

**DKT INTERNATIONAL, INC.**

**COMBINED FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION**

**Years Ended December 31, 2007 and 2006**



DKT INTERNATIONAL, INC.  
CONTENTS  
December 31, 2007 and 2006

	PAGE
INDEPENDENT AUDITOR'S REPORT	2
COMBINED STATEMENTS OF FINANCIAL POSITION	3
COMBINED STATEMENTS OF ACTIVITIES	4
COMBINED STATEMENTS OF CASH FLOWS	5
NOTES TO FINANCIAL STATEMENTS	6-15
SUPPLEMENTARY INFORMATION	
COMBINED SCHEDULE OF FUNCTIONAL EXPENSES	16
COMBINED SCHEDULE OF REVENUE AND EXPENSES IN SUPPORT OF INTERNATIONAL ACTIVITIES	17



## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
 DKT International, Inc.  
 Washington, District of Columbia

We have audited the accompanying combined statements of financial position of DKT International, Inc. (a nonprofit organization), as of December 31, 2007 and December 31, 2006, and the related combined statements of activities and cash flows for the years then ended. These combined financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 combined financial statements referred to above present fairly, in all material respects, the financial position of DKT International, Inc. as of December 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years 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 combined financial statements of DKT International, Inc. taken as a whole. The accompanying combined schedules of functional expenses and revenue and expenses in support of international activities are presented for purposes of additional analysis and are not a required part of the combined financial statements of DKT International, Inc. Such information has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated in all material respects, in relation to the combined financial statements taken as a whole.

*Coleman Huntton Charamut & Brown, PLLC*

CERTIFIED PUBLIC ACCOUNTANTS  
 Chapel Hill, North Carolina  
 August 1, 2008

**DKT INTERNATIONAL, INC.**  
**COMBINED STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2007 and 2006**

3

	<b>ASSETS</b>	
	<u><b>2007</b></u>	<u><b>2006</b></u> <b>(as restated)</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 21,959,616	\$ 16,263,316
Certificates of deposit	1,155,409	722,069
Accounts receivable	10,653,420	7,036,745
Accounts receivable - grants	1,328,827	1,720,835
Accounts receivable - related parties	112,010	100,506
Inventory - contraceptives	9,982,999	9,701,940
Prepaid expenses	1,474,487	1,045,548
Investments	47,927,949	35,154,175
Deposits	1,966,009	1,234,460
Property and equipment, net	2,299,736	2,178,663
Other assets, net	<u>1,693,500</u>	<u>1,842,281</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 100,553,962</u></u>	<u><u>\$ 77,000,538</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 11,590,915	\$ 7,700,934
Advances on grants	2,059,263	3,371,367
Payroll taxes and benefits withheld and accrued	467,963	322,099
Notes payable	<u>976,760</u>	<u>1,105,920</u>
Total Liabilities	<u>15,094,901</u>	<u>12,500,320</u>
<b>NET ASSETS</b>		
Unrestricted		
Designated by the Board for new program support	33,700,000	33,700,000
Undesignated	<u>44,401,773</u>	<u>30,800,218</u>
Total Unrestricted	78,101,773	64,500,218
Temporarily Restricted	<u>7,357,288</u>	<u>-</u>
Total Net Assets	<u>85,459,061</u>	<u>64,500,218</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 100,553,962</u></u>	<u><u>\$ 77,000,538</u></u>

