

**REACH THE CHILDREN, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2008**

**REACH THE CHILDREN, INC.**

**I N D E X**

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To the Board of Directors  
Reach the Children, Inc.  
Fairport, New York

**INDEPENDENT AUDITORS' REPORT**

We have audited the accompanying statements of financial position of Reach the Children, Inc., (a not-for-profit corporation), as of December 31, 2008 and 2007 and the related statements of activities 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 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 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 Reach the Children, Inc. as of December 31, 2008 and 2007, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting standards generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule on page 9 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.

*Eldredge, Fox & Porretti, L.L.P.*

Rochester, New York  
May 11, 2009

**REACH THE CHILDREN, INC.**  
**Statements of Financial Position**  
**December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
<i><b>Current Assets:</b></i>		
Cash and cash equivalents	\$ 32,959	\$ 94,140
Investments	127	988
Accounts receivable - related party	60,186	93,746
Loans receivable	42,502	42,502
Other current assets	224	224
Total current assets	135,998	231,600
 <i><b>Property and Equipment:</b></i>		
Equipment	4,716	4,716
Less, accumulated depreciation	(3,696)	(3,016)
Property and equipment - net	1,020	1,700
 <i><b>Total</b></i>		
	\$ 137,018	\$ 233,300
 <b>LIABILITIES AND NET DEFICIT</b>		
<i><b>Current Liabilities:</b></i>		
Credit cards payable	\$ 21,998	\$ 11,066
Loan payable - Sharing Hands, Inc.	2,400	2,400
Loan payable - EBS, Inc.	6,550	6,550
Loan payable - Bountiful Resource, LLC	14,715	-0-
Loan payable - officer	849,244	761,044
Total current liabilities	894,907	781,060
 <i><b>Net Deficit:</b></i>		
Unrestricted	(757,889)	(547,760)
 <i><b>Total</b></i>		
	\$ 137,018	\$ 233,300

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

**REACH THE CHILDREN, INC.**  
**Statements of Activities**  
**For The Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b><i>Support and Revenue:</i></b>		
Contributions	\$ 287,360	\$ 484,984
Stock donations	6,354	22,821
Membership contributions	153,906	124,919
In-kind donations	323,630	299,407
Investment income	7	22
Other income	-0-	150
Special event revenue - net of \$4,339 of expenses in 2007	-0-	16,593
Total support and revenue	<u>771,257</u>	<u>948,896</u>
 <b><i>Expenses:</i></b>		
Program	899,896	881,312
Administrative	81,490	76,079
Total expenses	<u>981,386</u>	<u>957,391</u>
 <b><i>Decrease in Net Assets</i></b>	 <u>(210,129)</u>	 <u>(8,495)</u>
<b><i>Net Deficit - Beginning as Previously Reported</i></b>	 (547,760)	 (559,485)
<b><i>Prior-Period Adjustment - Correction of an Error (See Note 9)</i></b>	 <u>-0-</u>	 <u>20,220</u>
<b><i>Net Deficit - Beginning as Restated</i></b>	 <u>(547,760)</u>	 <u>(539,265)</u>
<b><i>Net Deficit - Ending</i></b>	 <u>\$ (757,889)</u>	 <u>\$ (547,760)</u>

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

**REACH THE CHILDREN, INC.**  
**Statements of Cash Flows**  
**For The Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b><i>Cash Flows From Operating Activities:</i></b>		
Decrease in net assets	\$ (210,129)	\$ (8,495)
Adjustments to reconcile decrease in net assets to net cash used for operating activities:		
Depreciation	680	1,005
(Increase) decrease in operating assets:		
Accounts receivable - related party	33,560	(52,665)
Increase (decrease) in operating liabilities:		
Credit cards payable	10,932	(675)
Total adjustments	<u>45,172</u>	<u>(52,335)</u>
Net cash used for operating activities	<u>(164,957)</u>	<u>(60,830)</u>
<b><i>Cash Flows From Investing Activities:</i></b>		
Purchase of property and equipment	-0-	(2,125)
Net change in investments	861	4,253
Net cash provided by investing activities	<u>861</u>	<u>2,128</u>
<b><i>Cash Flows From Financing Activities:</i></b>		
Proceeds (repayment) of loans payable	14,715	(450)
Loan proceeds and accrued interest	88,200	55,500
Net cash provided by financing activities	<u>102,915</u>	<u>55,050</u>
<b><i>Decrease in Cash and Cash Equivalents</i></b>	<b>(61,181)</b>	<b>(3,652)</b>
<b><i>Cash and Cash Equivalents - Beginning</i></b>	<b><u>94,140</u></b>	<b><u>97,792</u></b>
<b><i>Cash and Cash Equivalents - Ending</i></b>	<b><u>\$ 32,959</u></b>	<b><u>\$ 94,140</u></b>

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

**REACH THE CHILDREN, INC.**  
**Notes To Financial Statements**

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***Note 1. Summary of Significant Accounting Policies:***

Nature of Organization - Reach the Children, Inc. (the "Organization") is a not-for-profit humanitarian, development organization founded in May 1998 that helps poverty-stricken children and families in Africa. The Organization supports and promotes Community Empowerment Initiatives in the following areas: AIDS Prevention Education, Health, Education, Micro-Enterprise, Orphan Care, Water and Agriculture and overall Community Development. The Organization's goals focus on giving people the tools, skills and opportunities to become self-sustaining and to overcome the shackles of extreme poverty that hinders their ability to rise to a brighter future. The Organization is primarily funded by contributions from private sector donors. The Organization's initial projects were in Kenya, with expansion to over 15 African countries since 1999.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions based on management's knowledge and experience. Actual results could differ from those estimates.

