

CHRISTIAN FREEDOM INTERNATIONAL, INC.

**Financial Statements For The Years Ended December 31, 2007 and 2006
and Independent Auditors' Report
Dated September 14, 2008**

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TABLE OF CONTENTS

Independent Auditors' Report	1
Statements of Financial Position as of December 31, 2007 and 2006	2
Statement of Activities for the Year Ended December 31, 2007	3
Statement of Activities for the Year Ended December 31, 2006	4
Statements of Cash Flows for the Years Ended December 31, 2007 and 2006	5
Statement of Functional Expenses for the Year Ended December 31, 2007	6
Statement of Functional Expenses for the Year Ended December 31, 2006	7
Notes to the Financial Statements	8-10

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Independent Auditors' Report

Board of Directors
Christian Freedom International, Inc.
Front Royal, VA 22630

We have audited the accompanying statements of financial position of Christian Freedom International, Inc. ("the Organization") as of December 31, 2007 and 2006, and the related statements of activities, functional expenses, and cash flows for the years 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 audits.

We conducted our audits in accordance with generally accepted auditing standards of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 Christian Freedom International, Inc. at December 31, 2007 and 2006, and its changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles of the United States of America.

Hendershot, Burkhardt & Reed, CPAs
Hendershot, Burkhardt & Reed, CPAs
September 14, 2008

CHRISTIAN FREEDOM INTERNATIONAL, INC.
Statements of Financial Position
As of December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS:		
Current Assets:		
Cash and Cash Equivalents	\$ 109,537	\$ 70,815
Marketable Securities	825	1,068
Contributions Receivable, net of allowance	109,490	90,384
Prepaid Expenses and Other Assets	2,234	8,005
Inventory	<u>40,133</u>	<u>53,799</u>
Total Current Assets	262,219	224,071
Fixed Assets:		
Building and Building Improvements	559,434	-
Vocational Center	64,296	64,296
Land	-	1,015
Vehicle	11,000	11,000
Furniture and Equipment at Cost	139,422	133,270
Leasehold Improvements	15,969	15,969
Less: Accumulated Depreciation	<u>(149,166)</u>	<u>(127,687)</u>
Total Fixed Assets	<u>640,955</u>	<u>97,863</u>
Long Term Contribution Receivable, net	<u>74,353</u>	<u>-</u>
Total Assets	<u>\$ 977,527</u>	<u>\$ 321,934</u>
LIABILITIES AND NET ASSETS:		
Liabilities:		
Current Liabilities:		
Accounts Payable and Accrued Expenses	\$ 219,691	\$ 46,692
Notes Payable - Current	<u>-</u>	<u>19,226</u>
Total Current Liabilities	219,691	65,918
Long Term Liabilities		
Notes Payables	<u>360,000</u>	<u>-</u>
Total Long-term Liabilities	<u>360,000</u>	<u>-</u>
Total Liabilities	579,691	65,918
Net Assets:		
Unrestricted Net Assets	116,438	67,870
Temporarily Restricted	<u>281,398</u>	<u>188,146</u>
Total Net Assets	<u>397,836</u>	<u>256,016</u>
Total Liabilities and Equity	<u>\$ 977,527</u>	<u>\$ 321,934</u>

See the accompanying Independent Auditors' Report and notes to the financial statements

CHRISTIAN FREEDOM INTERNATIONAL, INC.**Statement of Activities****For the Year Ended December 31, 2007**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Gains:			
Contributions	\$ 803,163	\$ 281,398	\$ 1,084,561
Gain / (Loss) on Sale of Asset	3,562	-	3,562
Dividend and Interest Income	559	-	559
Miscellaneous Income	232	-	232
Unrealized Gain / (Loss) on Investment	(243)	-	(243)
Net Assets Released from Restrictions	<u>188,146</u>	<u>(188,146)</u>	<u>-</u>
Total Revenues	995,419	93,252	1,088,671
Cost of Goods Sold	<u>17,396</u>	<u>-</u>	<u>17,396</u>
Gross Revenues	978,023	93,252	1,071,275
Expenses:			
Program Services	683,428	-	683,428
General and Administrative Expenses	203,135	-	203,135
Fundraising Expenses	<u>42,892</u>	<u>-</u>	<u>42,892</u>
Total Expenses	<u>929,455</u>	<u>-</u>	<u>929,455</u>
Change in Net Assets	48,568	93,252	141,820
Net Assets, Beginning of Year	<u>67,870</u>	<u>188,146</u>	<u>256,016</u>
Net Assets, End of Year	<u>\$ 116,438</u>	<u>\$ 281,398</u>	<u>\$ 397,836</u>

See the accompanying Independent Auditors' Report and notes to the financial statements

