
| Occupancy                        | 33,501                     | 46,563                      | 81,451                      | 2,897                        | 13,362            |
| Office expense                   | 5,810                      | 2,926                       | 2,371                       | 3,227                        | 1,515             |
| Officer compensation             | 69,808                     | 95,332                      | 23,318                      | 7,712                        | 22,434            |
| Other employee benefits          | 19,168                     | 28,360                      | 13,467                      | 882                          | 12,851            |
| Other salaries and wages         | 131,765                    | 193,847                     | 162,943                     | 4,323                        | 93,057            |
| Payroll taxes                    | 16,357                     | 21,735                      | 51,097                      | 3,954                        | 4,875             |
| Photography and AV               | 1,074                      | 3,165                       | 16                          | 182                          | 9,447             |
| Postage and shipping             | 3,418                      | 2,006                       | 1,698                       | 498                          | 11,854            |
| Printing and publications        | 5,838                      | 5,997                       | 1,296                       | 14,974                       | 26,674            |
| Professional development         | 171                        |                             | 732                         |                              | 25                |
| Professional fees                | 59,913                     | 44,353                      | 82,089                      | 15,598                       |                   |
| Supplies                         | 5,048                      | 4,169                       | 888                         | 228                          | 16,065            |
| Telephone                        | 11,708                     | 13,861                      | 6,787                       | 2,311                        | 5,897             |
| Training and recruitment         | 1,935                      | 37,362                      | 2,827                       | 18,476                       |                   |
| Translation                      | 692                        |                             | 296                         | 1,644                        |                   |
| Travel                           | 78,048                     | 4,735                       | 39,634                      | 56,545                       | 9,099             |
| <b>TOTAL EXPENSES</b>            | <b>\$ 592,720</b>          | <b>\$ 698,823</b>           | <b>\$ 601,938</b>           | <b>\$ 221,270</b>            | <b>\$ 499,412</b> |

**KIDSAVE INTERNATIONAL, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For The Year Ended December 31, 2007**  
(With Summarized Financial Information for the Year Ended December 31, 2006)

| Child Assistance | Permanency Program | Total Program | Management and General | Fundraising | 2007 Total   | 2006 Total   |
|------------------|--------------------|---------------|------------------------|-------------|--------------|--------------|
| \$ 3,347         |                    | \$ 3,347      |                        |             | \$ 3,347     | \$ 14,878    |
|                  |                    | 67,551        |                        |             | 67,551       | 28,417       |
|                  |                    | -0-           | \$ 3,219               | \$ 2,000    | 5,219        | -0-          |
| 390              | \$ 3,867           | 23,957        | 2,616                  | 1,156       | 27,729       | 43,373       |
|                  | 5,346              | 271,629       | 1,583                  | 29,528      | 302,740      | 288,731      |
|                  | 8,009              | 273,893       | 3,253                  | 14,694      | 291,840      | 281,089      |
|                  |                    | 800           | 719                    |             | 1,519        | -0-          |
|                  | 4,270              | 22,935        | 3,082                  | 1,226       | 27,243       | 14,640       |
|                  | 282                | 1,959         | 736                    | 182         | 2,877        | 7,337        |
|                  |                    | 12,150        |                        |             | 12,150       | 250          |
|                  | 9,767              | 56,433        | 2,661                  | 2,785       | 61,879       | 50,113       |
|                  |                    | 103,071       |                        | 6,591       | 109,662      | 126,753      |
|                  |                    | 917           | 9,211                  |             | 10,128       | 774          |
|                  |                    | 2,497         | 4,164                  |             | 6,661        | 2,402        |
|                  |                    | -0-           | 19,505                 | 36,615      | 56,120       | -0-          |
|                  | 2,356              | 10,790        | 1,751                  | 2,286       | 14,827       | 2,882        |
|                  | 200                | 19,887        | 1,658                  | 84          | 21,629       | 16,877       |
|                  | 15,392             | 193,166       | 10,144                 | 9,580       | 212,890      | 173,422      |
|                  | 6,094              | 21,943        | 28,300                 | 2,367       | 52,610       | 37,194       |
|                  | 85,107             | 303,711       | 49,786                 | 18,605      | 372,102      | 373,598      |
|                  | 7,627              | 82,355        | 5,173                  | 206         | 87,734       | 87,228       |
|                  | 68,791             | 654,726       | 59,403                 | 31,970      | 746,099      | 643,562      |
|                  | 5,846              | 103,864       | 5,044                  | 5,132       | 114,040      | 108,870      |
|                  | 3,721              | 17,605        | 9                      |             | 17,614       | 3,207        |
| 160              | 6,405              | 26,039        | 8,443                  | 1,733       | 36,215       | 40,383       |
|                  | 6,914              | 61,693        | 569                    | 4,515       | 66,777       | 77,463       |
|                  | 25                 | 953           |                        | 25          | 978          | 778          |
|                  | 40,854             | 242,807       | 239,016                | 2,005       | 483,828      | 543,669      |
|                  | 197                | 26,595        | 702                    | 1,287       | 28,584       | 15,311       |
| 40               | 4,804              | 45,408        | 3,230                  | 1,419       | 50,057       | 45,030       |
|                  | 231                | 60,831        | 105                    | 74          | 61,010       | 13,419       |
|                  |                    | 2,632         |                        |             | 2,632        | 3,179        |
|                  | 13,049             | 201,110       | 2,569                  | 699         | 204,378      | 166,068      |
| \$ 3,937         | \$ 299,154         | \$ 2,917,254  | \$ 466,651             | \$ 176,764  | \$ 3,560,669 | \$ 3,210,897 |