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

**DKT INTERNATIONAL, INC.**  
**COMBINED STATEMENTS OF ACTIVITIES**  
**Years Ended December 31, 2007 and 2006**

	2007			2006 (as restated)		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>REVENUE, GAINS, AND OTHER SUPPORT</b>						
Contributions - individuals, foundations and corporation:	\$ 5,802,360	\$ 7,695,544	\$ 13,497,904	\$ 2,972,613	\$ -	\$ 2,972,613
Contributed goods and services:	1,810,475	-	1,810,475	7,701,984	-	7,701,984
Grant and contract revenue	19,100,486	-	19,100,486	18,295,669	-	18,295,669
Gross receipts program revenue - contraceptive sale: and related services:	48,769,348	-	48,769,348	40,564,907	-	40,564,907
Interest income	695,035	-	695,035	558,547	-	558,547
Dividend income	1,135,814	-	1,135,814	648,050	-	648,050
Royalty income	575,272	-	575,272	750,732	-	750,732
Foreign currency translation gain	954,242	-	954,242	894,623	-	894,623
Gain on sale of investments	706,551	-	706,551	52,245	-	52,245
Gain on sale of assets	13,608	-	13,608	6,213	-	6,213
Unrealized gain on investment:	3,874,366	-	3,874,366	4,400,488	-	4,400,488
Other income	232,754	-	232,754	481,835	-	481,835
<b>Total Revenue, Gains, and Other Support</b>	<b>83,670,311</b>	<b>7,695,544</b>	<b>91,365,855</b>	<b>77,327,906</b>	<b>-</b>	<b>77,327,906</b>
Net assets released from restrictions:	338,256	(338,256)	-	-	-	-
	<u>84,008,567</u>	<u>7,357,288</u>	<u>91,365,855</u>	<u>77,327,906</u>	<u>-</u>	<u>77,327,906</u>
<b>EXPENSES AND LOSSES</b>						
Program services						
Cost of sales and expenses - sale of contraceptive:	30,688,162	-	30,688,162	35,604,956	-	35,604,956
Other program expenses	37,292,466	-	37,292,466	28,665,561	-	28,665,561
Supporting services						
Management and general	1,438,191	-	1,438,191	1,195,508	-	1,195,508
Fund-raising	101,819	-	101,819	131,977	-	131,977
<b>Total Expenses</b>	<b>69,520,638</b>	<b>-</b>	<b>69,520,638</b>	<b>65,598,002</b>	<b>-</b>	<b>65,598,002</b>
Loss on disposition of assets	41,921	-	41,921	4,330	-	4,330
Foreign currency translation loss:	274,198	-	274,198	164,031	-	164,031
Unrealized loss on valuation of inventory	569,113	-	569,113	1,084,033	-	1,084,033
Realized loss on investments	1,142	-	1,142	488,692	-	488,692
<b>Total Losses</b>	<b>886,374</b>	<b>-</b>	<b>886,374</b>	<b>1,741,086</b>	<b>-</b>	<b>1,741,086</b>
<b>Total Expenses and Losses</b>	<b>70,407,012</b>	<b>-</b>	<b>70,407,012</b>	<b>67,339,088</b>	<b>-</b>	<b>67,339,088</b>
Change in Net Assets	13,601,555	7,357,288	20,958,843	9,988,818	-	9,988,818
<b>NET ASSETS AT BEGINNING OF YEAR</b>	<b>64,500,218</b>	<b>-</b>	<b>64,500,218</b>	<b>54,511,400</b>	<b>-</b>	<b>54,511,400</b>
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 78,101,773</b>	<b>\$ 7,357,288</b>	<b>\$ 85,459,061</b>	<b>\$ 64,500,218</b>	<b>\$ -</b>	<b>\$ 64,500,218</b>

The accompanying notes are an integral part of these financial statements

**DKT INTERNATIONAL, INC.**  
**COMBINED STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2007 and 2006**

5

	<u>2007</u>	<u>2006</u> (as restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 20,958,843	\$ 9,988,818
Adjustments to reconcile change in net asset: to net cash provided by operating activities		
(Gain) loss on disposition of assets	28,313	(1,883)
Realized (gain) loss on sales of investments	(705,409)	436,447
Unrealized (gain) on investments	(3,874,366)	(4,400,488)
Unrealized loss on valuation of inventory	569,113	1,084,033
Noncash contributions received	(5,528,812)	(9,245,583)
Depreciation and amortization	814,279	691,195
(Increase) in accounts receivable	(3,236,171)	(4,091,414)
Decrease in inventory	960,303	1,763,357
(Increase) decrease in prepaid expense:	(428,939)	25,415
(Increase) decrease in deposits	(731,549)	1,870,626
Increase in accounts payable	3,889,981	1,894,702
(Decrease) in advances on grants	(1,312,104)	(1,281,888)
Increase in payroll taxes and benefits accrued and withheld	145,864	228,008
	<u>11,549,346</u>	<u>(1,038,655)</u>
<b>NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment	(867,671)	(727,684)
Purchase of investments and certificates of deposits	(65,248,929)	(15,949,937)
Proceeds from sale of investments and certificates of deposits	60,375,101	16,815,134
Proceeds from sale of fixed assets	17,613	13,776
	<u>(5,723,886)</u>	<u>151,289</u>
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of short-term debt	83,340	255,920
Payments of short-term debt	(212,500)	(35,576)
	<u>(129,160)</u>	<u>220,344</u>
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>		
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	5,696,300	(667,022)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>16,263,316</u>	<u>16,930,338</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 21,959,616</u>	<u>\$ 16,263,316</u>
Supplemental disclosure of cash flow information		
	<u>2007</u>	<u>2006</u>
Cash paid for:		
Interest expense	\$ 53,636	\$ 60,614
Noncash transactions		
The following items were donated to DKT		
Inventory - commodities	\$ 1,810,475	\$ 7,233,731
Marketable securities	3,718,337	1,543,599
Video tapes	-	468,253
	<u>\$ 5,528,812</u>	<u>\$ 9,245,583</u>

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

DKT INTERNATIONAL, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2007 and 2006

## **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### General Information

DKT International, Inc., (DKT), a nonprofit corporation, was organized in 1984 for the purpose of designing and implementing family planning projects in developing countries. These projects are committed to the dissemination of family planning and AIDS prevention information and the social marketing of contraceptives. During the current year, DKT and its affiliates have managed operations in Ethiopia, India (two projects), Indonesia, Mexico, Vietnam, Brazil, China, the Philippines, Malaysia, Egypt and Sudan. Projects in Turkey and Mozambique are in the start-up phase.