CHRISTIAN FREEDOM INTERNATIONAL, INC.
Statement of Functional Expenses
For the Year Ended December 31, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and Gains:			
Contributions	\$ 787,428	\$ 188,146	\$ 975,574
Investment Income	746	-	746
Realized Gains/(Losses) on Disposals	7,970	-	7,970
Net Assets Released from Restrictions	<u>90,372</u>	<u>(90,372)</u>	<u>-</u>
 Total Revenues	 886,516	 97,774	 984,290
 Cost of Goods Sold	 <u>28,541</u>	 <u>-</u>	 <u>28,541</u>
 Gross Revenues	 857,975	 97,774	 955,749
 Expenses:			
Program Services	761,314	-	761,314
General and Administrative Expenses	116,529	-	116,529
Fundraising Expenses	<u>56,397</u>	<u>-</u>	<u>56,397</u>
 Total Expenses	 <u>934,240</u>	 <u>-</u>	 <u>934,240</u>
 Extraordinary Item - Income From Debt Removal	 <u>39,985</u>	 <u>-</u>	 <u>39,985</u>
 Change in Net Assets	 (36,280)	 97,774	 61,494
 Net Assets, Beginning of Year	 <u>104,150</u>	 <u>90,372</u>	 <u>194,522</u>
 Net Assets, End of Year	 <u>\$ 67,870</u>	 <u>\$ 188,146</u>	 <u>\$ 256,016</u>

See the accompanying Independent Auditor's Report and notes to the financial statements

CHRISTIAN FREEDOM INTERNATIONAL, INC.
Statements of Cash Flows
For the Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in Net Assets	\$ 141,820	\$ 61,494
Adjustments to reconcile change in net cash provided/(used) by operating activities:		
Depreciation	21,477	16,384
Unrealized (Gains)/Losses on Investments	243	(143)
(Increase)/Decrease in Contributions Receivables	(93,458)	(8,268)
(Increase)/Decrease in Prepaid Expenses and Deposits	5,773	2,890
(Increase)/Decrease in Inventory	13,666	10,461
Increase/(Decrease) in Accounts Payable and Accrued Expenses	<u>172,999</u>	<u>(14,330)</u>
Net cash provided/(used) by operating activities:	262,520	68,488
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of Fixed Assets	(565,587)	(13,808)
Sale of Land	1,015	2,460
Donated and Purchased Securities	-	-
Sale of Stock	<u>-</u>	<u>1,027</u>
Net cash provided/(used) by investing activities:	(564,572)	(10,321)
CASH FLOW FROM FINANCING ACTIVITIES:		
Increase/(Decrease) in Notes Payable	<u>340,774</u>	<u>(77,558)</u>
Net cash provided/(used) by financing activities:	<u>340,774</u>	<u>(77,558)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	38,722	(19,391)
Cash and Cash Equivalents at Beginning of Year	<u>70,815</u>	<u>90,206</u>
Cash and Cash Equivalents at End of Year	<u>\$ 109,537</u>	<u>\$ 70,815</u>

See the accompanying Independent Auditors' Report and notes to the financial statements

CHRISTIAN FREEDOM INTERNATIONAL, INC.
Statement of Functional Expenses
For the Year Ended December 31, 2007

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and Wages	\$ 173,632	\$ 24,966	\$ 10,451	\$ 209,049
Mission Support	152,622	598	-	153,220
Printing and Publications	135,848	35	2,603	138,486
Professional Fees	30,828	49,125	760	80,713
Travel	27,437	23,211	188	50,836
Postage and Shipping	39,422	2,428	6,742	48,592
Occupancy	26,285	18,500	1,543	46,328
Employee Benefits	36,140	5,164	2,174	43,478
Supplies	7,552	8,130	10,860	26,542
Depreciation	16,448	3,997	1,032	21,477
Payroll Taxes	14,910	2,131	897	17,938
Advertising	12,108	312	81	12,501
Interest Expense	-	12,166	-	12,166
Bank Service Charges	-	11,980	-	11,980
Moving Expense	1,264	9,393	79	10,736
Equipment Rental and Maintenance	6,679	1,508	2,546	10,733
Miscellaneous	310	9,867	18	10,195
Licenses and Taxes	-	5,982	2,606	8,588
Insurance	-	4,987	-	4,987
Office Expenses	947	3,201	276	4,424
Allowance for Uncollectible Pledges	-	3,241	-	3,241
Website	805	1,177	24	2,006
Dues and Subscriptions	191	1,036	12	1,239
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Expenses	\$ 683,428	\$ 203,135	\$ 42,892	\$ 929,455

See the accompanying Independent Auditors' Report and notes to the financial statements

CHRISTIAN FREEDOM INTERNATIONAL, INC.
Statement of Functional Expenses
For the Year Ended December 31, 2006