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

**KIDSAVE INTERNATIONAL, INC.**  
**STATEMENT OF CASH FLOWS**  
**For The Year Ended December 31, 2007**  
(With Summarized Financial Information for the Year Ended December 31, 2006)

|  | 2007              | 2006         |
|--|-------------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                |                   |              |
| Inflows:   |                   |              |
| Cash received from contributions and grants                | \$ 2,278,641      | \$ 2,060,280 |
| Cash received from client fees                             | 95,970            | 120,410      |
| Investment income received                                 | 8,051             | 6,645        |
| Other operating cash receipts                              | 595,688           | 898,693      |
| Total Inflows:   | 2,978,350         | 3,086,028    |
| Outflows:  |                   |              |
| Cash paid to employees                                     | 1,118,201         | 1,000,562    |
| Interest paid  | 6,046             | 2,000        |
| Other operating expenses paid                              | 1,888,876         | 1,612,380    |
| Total Outflows:  | 3,013,123         | 2,614,942    |
| <b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b> | <b>(34,773)</b>   | 471,086      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                |                   |              |
| Purchases or donations of investments                      | (15,725)          | (12,529)     |
| Proceeds from sale or redemption of investments            | 33,155            | 4,836        |
| Purchases or donations of fixed assets                     | (3,451)           | (36,411)     |
| <b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b> | <b>13,979</b>     | (44,104)     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                |                   |              |
| Proceeds from line of credit                               | -0-               | 41,723       |
| Payments on line of credit                                 | (41,723)          | -0-          |
| Payments for compensation payable                          | (17,085)          | (14,700)     |
| Payments on capital lease obligations                      | (26,722)          | (7,982)      |
| <b>NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES</b> | <b>(85,530)</b>   | 19,041       |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>             | <b>(106,324)</b>  | 446,023      |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>        | <b>481,171</b>    | 35,148       |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>              | <b>\$ 374,847</b> | \$ 481,171   |

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

**KIDSAVE INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2007**

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**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 Institute 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. The Organization and ICBF developed protocols for this program and launched it in January 2007. 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, 2007**

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**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 and hearings and through the media to share information about the problems related to lack of family care and 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. One significant event in 2007 was a meeting that the Organization convened among a variety of organizations who operate programs for orphans worldwide. After two days of discussion, representatives from these organizations and the Organization's leadership agreed to work together to build a series of pilot programs around the world to demonstrate how governments can support children in moving them all to permanent family care.