### Principles of Combination

The combined financial statements include the accounts of DKT International, Inc. (DKT) and its domestic and international affiliates. Such combined reporting most accurately reflects the common charitable activities of DKT and its affiliates. All inter-company accounts between DKT International Inc. and its affiliates (collectively, DKT) have been eliminated in combination.

### Basis of Accounting

The financial statements of DKT have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

### Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Made*, and SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*. SFAS No. 117 establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. SFAS No. 116 requires that unconditional promises to give (pledges) be recorded as receivables and revenues and requires the organization to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions. A description of the three net asset categories follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the organization and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the organization. Generally, the donors of these assets permit the organization to use all or part of the income earned on related investments for general or specific purposes.

### Restricted and Unrestricted Revenue and Support

Donor-restricted support 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 Statements of Activities as net assets are released from restrictions. Generally, awards are classified as refundable advances until expended for the purposes of the grants since they are conditional promises to give.

### Promises to Give

Unconditional promises to give are recognized as revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises to give are recorded at net realizable value if they are expected to be collected in one year and at fair value if they are expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

### Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### Cash and Cash Equivalents

The Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

### Trade Accounts Receivable

Trade accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that losses on balances shown as outstanding at year-end will be immaterial.

### Allowance for Doubtful Accounts

Management has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to reflect bad debts. However, the effect of the use of the direct write-off method is not materially different from the results that would have been obtained had the allowance method been followed.

### Property and Equipment

All acquisitions of property and equipment in excess of \$400 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful life of the asset.

### Video Products

Video products have been capitalized at fair market value at the date of acquisition. Depreciation is based on the income forecast method over the estimated useful life of the asset.



### Inventories

Various operations of DKT carry inventories of contraceptives held for distribution or resale. These products are either purchased from vendors or received as contributions from grantors or various governmental agencies. In some instances, contraceptive products are sold below cost or are distributed at no cost to encourage wider usage. These products are valued at their net realizable value for the years ending December 31, 2007 and 2006. The difference in the cost and net realizable value is treated as a current unrealized loss and recognized in the accompanying Statements of Activities.

### Investments

DKT carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the Statements of Financial Position. Unrealized gains and losses are included in the change in net assets in the accompanying Statements of Activities.

### Contributed Goods and Services

DKT recognizes all contributed support received as income in the period received. Contributed support is reported as unrestricted or restricted depending on the existence of donor stipulations that limit the use of the support.

The mission of DKT is carried out partially through the donation of contraceptives from various international governmental and private agencies. During 2007, DKT's operations in India, Vietnam, Indonesia, The Philippines, and Egypt received goods valued at \$5,390,621 as shown on the following schedule. The goods received by the operations in Ethiopia, India, and Vietnam were valued at \$7,233,731 in 2006. The Government of India subsidizes the cost of contraceptives used in DKT's two programs in India; the amount noted below represents only the product subsidy, not the total cost of the products.

<u>COUNTRY</u>	<u>VALUE OF CONTRACEPTIVES</u>		<u>RECEIVED FROM</u>
	<u>2007</u>	<u>2006</u>	
India	\$3,580,146	\$3,020,753	Government of India
Vietnam	\$1,808,820	\$3,370,277	DFID, USAID, National Committee for Population and Family Planning/Kreditanstalt fur Wiederaufbau (KfW)
Ethiopia	\$ -	\$ 842,701	USAID
Indonesia	\$ 1,440	\$ -	Ipas
Philippines	\$ 149	\$ -	Pregna International Company
Egypt	\$ 66	\$ -	Pregna International Company

No amounts have been reflected in the financial statements for donated services. DKT pays for professional services and other services requiring specific expertise.

### Donated Assets

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation. DKT received contributions of marketable securities during both 2007 and 2006. The 2007 contributions had a fair market value of \$3,718,337 at the date of the gift while the 2006 contributed securities were valued at \$1,543,601.

### Designation of Unrestricted Net Assets

It is the policy of the Board of Directors of DKT to review annually its plans for new programs and start-up expenditures on a regular basis and to designate appropriate sums of unrestricted net assets to assure adequate financing of such new programs. The Board of Directors has designated \$33,700,000 from DKT's 2007 and 2006 unrestricted net assets for future growth and support of programs; these designated net assets will be dedicated for initial phases in the new programs in Mexico, Egypt and the Sudan and other start-up programs anticipated for 2008-2009 such as Mozambique and Turkey.