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and Wages	\$ 167,855	\$ 18,676	\$ 18,723	\$ 205,254
Mission Support	200,571	-	-	200,571
Printing and Publications	138,528	1,150	6,682	146,360
Travel	42,589	6,417	918	49,924
Employee Benefits	38,798	3,467	3,476	45,741
Postage and Shipping	34,508	687	10,490	45,685
Advertising	34,590	3,138	749	38,477
Occupancy	26,066	3,795	1,898	31,759
Professional Fees	5,092	25,187	-	30,279
Supplies	9,554	5,263	2,512	17,329
Depreciation	13,435	1,966	983	16,384
Office Expenses	9,726	2,512	3,251	15,489
Payroll Taxes	12,383	1,359	1,359	15,101
Insurance	-	11,664	66	11,730
Bank Service Charges	-	11,118	-	11,118
Equipment Rental and Maintenance	7,840	592	2,428	10,860
Website	9,154	875	-	10,029
Telephone	7,079	1,473	502	9,054
Allowance for Uncollectible Pledges	-	8,727	-	8,727
Interest Expense	-	4,904	-	4,904
Licenses and Taxes	-	2,420	2,315	4,735
Conference and Seminars	3,333	89	45	3,467
Dues and Subscriptions	-	884	-	884
Miscellaneous	213	166	-	379
	<u>213</u>	<u>166</u>	<u>-</u>	<u>379</u>
 Total Expenses	 <u>\$ 761,314</u>	 <u>\$ 116,529</u>	 <u>\$ 56,397</u>	 <u>\$ 934,240</u>

See the accompanying Independent Auditors' Report and notes to the financial statements

Christian Freedom International, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

NOTE 1: ORGANIZATION

Christian Freedom International, Inc. (“the Organization”) became independent from Christian Solidarity International-Switzerland on April 24, 1998. The mission of the Organization is to increase the American perspective and attention on those who suffer persecution for the Christian faith around the world. Its objectives are to obtain firsthand evidence of human rights violations and present that evidence to policymakers in Washington, D.C.; to mobilize Christians in prayer for the victims of persecution and repression; assess humanitarian need and provide such assistance as the Organization’s resources permit and launch letter writing and petition campaigns on behalf of persecuted Christians.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles of the United States of America.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles of the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent 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 - Include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial investments.

Marketable Securities - The organization receives contributions in the form of stock. The Organization’s policy is to immediately sell the contributed stock. These contributions are valued at market and are considered to be marketable securities.

Contributions - The Organization reports gifts of cash and other assets as restricted support if they are received with donor or time stipulations that limit the use of the donated assets. When the donor or time 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.

Christian Freedom International, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed Assets - Acquisitions of furniture and equipment are capitalized. Furniture and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. The vehicle is carried at the acquisition cost. Depreciation is computed using primarily the straight-line method. Furniture is depreciated over 7 years, equipment and vehicles are depreciated over 5 years, and computer software is depreciated over 3 years.

The Organization reports gifts of fixed assets as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of fixed assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire fixed assets are reported as restricted support. Absent explicit donor stipulations about how long the fixed assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired fixed assets are placed in service.

Income Taxes – The Organization has received notification from the Internal Revenue Service that it is exempt from federal income tax as described in Section 501 (c)(3) of the Internal Revenue Code. Accordingly, contributions are deductible for federal income, estate, and gift tax purposes. The Internal Revenue Service also has classified the Organization as a public charity and not a private foundation.

NOTE 3: CONTRIBUTIONS RECEIVABLE:

A significant portion of the contributions receivable consists of a \$100,000 pledge, to be paid over ten years. The receivable portion of the grant was recorded at present value using a 4% discount rate. The details of the receivable are as follows:

Current pledge receivable	\$ 10,000
Long term pledge receivable	90,000
Discount on long term pledge receivable	<u>(15,647)</u>
Total pledge receivable as of December 31, 2007:	<u>\$ 84,353</u>

The remainder of contributions receivable represents contributions that were postmarked December 31, 2007 and received in January 2008, as well as CFC pledges, net of \$8,443 allowance for uncollectible pledges. All receivables are considered temporarily restricted.

NOTE 4: INVENTORY

During the fiscal years ended December 31, 2007 and 2006, the Organization incurred costs for inventory. The inventory items included clothing, handbags and other hand made merchandise. Funds were disbursed to purchase this merchandise. The collected funds were used to assist refugees who are experiencing persecution. The Organization uses the specific identification method to compute profit upon the sale of inventory items.

Christian Freedom International, Inc.
Notes to the Financial Statements
For the Years Ended December 31, 2007 and 2006

NOTE 5: NOTES PAYABLE

The Organization had a note payable to SunTrust bearing interest at 5.45%. The loan balance of \$19,226 was paid in full in 2007.

On August 28, 2007, the Organization secured a loan of \$290,000 from Wachovia Bank bearing interest at 7.7%, for a building purchase. The loan is payable in consecutive monthly payments of accrued interest only until September 28, 2008. On August 28, 2012 the loan matures.

On September 30, 2007, the Organization secured a loan of \$70,000 from its Vice President, Robert Sweet Jr., bearing interest at 7.38% for renovation construction costs. The loan is payable in consecutive monthly payments of accrued interest only. The Organization will make a balloon payment of the entire loan amount at such time as each party shall agree.

NOTE 6: TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS AND PROMISES TO GIVE

Temporarily restricted net assets are available for the following purposes:

	<u>2007</u>	<u>2006</u>
Various Programs	\$107,564	\$121,705
Time Restriction	<u>173,834</u>	<u>66,441</u>
Total	<u>\$281,398</u>	<u>\$188,146</u>

The Organization received no permanently restricted revenues.