**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.

**Investments**

Investments are reported at fair market value based on quoted market prices. Donated marketable securities are recorded as contributions at their estimated fair values at the date of donation.

**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 is provided on the straight-line basis over the estimated useful lives of the assets.

**Reclassifications**

Certain 2006 amounts have been reclassified for comparative purposes.

**KIDSAVE INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2007**

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

**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, 2007 and 2006, represents amounts received under cost reimbursable contracts that will be expended in the next fiscal year in accordance with the grant/contract period.

**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, Accounting for Contributions Received and Contributions Made, 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.

**Advertising Costs**      Advertising costs are expensed as incurred and amounted to approximately \$68,000 for the year ended December 31, 2007.

**KIDSAVE INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2007**

**NOTE B - RESTRICTED CASH**

As of December 31, 2007 restricted cash of approximately \$6,000 is available for Adoption Assistance and Sponsorships.

**NOTE C - FIXED ASSETS**

The Organization held the following fixed assets as of December 31, 2007:

| <b>Description</b>                                     | <b>Amount</b>    |
|--|------------------|
| Furniture and equipment                                | \$ 20,150        |
| Website  | 28,262           |
| Software under capital lease                           | 52,430           |
| <b>Total fixed assets</b>                              | <b>100,842</b>   |
| <b>Less: accumulated depreciation and amortization</b> | <b>(47,161)</b>  |
| <b>Fixed assets, net</b>                               | <b>\$ 53,681</b> |

**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, 2007, the accumulated depreciation related to the leases was approximately \$23,000. The Organization incurred approximately \$3,000 of interest expense associated with the capital leases for the year ended December 31, 2007.

Minimum future lease payments under the leases as of December 31, 2007 are as follows:

| <b>Year Ended December 31,</b>                       | <b>Amount</b>    |
|--|------------------|
| 2008   | \$ 29,459        |
| 2009   | 19,378           |
| 2010   | 3,489            |
| <b>Total minimum lease payments</b>                  | <b>52,326</b>    |
| <b>Less amount representing interest</b>             | <b>(2,439)</b>   |
| <b>Present value of total minimum lease payments</b> | <b>\$ 49,887</b> |

**KIDSAVE INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2007**

**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 and Los Angeles, California leases the base rent increases annually based on scheduled increases provided for in the leases. Rent expense for the year ended December 31, 2007 was approximately \$213,000.

As of December 31, 2007, 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>     |
|--|-------------------|
| 2008                                       | \$ 114,873        |
| 2009                                       | 81,951            |
| 2010                                       | 18,915            |
| <b>Total future minimum lease payments</b> | <b>\$ 215,739</b> |

**NOTE F - TEMPORARILY RESTRICTED NET ASSETS**

As of December 31, 2007, temporarily restricted net assets were available for the following programs:

| <b>Description</b>      | <b>Amount</b>     |
|-------------------------|-------------------|
| Summer Miracles         | \$ 111,232        |
| Weekend Miracles        | 12,346            |
| Sponsorship of a child  | 8,091             |
| Communications position | 11,024            |
| Time restriction        | 37,500            |
| <b>Total</b>            | <b>\$ 180,193</b> |

For the year ended December 31, 2007, net assets were released from donor restrictions by incurring expenses satisfying the purpose restrictions specified by donors as follows:

| <b>Description</b>     | <b>Amount</b>     |
|------------------------|-------------------|
| Summer Miracles        | \$ 189,566        |
| Sponsorship of a child | 150               |
| Weekend Miracles       | 192,287           |
| <b>Total releases</b>  | <b>\$ 382,003</b> |

**KIDSAVE INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2007**

**NOTE G - 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, 2007, approximately \$410,000 of grant revenue was received from one foundation or 13% of total revenue.