### Gains/Losses on Foreign Currency Exchange

All elements of the financial statements of DKT's operations in foreign countries are translated using the current exchange rate. For assets and liabilities, this is the rate in effect at the balance sheet date. For revenue and expense items, translation is performed monthly using the average for that month as applicable. At the beginning of 2007, Sudan adopted a new currency, the Sudanese pound, to replace the Sudanese dinar which was used in 2006. The exchange rates at December 31, 2007 and December 31, 2006, as quoted in the "Wall Street Journal" are used in DKT's foreign currency translations.

<u>COUNTRY</u>	<u>CURRENCY</u>	<u>PER US DOLLAR</u>	
		<u>2007</u>	<u>2006</u>
Ethiopia	Birr	9.225	8.707
Mexico	Peso	10.912	10.803
Mumbai	Rupees	39.401	44.111
Indonesia	Rupiah	9,390.000	8,993.000
Vietnam	Vnd	16,045.000	16,065.000
Bihar	Rupees	39.401	44.111
China	Renminbi	7.304	7.808
Philippines	Peso	41.237	49.044
Egypt	Pound	5.534	5.711
Brazil	Reais	1.780	2.136
Sudan	Sudanese Pound	2.005	2.020

### Concentrations

The Organization maintains its cash and cash equivalents in high-credit-quality financial institutions in amounts which, at times, may exceed federally insured limits. DKT has not experienced any losses in such accounts, and management believes that the Organization is not exposed to any significant risk of loss on cash and cash equivalents due to the failure of the financial institutions. The Organization has substantial cash in foreign bank accounts, which is subject to fluctuations in the foreign currency exchange rate.

Program revenue generated from the sales of contraceptives accounted for approximately 53% of the organization's total revenue, gains and other support during 2007 and 52% for 2006. Financial support and revenue from grants and contracts accounted for 21% and 24%, respectively, for the same time periods.

### Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities and presented in the Schedules of Functional Expenses. Accordingly, certain costs have been allocated among the programs and the supporting services benefited.

### **INCOME TAX AND PRIVATE FOUNDATION STATUS**

DKT is exempt from Federal and State income tax as a not-for-profit educational, charitable organization under Section 501(c)(3) of the Internal Revenue Code. The organization has been approved under Section 509(a)(2) of the Internal Revenue Code for recognition as a publicly supported organization and not as a private foundation. Donations made to a public charity qualify for the maximum charitable contribution tax deduction.

For 2007, DKT had no net unrelated business taxable income. A portion of the contributions made by DKT to other charitable organizations is allowed as a deduction against unrelated business income. As of December 31, 2007, unused contributions, in the amount of \$1,553,171 are allowed to be carried forward for five years; the 2007 contribution carryover, for example, will expire in the year ending December 31, 2012. In addition, DKT has unused Federal tax credits in the amount of \$4,656.

### **RELATED PARTY TRANSACTIONS**

In 2007 and 2006, DKT received cash contributions of \$309,000 and \$500,942, respectively from a related non-profit entity. This same entity donated marketable securities valued at \$1,375,610 and \$1,543,601, respectively in 2007 and 2006. The president of DKT is a member of the Board of Directors of this charity. DKT received cash contributions from its president in the amounts of \$1,700,000 and \$1,400,000 during 2007 and 2006, respectively. The president also donated marketable securities valued at \$2,342,727 during 2007.

Three for-profit entities, of which the president of DKT is a substantial stockholder, contributed video products to DKT during 1995. These video products were valued at \$5,500,000. Additional tapes valued at \$210,087 were donated during 2002. In 2006 one of the for-profit entities donated additional tapes to DKT valued at \$468,253. Subsequently, DKT signed licensing agreements with these entities, giving them the rights to copy, market and distribute the video products. DKT realizes royalties on the sale of these videos as they are sold by the currently licensed entities. The initial term of these agreements was three years and they remain in force until terminated by either party. During 2007, DKT earned \$575,272 in royalties from these licensing agreements. Of this total, \$112,010 was due to DKT at December 31, 2007. Royalties earned from these agreements in 2006 were \$750,732. Of this amount, \$100,506 was due at December 31, 2006. Another for-profit entity of which the president of DKT is the major stockholder contributed \$500 to DKT during 2006.

