

**THE CHILDREN OF WAR, INC.**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2005**  
**(WITH COMPARATIVE TOTALS FOR SEPTEMBER 30, 2004)**

**THE CHILDREN OF WAR, INC.  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005  
(with comparative totals for 2004)**

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# F. S. TAYLOR & ASSOCIATES, P.C.

Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the  
Children of War, Inc.

We have audited the accompanying statement of financial position of the Children of War, Inc. ("the Organization") as of September 30, 2005 and 2004, and the related statements of activities, and cash flows for the years then ended and the statement of functional expenses for the years ended September 30, 2005 and 2004. 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 audits.

We conducted our audits in accordance with generally accepted auditing standards 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 audits provide 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 the Organization at September 30, 2005 and 2004, and the changes in its net assets and its cash flows for the years then ended, in conformity with generally accepted accounting principles in the United States of America.

*F. S. Taylor & Associates, P.C.*

June 20, 2006

**THE CHILDREN OF WAR, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 6,280	\$ 8,619
Total assets	<u>\$ 6,280</u>	<u>\$ 8,619</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Net assets:		
Unrestricted	\$ 6,280	\$ 8,619
Total liabilities and net assets	<u>\$ 6,280</u>	<u>\$ 8,619</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

**THE CHILDREN OF WAR, INC.**  
**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b><u>UNRESTRICTED NET ASSETS</u></b>		
<u>Public support and revenue</u>		
Contributions	\$ 182,310	\$ 196,053
Total support and revenue	182,310	196,053
<u>Expenses</u>		
Program services:		
Assistance to Children	159,970	171,977
Total program services	159,970	171,977
Supporting services:		
Management and general	21,174	27,749
Fundraising	3,505	12,412
Total supporting services	24,679	40,161
Total expenses	184,649	212,138
Increase (decrease) in net assets	(2,339)	(16,085)
Net assets, beginning of year	8,619	24,704
Net assets, end of year	<u>\$ 6,280</u>	<u>\$ 8,619</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

**THE CHILDREN OF WAR, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase (decrease) in net assets	\$ (2,339)	\$ (16,085)
Net cash flows provided by (used in) operating activities	<u>(2,339)</u>	<u>(16,085)</u>
Net (decrease) increase in cash and cash equivalents	(2,339)	(16,085)
Cash and cash equivalents, beginning of year	<u>8,619</u>	<u>24,704</u>
Cash and cash equivalents, end of year	<u>\$ 6,280</u>	<u>\$ 8,619</u>
<b>SUPPLEMENTAL DISCLOSURES:</b>		
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>

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**THE CHILDREN OF WAR, INC.  
STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2005 (with comparative totals for 2004)**

	2005				2004
	Program Services Assistance to Children	Supporting Services Management and General	Fundraising	Total	Total
<u>Expenses</u>					
Salaries	\$ 23,400	\$ 6,500	\$ 1,300	\$ 31,200	\$ 37,440
Benefits	2,187	630	99	2,916	2,885
Occupancy costs		8,316		8,316	8,297
Office supplies and services		1,692		1,692	2,965
Professional fees		3,576		3,576	6,778
Miscellaneous			2,000	2,000	1,587
Travel					
Communication	1,379	460		1,839	2,221
Assistance to Children	131,814			131,814	136,608
Other	1,190			1,190	945
Advertising					969
Fundraising			106	106	11,443
Total expenses	<u>\$ 159,970</u>	<u>\$ 21,174</u>	<u>\$ 3,505</u>	<u>\$ 184,649</u>	<u>\$ 212,138</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

THE CHILDREN OF WAR, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005 AND 2004

**NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Background** – The Children of War, Inc. (“the Organization”) was organized as a not-for-profit corporation in the State of Virginia in 1993. Its primary purpose is to provide humanitarian aid to victims of Afghanistan in form of food, medical aid and educational facilities.

**Basis of Accounting** - The accompanying financial statements have been prepared on the accrual basis of accounting. Accordingly, revenue is recorded when earned and expenses are recorded as incurred.

**Use of Estimates** – The preparation of financial statements in conformity with general accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

**Financial Statement Presentation** – Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, 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. The Organization has no permanently restricted net assets.

**Cash and Cash Equivalents** – For purposes of the statements of cash flows, the Organization considers time deposits, certificates of deposit, and all highly liquid investments with original maturities of three months or less to be cash equivalents.

**Concentration of Credit Risk for Cash Held at Banks** – The Organization maintains cash balances at a single financial institution. The balances are insured by the Federal Deposit Insurance Corporation up to \$100,000. The uninsured cash balance was \$0 at September 30, 2005 and 2004.

THE CHILDREN OF WAR, INC.  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2005 AND 2004

**NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income Tax Status** – The Organization is exempt from federal income taxes under section 501 (c)(3) of the Internal Revenue Code as a publicly-supported organization; consequently, no provision for income taxes has been reflected in the financial statements. While generally exempt from taxes, the Institute is subject to tax on net profits generated by unrelated business income activities as provided for under applicable tax law. To date, the Organization has not engaged in such activities.

**Functional Allocation of Expenses**: The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Revenue and Support**: Support that is restricted by the donor is reported as an increase unrestricted net assets of the restrictions expire in the fiscal year in which the contributions are recognized. Support that is donor-restricted is reported 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 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.

**NOTE 2-- OPERATING LEASE**

The Institute leases office space under month-to-month lease agreements that provide for monthly rentals of \$698. Total rent expense for the years ended September 30, 2005 and 2004 was \$8,316 and \$8,297, respectively.