As of December 31, 2007, three contributors comprised 65% of the contributions and grants receivable.

**NOTE H - SUPPLEMENTAL CASH FLOW INFORMATION**

The Organization had noncash investing and financing transactions relating to a capital lease on new software and related maintenance of approximately \$23,000 in 2007.

**NOTE I - SCHEDULE RECONCILING CHANGE IN NET ASSETS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES**

|   | 2007                | 2006              |
|---|---------------------|-------------------|
| <b>CHANGE IN NET ASSETS</b>   | <b>\$ (360,063)</b> | <b>\$ 412,438</b> |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities: |                     |                   |
| Depreciation expense  | 27,243              | 14,640            |
| Loss on investment  | 781                 | 973               |
| Decrease (increase) in employee receivable  | 23,296              | (23,296)          |
| Decrease (increase) in contributions receivable   | 116,734             | (19,759)          |
| Decrease in prepaid expenses  | 9,846               | 1,958             |
| Increase in deposits  | -0-                 | (1,052)           |
| Decrease in restricted cash   | 4,645               | 553               |
| (Decrease) increase in accounts payable and accrued expenses  | (8,296)             | 73,019            |
| Decrease in adoption assistance and sponsorship   | (4,645)             | (553)             |
| Increase in deferred revenue  | 99,566              | 12,165            |
| Increase in international taxes payable   | 56,120              | -0-               |
| <b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>  | <b>\$ (34,773)</b>  | <b>\$ 471,086</b> |

**NOTE J - FOREIGN OFFICES**

The Organization has offices in Russia and Colombia. The only significant asset in each country is cash. As of December 31, 2007, the total cash held in Russia was approximately \$25,300. The total cash held in Colombia was approximately \$37,300.

**KIDSAVE INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2007**

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**NOTE K - GOVERNMENT GRANTS**

Approximately \$312,000 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 L - LINE OF CREDIT**

During 2007, the Organization had a \$150,000 unsecured revolving line of credit from a bank that bears interest at the prime rate as published in the Wall Street Journal. Interest was payable monthly. The line of credit had an original expiration date of June 8, 2007. The line of credit was extended and then paid in full on October 31, 2007. The line of credit had been guaranteed by two donors. The Organization incurred approximately \$3,000 of interest expense associated with the line of credit for the year ended December 31, 2007.

**NOTE M - 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 Chair Emeritus of the Board, is a partner in a law firm which provided approximately \$218,000 of pro-bono legal services to the Organization.

A member of the Board, is a principal in a law firm which provided approximately \$16,000 of pro-bono legal services to the Organization.

A member of the Board, is an employee of a company which provided approximately \$48,000 of pro-bono consulting services to the Organization.

**NOTE N - SUBSEQUENT EVENT**

Subsequent to year end 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.

Subsequent to year end, the Organization downsized its Russian operations. It is estimated that this will result in an obligation to former employees of approximately \$21,000.

**KIDSAVE INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**December 31, 2007**

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**NOTE O - DONATED SERVICES**

For the year ended December 31, 2007, donated services included legal and other professional fees valued at approximately \$378,000, which is included in the financial statements as follows:

| <b>Description</b>     | <b>Amount</b>     |
|------------------------|-------------------|
| Summer Miracles        | \$ 75,610         |
| Weekend Miracles       | 58,650            |
| Russian Programs       | 78,689            |
| Colombia Programs      | 3,200             |
| Permanency Programs    | 56,993            |
| Management and general | 85,823            |
| Fundraising            | 18,593            |
| <b>Total</b>           | <b>\$ 377,558</b> |

**NOTE P - 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 Q - JOINT COST ALLOCATION**

The Organization incurred joint costs in 2007 for informational materials and special events that included fundraising appeals. The costs were allocated as follows:

| <b>Description</b> | <b>Amount</b>     |
|--------------------|-------------------|
| Advocacy           | \$ 434,492        |
| Fundraising        | 103,270           |
| <b>Total</b>       | <b>\$ 537,762</b> |