In the normal course of business, DKT International, Inc. conducts arm's length transactions with certain foreign affiliates whose operations are included in the combined financial statements. In the financial statements these transactions are eliminated from the totals; however, following is a summary of balances and transactions among affiliates as of and for the years ended December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Notes receivable	\$4,163,063	\$3,769,652
Interest income	\$ 204,721	\$ 86,360
Management fees	\$ 994,811	\$ 453,663

## INVESTMENTS

Investments are stated at fair market value and consist of the following:

	<u>2007</u>	<u>2006</u>
Certificates of Deposit	\$ 1,155,409	\$ 722,069
Stocks and Mutual Funds	<u>47,927,949</u>	<u>35,154,175</u>
	<u>\$49,083,358</u>	<u>\$35,876,244</u>

Return on these investments is summarized as follows:

	<u>2007</u>	<u>2006</u>
Dividend Income	\$1,135,814	\$ 648,050
Interest Income	10,424	8,205
Net Realized & Unrealized Gains (Losses)	<u>4,579,775</u>	<u>3,964,041</u>
	<u>\$5,726,013</u>	<u>\$4,620,296</u>

## PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2007</u>	<u>2006</u>
Vehicles	\$2,310,217	\$1,921,439
Office furnishings and equipment	2,695,960	2,481,255
Building and leasehold improvements	<u>469,739</u>	<u>349,995</u>
	5,475,916	4,752,689
Less accumulated depreciation	<u>3,176,180</u>	<u>2,574,026</u>
	<u>\$2,299,736</u>	<u>\$2,178,663</u>

## DONOR-IMPOSED RESTRICTIONS ON THE USE OF PROPERTY AND EQUIPMENT

DKT has requested permission from USAID to continue to maintain and use the equipment purchased through a previous USAID cooperative agreement in its program activities in Ethiopia. In the Philippines all equipment purchased with USAID funding can be used in the program for which it was acquired as long as needed, whether or not the program continues to be supported by U.S. Government funds. Equipment in Vietnam purchased with funding from the Department for International Development (DFID) will remain the property of DFID; however, the assets may continue in use by the DKT program.

## OTHER ASSETS

Other assets consist of the following:

	<u>2007</u>	<u>2006</u>
Donated video tapes	\$6,178,340	\$6,178,340
Less accumulated depreciation	<u>4,484,840</u>	<u>4,336,059</u>
	<u>\$1,693,500</u>	<u>\$1,842,281</u>

## LEASE COMMITMENTS

DKT provides lodging for its overseas project managers. Certain leases with terms greater than one year require that the total rent be paid upon the execution of the lease. In ten foreign countries, DKT has rental commitments for lodging, warehouse space, and for office space ranging from four to sixty months. DKT also rents office space in Washington, DC.

Future minimum lease payments are as follows:

	<u>2007</u>		<u>2006</u>
2008	\$ 967,915	2007	\$ 817,146
2009	610,048	2008	525,224
2010	267,216	2009	310,220
2011	125,558	2010	128,982
2012	150,614	2011	51,285
Total	<u>\$2,121,351</u>	Total	<u>\$1,832,857</u>

## NONCOMPLIANCE WITH GRANTOR OR DONOR RESTRICTIONS

Financial awards from federal, state, and local government entities in the form of grants are subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

## DEBT

Debt consists of various notes payable and lines of credit with total interest expense of \$53,636 for 2007 and \$60,614 for 2006. The debt is owed by DKT do Brasil, and DKT's programs in Mexico and Bihar, India. The debt of DKT do Brasil is collateralized with the company's accounts receivable. The Organization's obligation under these liabilities consists of the following:

	<u>2007</u>	<u>2006</u>
Note payable to the David and Lucile Packard Foundation with interest of 1% per annum	\$637,500	\$ 850,000
Lines of credit payable to local banks with per annum interest rates ranging from 14.7% to 22.58%	<u>339,260</u>	<u>255,920</u>
	<u>\$976,760</u>	<u>\$1,105,920</u>

## LINES OF CREDIT AND LOAN COMMITMENTS

DKT do Brasil, at December 31, 2007 and 2006, had business lines of credit with two different banks. The maximum available under the credit agreements is \$842,697. At December 31, 2007 the balance is \$338,450 and at December 31, 2006 the balance was \$255,920. During 2007, Mexico had a line of credit with a maximum available limit of \$27,493. The balance at December 31, 2007 is \$810.

The David and Lucile Packard Foundation has made a loan commitment of up to \$1,700,000 to DKT (Bihar and Jharkhand India). As of December 31, 2007 and 2006, one advance in the amount of \$850,000 had been made on this loan. The loan maturity date is December 31, 2010. In both 2007 and 2006 interest of \$8,594 and \$8,500, respectively, was paid on this loan.

## **FEDERAL AWARDS**

During 2007, DKT's affiliate in Mumbai, India was a sub-recipient of an USAID award in the amount of \$1,269,661; this was received as a pass-through from Futures Group International, LLC. The period of performance is April 1, 2007 through March 30, 2008. During 2007, DKT earned \$1,060,724.

DKT's affiliate in the Philippines earned \$79,610 in 2006 from an award granted by USAID. This grant of \$1,170,000 was awarded in 2002 and concluded in 2006.

