

THE CHILDREN OF WAR, INC.
FINANCIAL STATEMENTS AND AUDIT REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2007

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Callaway and Payne
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of The Children of War, Inc. as of September 30, 2007, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of The Children of War, Inc.'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 the 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 The Children of War, Inc. as of September 30, 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.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses on page 7 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.

CALLAWAY AND PAYNE
Vienna, Virginia

November 16, 2007

**THE CHILDREN OF WAR, INC.
STATEMENT OF FINANCIAL POSITION
SEPTEMBER 30, 2007**

ASSETS

Current Assets	
Cash	<u>\$ 128 167</u>
Total Assets	<u>\$ 128 167</u>

LIABILITIES AND NET ASSETS

Total Liabilities		-
Net Assets		
Unrestricted	\$ 128 167	
Temporarily restricted	-	
Permanently restricted	-	
Total net asset	<u> -</u>	<u>128 167</u>
Total Liabilities and Net Assets		<u>\$ 128 167</u>

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

**THE CHILDREN OF WAR, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

REVENUE AND SUPPORT

Contributions		<u>\$ 379 084</u>
 Total Revenue and Support		 \$ 379 084

EXPENSES

Program Services		
Assistance to children	<u>243 089</u>	
 Support Services		
General and administrative	26 505	
Fund raising	<u>8 060</u>	
Total Support Services	<u>34 565</u>	
 Total Expenses		 <u>277 654</u>
 Change in Net Assets		 101 430
 Net Assets, beginning of year		 <u>26 737</u>
 Net Assets, end of year		 <u>\$ 128 167</u>

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

**THE CHILDREN OF WAR, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

Cash flows from operating activities:	
Change in Net Assets	<u>\$ 101 430</u>
Cash provided by operating activities	101 430
Cash flows from investing activities	-
Cash provided by financing activities	<u>-</u>
Net Increase in Cash	101 430
Cash, beginning of year	<u>26 737</u>
Cash, end of year	<u><u>\$ 128 167</u></u>

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

**THE CHILDREN OF WAR, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE A – NATURE OF ACTIVITIES

The Children of War, Inc.’s mission is primarily to provide humanitarian aid to war victims of Afghanistan in the form of food, medical aid and educational facilities. It was organized in Virginia in 1993.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Basis of Accounting and Estimates – The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America. The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management’s estimates.

2. Basis of Reporting – The Organization has adopted Statement of Financial Accounting Standard No. 117 which establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes according to external donor imposed restrictions into three net asset categories; unrestricted, temporarily restricted, and permanently restricted. Unrestricted net assets include funds not subject to any donor-imposed restrictions. Temporarily restricted net assets consists of contributions subject to specific donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Organization may spend the funds.

3. Cash and Cash Equivalents – For purposes of the statement of cash flows, the Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

4. Revenue Recognition – Revenue is recognized when received.

5. Functional Allocation of Expenses – The costs of providing for various programs and other activities are summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and services benefited.

6. General and Administrative Expenses – Expenses which are not directly related to program activities are recorded as general and administrative expenses.

**THE CHILDREN OF WAR, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE C – INCOME TAXES

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and did not conduct unrelated business activities. Therefore, the Organization has made no provision for Federal income taxes in the financial statements.

**THE CHILDREN OF WAR, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

Support Services	
General and Administrative	
Accounting fees	7 683
Bank charges	372
Compensation of officers	6 240
Benefits	874
Occupancy	7 583
Supplies	2 542
Telephone	<u>1 211</u>
	<u>\$ 26 505</u>
Fund Raising	
Advertising	4 450
Consultants	2 080
Registrations	<u>1 530</u>
	<u>\$ 8 060</u>
Program Services	
Direct assistance to children	209 985
Compensation of officers	24 960
Benefits	3 498
Travel	<u>4 646</u>
	<u>\$ 243 089</u>