DKT affiliates in Ethiopia and Vietnam expended commodities in 2007 and 2006 from USAID. Amounts expended from inventory during 2007 were \$1,586,699 in Ethiopia and \$101,889 in Vietnam. For 2006 commodities were received by Ethiopia and Vietnam in the amounts of \$842,701 and \$273,791, respectively. In 2006 amounts expended from inventory were \$2,157,060 in Ethiopia and \$419,360 in Vietnam.

## **ADVERTISING**

The Organization generally expenses advertising production costs as they are incurred and advertising communication costs the first time the advertising takes place.

## **INVESTMENT EXPENSES**

Expenses relating to investment revenues, including custodial fees and investment advisory fees have been netted against investment revenues in the accompanying Statements of Activities.

## **PENSION PLAN**

During 1994, DKT adopted a tax-sheltered annuity plan according to the terms of Internal Revenue Code Section 403(b). All eligible employees may contribute a portion of their annual compensation to the plan in accordance with plan provisions. These contributions are made on a tax-deferred basis under a salary-reduction agreement. In addition, beginning in 1999, DKT contributes an amount equal to 6% of each participant's salary to the plan. The Organization's contribution to this plan was \$58,973 in 2007 and \$63,651 in 2006.

## **ADDITIONAL CASH FINANCIAL SUPPORT FOR FOREIGN OPERATIONS**

DKT receives cash support for its foreign operations from numerous individuals, governments, public charities and public and private foundations. This varies by country based upon the specific program for which they request financial support.

Examples of entities providing support to DKT in its foreign operations include the following:

- Bill and Melinda Gates Foundation
- Department for International Development, UK (DFID)
- David and Lucile Packard Foundation
- German Government/Kreditanstalt für Wiederaufbau (KfW)
- Government of India
- Government of Indonesia
- Government of the Royal Netherlands
- Ipas
- The Republic of Ireland/Development Co-operation Ireland (DCI)
- United Nations Population Fund (UNFPA)
- U. S. Agency for International Development (USAID)
- William and Flora Hewlett Foundation

### NATURE AND AMOUNT OF TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following program services by region at December 31:

	<u>2007</u>	<u>2006</u>
Ethiopia	\$ 641,105	\$ -
Mumbai, India	970,486	-
Indonesia	1,039,806	-
Bihar, India	2,210,357	-
Sudan	2,287,573	-
DC	<u>207,961</u>	<u>-</u>
Total	<u><u>\$7,357,288</u></u>	<u><u>\$ -</u></u>

Net assets for the years ended December 31, 2007 and 2006 were released from donor restrictions by incurring expenses satisfying the restricted purposes, as follows:

	<u>2007</u>	<u>2006</u>
Ethiopia	\$ 16,856	\$ -
Mumbai, India	-	-
Indonesia	-	-
Bihar, India	321,400	-
Sudan	-	-
DC	<u>-</u>	<u>-</u>
Total	<u><u>\$338,256</u></u>	<u><u>\$ -</u></u>

### CONDITIONAL PROMISES TO GIVE

At December 31, 2007, DKT has received conditional promises to give which are subject to annual review of project performance, as follows:

<u>Years Ending</u>	<u>Amount</u>
2008	\$ 6,904,064
2009	14,169,854
2010	14,771,814
2011	14,331,366
2012	<u>14,814,467</u>
Total	<u><u>\$64,991,565</u></u>

**CORRECTION OF AN ERROR**

During the year ended December 31, 2007, DKT discovered errors in previously reported assets, liabilities and net assets and the statement of activities for 2006. In the prior year, prepaid assets, deposits and accounts payable were overstated while grants receivable and other assets were understated. In the restated Statement of Activities, contributed goods and services were increased, cost of sales was decreased, expenses were increased and the change in net assets was increased to reflect the changes.

As a result, the following correction is shown in the restated combined financial statements for the year ended December 31, 2006: the change in net assets for 2006 increased by \$110,894 with a total increase in unrestricted net assets of \$968,341 at the end of 2006.

**SUBSEQUENT EVENTS**

DKT Bihar India was awarded a grant in March, 2008 from The David and Lucile Packard Foundation in the amount of \$2,000,000. This grant is for operating support to sustain the Janani service delivery network for family planning and reproductive health in Bihar and Jharkhand.



**DKT INTERNATIONAL, INC.**  
**COMBINED SCHEDULE OF FUNCTIONAL EXPENSES**  
**Year Ended December 31, 2007**  
**(With Comparative Totals for 2006)**

16

	Program Services	Management and General	Fund-raising	Total Expenses 2007	Total Expenses 2006 (as restated)
Cost of sales-merchandise, freight					
import fees and taxes	\$ 30,688,162	\$ -	\$ -	\$ 30,688,162	\$ 35,604,956
Salaries and fringe benefits	9,279,390	338,456	101,819	9,719,665	7,938,599
Accounting and legal	-	884,242	-	884,242	815,438
Amortization and depreciator	665,498	148,781	-	814,279	691,195
Advertising	17,429,845	-	-	17,429,845	12,084,176
Bad debt	656,610	-	-	656,610	467,728
Bank charges	-	66,712	-	66,712	42,562
Conferences	185,557	-	-	185,557	183,196
Consulting fees	890,291	-	-	890,291	527,992
Contributions	157,121	-	-	157,121	294,230
Interest expense	53,636	-	-	53,636	60,614
Office expenses and supplies	1,022,222	-	-	1,022,222	920,719
Office rent and insurance	1,188,170	-	-	1,188,170	987,280
Postage	159,107	-	-	159,107	127,706
Program and training expenses	2,416,476	-	-	2,416,476	2,286,596
Research and development	431,561	-	-	431,561	194,505
Telephone	394,164	-	-	394,164	340,720
Travel	1,695,066	-	-	1,695,066	1,391,809
Vehicle expense	667,752	-	-	667,752	637,981
<b>Total expenses, year ended</b>					
December 31, 2007	\$ <u>67,980,628</u>	\$ <u>1,438,191</u>	\$ <u>101,819</u>	\$ <u>69,520,638</u>	
<b>Total expenses, year ended</b>					
December 31, 2006	\$ <u>64,270,517</u>	\$ <u>1,195,508</u>	\$ <u>131,977</u>		\$ <u>65,598,002</u>

The accompanying notes are an integral part of these financial statements

**DKT INTERNATIONAL, INC.**  
**COMBINED SCHEDULE OF REVENUE AND EXPENSES IN SUPPORT OF INTERNATIONAL ACTIVITIES**  
**Year Ended December 31, 2007**

17

	<u>Ethiopia</u>	<u>Mexico</u>	<u>Mumbai India</u>	<u>Indonesia</u>	<u>Vietnam</u>	<u>Bihar India</u>	<u>China</u>	<u>Philippines</u>	<u>Egypt</u>	<u>Brazil</u>	<u>Sudan</u>	<u>Total 2007</u>
<b>PROGRAM REVENUE</b>												
Gross receipts program revenue - contraceptive sales and related services	\$ 2,514,152	\$ 1,674,937	\$ 3,778,745	\$ 10,958,356	\$ 1,170,332	\$ 1,634,166	\$ 1,373,484	\$ 13,190,413	\$ 269,653	\$ 11,724,637	\$ 480,473	\$ 48,769,348
<b>TOTAL PROGRAM REVENUE</b>	<u>2,514,152</u>	<u>1,674,937</u>	<u>3,778,745</u>	<u>10,958,356</u>	<u>1,170,332</u>	<u>1,634,166</u>	<u>1,373,484</u>	<u>13,190,413</u>	<u>269,653</u>	<u>11,724,637</u>	<u>480,473</u>	<u>48,769,348</u>
<b>COST OF GOODS SOLD</b>												
Cost of sales-merchandise, packaging, freight, import costs	2,935,255	1,046,993	1,659,309	9,011,391	1,767,302	886,481	928,347	5,367,427	134,089	6,651,086	300,482	30,688,162
<b>TOTAL COST OF GOODS SOLD</b>	<u>2,935,255</u>	<u>1,046,993</u>	<u>1,659,309</u>	<u>9,011,391</u>	<u>1,767,302</u>	<u>886,481</u>	<u>928,347</u>	<u>5,367,427</u>	<u>134,089</u>	<u>6,651,086</u>	<u>300,482</u>	<u>30,688,162</u>
<b>GROSS PROFIT</b>	<u>(421,103)</u>	<u>627,944</u>	<u>2,119,436</u>	<u>1,946,965</u>	<u>(596,970)</u>	<u>747,685</u>	<u>445,137</u>	<u>7,822,986</u>	<u>135,564</u>	<u>5,073,551</u>	<u>179,991</u>	<u>18,081,186</u>
<b>EXPENSES</b>												
Accounting and legal	3,998	21,893	4,486	2,705	11,930	150,379	4,515	187,544	-	258,423	28,015	673,888
Advertising	1,016,840	78,250	3,412,758	3,667,636	991,159	276,119	68,799	6,673,492	264,594	974,086	6,112	17,429,845
Bank charges	7,958	3,853	5,242	9,686	2,502	10,478	746	1,639	2,914	19,047	2,172	66,237
Bad debt	32,367	23,092	3,835	-	122,640	-	325,382	84,775	30,445	34,074	-	656,610
Conferences	3,334	92	42,090	-	-	4,714	5,427	87,215	42,685	-	-	185,557
Consulting fees	235,000	67,847	73,635	133,229	75,766	12,992	590	55,708	5,385	93,851	-	754,003
Contributions	-	1,493	-	-	-	-	-	-	-	-	-	1,493
Depreciation	234,279	32,830	29,814	49,840	29,873	96,695	12,459	78,575	24,384	21,474	41,763	651,986
Interest expense	-	2,434	-	-	-	8,594	-	-	-	42,608	-	53,636
Office expense	64,953	24,488	85,583	50,564	20,164	98,468	30,288	89,683	17,570	468,093	36,659	986,513
Office rent and insurance	200,367	72,446	130,205	53,647	47,293	237,523	64,852	77,757	46,325	106,346	73,497	1,110,258
Postage	7,542	8,177	58,328	5,632	11,927	19,667	5,399	10,616	13,847	14,706	934	156,775
Program and training expenses	189,974	6,802	41,305	68,755	4,987	1,523,590	1,066	31,445	17,154	47,827	234,802	2,167,707
Research and development	1,246	9,700	169,759	47,688	25,597	-	-	32,992	-	144,579	-	431,561
Salaries and fringe benefits - general	1,082,278	645,118	1,228,935	681,176	752,129	450,508	394,902	926,980	578,454	2,025,731	477,702	9,243,913
Salaries and fringe benefits - fund-raising	14,066	6,156	-	14,092	17,985	18,096	-	-	-	5,531	11,898	87,824
Telephone	83,754	24,594	64,828	-	21,389	49,336	22,283	56,636	6,287	40,600	12,950	382,657
Travel	343,157	23,063	458,317	78,300	96,385	214,740	33,744	255,498	529	174,125	7,399	1,685,257
Vehicle expense	350,104	23,238	9,889	50,234	13,969	32,642	13,305	102,347	1,082	48,634	22,308	667,752
Unrealized loss on valuation of inventory	449,645	-	-	2,211	117,257	-	-	-	-	-	-	569,113
<b>TOTAL EXPENSES</b>	<u>4,320,862</u>	<u>1,075,566</u>	<u>5,819,009</u>	<u>4,915,395</u>	<u>2,362,952</u>	<u>3,204,541</u>	<u>983,757</u>	<u>8,752,902</u>	<u>1,051,655</u>	<u>4,519,735</u>	<u>956,211</u>	<u>37,962,585</u>
Excess(Deficit) Of Program Revenue Over Expenses From Operations	<u>(4,741,965)</u>	<u>(447,622)</u>	<u>(3,699,573)</u>	<u>(2,968,430)</u>	<u>(2,959,922)</u>	<u>(2,456,856)</u>	<u>(538,620)</u>	<u>(929,916)</u>	<u>(916,091)</u>	<u>553,816</u>	<u>(776,220)</u>	<u>(19,881,399)</u>
<b>OTHER REVENUE AND SUPPORT</b>												
Contributions - foundations	657,961	-	970,486	1,039,806	-	2,531,757	-	-	-	-	2,287,573	7,487,583
Contributed commodities	-	-	-	1,440	1,808,820	-	-	149	66	-	-	1,810,475
Foreign currency translation gain (loss)	(50,131)	26,342	153,040	(113,977)	4,702	(42,483)	(572)	770,157	(2,276)	(64,331)	(427)	680,044
Gain (loss) on sale of assets	(963)	8,809	-	-	(840)	4,799	(1,184)	(38,934)	-	-	-	(28,313)
Grant income	6,789,445	26,288	1,545,137	2,739,233	802,062	81,201	-	6,661,188	-	-	10,025	18,654,579
Interest and dividend income	230,980	897	27,648	249,149	1,888	22,599	1,184	144,988	-	14,126	-	693,459
Net realized and unrealized gains on investments	-	(573)	-	40,593	-	-	-	(570)	-	-	-	39,450
Other income	46,906	17,224	207	11,711	66,931	54,054	2,150	24,718	-	8,822	-	232,723
<b>TOTAL OTHER REVENUE AND SUPPORT</b>	<u>7,674,198</u>	<u>78,987</u>	<u>2,696,518</u>	<u>3,967,955</u>	<u>2,683,563</u>	<u>2,651,927</u>	<u>1,578</u>	<u>7,561,696</u>	<u>(2,210)</u>	<u>(41,383)</u>	<u>2,297,171</u>	<u>29,570,000</u>
<b>EXCESS (DEFICIT) OF REVENUE AND SUPPORT OVER EXPENSES</b>	<u>\$ 2,932,233</u>	<u>\$ (368,635)</u>	<u>(1,003,055)</u>	<u>\$ 999,525</u>	<u>\$ (276,359)</u>	<u>\$ 195,071</u>	<u>\$ (537,042)</u>	<u>\$ 6,631,780</u>	<u>\$ (918,301)</u>	<u>\$ 512,433</u>	<u>\$ 1,520,951</u>	<u>\$ 9,688,601</u>

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