Basis of Accounting - The financial statements of the Organization have been prepared on the accrual basis of accounting.

Basis of Presentation - Under Statement of Financial Accounting Standards (SFAS) No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization has only unrestricted net assets for the years ending December 31, 2008 and 2007.

Unrestricted Net Assets - Unrestricted net assets represent net assets that are not subject to donor-imposed stipulations and are generally available for support of the Organization's activities.

Cash and Cash Equivalents - For the purposes of the statements of financial position, cash and cash equivalents include cash on deposit with financial institutions with maturities of three months or less.

Investments - Investments are presented in the financial statements at fair market value. The net increase or decrease in the fair market value of non-current investments is reflected as an increase or reduction in the appropriate statement of activities. In September 2006, the Financial Accounting Standards Board issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). This standard defines fair value, establishes a framework for measuring fair value in accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. SFAS is effective for the Organization beginning January 1, 2008 for financial assets. The fair value of investment is disclosed in Note 2.

Accounts Receivable and Allowance for Doubtful Accounts - Accounts receivable are uncollateralized obligations due under normal organization terms. Interest and finance charges are not accrued on outstanding balances. Accounts receivable are stated at the amount the Organization expects to collect from outstanding balances. At December 31, 2008 and 2007, the Company did not feel it necessary to have an allowance for doubtful accounts.

**REACH THE CHILDREN, INC.**  
**Notes To Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (Continued):**

Property and Equipment - Property and equipment is stated at the lower of cost or fair market value at the date of donation or the date of purchase, less accumulated depreciation. Depreciation is computed using the straight-line method over an estimated useful life of five years for equipment. Routine maintenance and repairs are charged to operations as they are incurred. Expenditures which extend the useful life of an asset, in excess of \$1,000, are capitalized. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and resulting gain or loss, if any, is included in operations.

Income Taxes - Reach the Children, Inc. is a not-for-profit entity and is exempt from income tax under Code Section 501 (c) (3) of the Internal Revenue Code. Accordingly, no provision for taxes has been recorded. The organization is not private foundation. Management has elected to defer the application of FAS FIN 48, Accounting for Uncertainty in Income Taxes in accordance with FSP FIN 48-3. The Organization will continue to follow FAS 5, Accounting for Contingencies, until it adopts FIN 48.

Advertising - The Organization expenses all advertising costs as they are incurred. Advertising expense for the years ended December 31, 2008 and 2007 was \$452 and \$4,114, respectively.

Contributions - The Organization accounts for contributions in accordance with the recommendations of the Financial Accounting Standards Board in SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. In accordance with SFAS No. 116, the Organization accounts for contributions received as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. However, donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

**Note 2. Investments:**

The Organization has determined the fair value of investments through the application of SFAS No. 157, which places assets into one of three levels. Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Financial assets using level 3 inputs are primarily valued using management's assessment about the assumptions market participants would utilize in pricing the asset. Valuation techniques utilized to determine fair value are consistently applied.

Investments consist of \$127 and \$988 at December 31, 2008 and 2007, respectively and have been determined to be level 1 assets.

Earnings on these investments for the years ending December 31 are as follows:

	<u>2008</u>	<u>2007</u>
Investment income	\$ <u>7</u>	\$ <u>22</u>

**Note 3. Loans Receivable:**

The Organization made a loan to a partner organization in Africa to support a humanitarian effort. As of December 31, 2008 and 2007, the loan receivable balance was \$40,455. Also included in the loans receivable at December 31, 2008 and 2007 was an additional loan for a small project for \$2,047.

**REACH THE CHILDREN, INC.**  
**Notes To Financial Statements**

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***Note 4. Credit Cards Payable:***

The Organization has available corporate credit cards. These credit cards have available a combined maximum line as of December 31, 2008 and 2007 of \$24,000 and \$17,500, respectively. The amount outstanding on these credit cards as of December 31, 2008 and 2007 was \$21,998 and \$11,066, respectively.

***Note 5. Related Party Transactions:***

In 2001, the Organization formed a separate not-for-profit corporation called Bountiful Resources Foundation, Inc (the Foundation). The Foundation exists for the purpose of raising contributions and other revenue to support the operating expenses of the Organization. The Foundation is governed by a board that is independent from the Organization. As of December 31, 2008 and 2007, the Foundation had paid administrative expenses on behalf of the Organization of \$35,853 and \$35,075, respectively. In addition, at various times throughout the year, the Organization loans funds to the Foundation. As of December 31, 2008 and 2007, the Foundation owed the Organization \$58,901 and \$73,526, respectively.

The Organization also has a loan receivable from Bountiful Resources, LLC which is a related party owned by the President of the Organization. As of December 31, 2008 and 2007, the Bountiful Resources, LLC owed the Organization \$1,285 and \$20,220, respectively.

During 2008, the President of the Organization made additional loans to the Organization in the amount of \$30,700. The loans are payable on demand, and interest has been accrued at the prime rate, which was 3.25% at December 31, 2008. The total interest accrued on the loan was \$57,500 during the year ending December 31, 2008. The outstanding balance of the officer loans, including accrued interest, at December 31, 2008 is \$849,244. The President of the Organization has personally guaranteed these loans.

During 2007, the President of the Organization made no additional loans to the Organization. The loan is payable on demand, and interest has been accrued at the prime rate, which was 7.25% at December 31, 2007. Total interest accrued on the loan was \$53,100 during the year ending December 31, 2007. The outstanding balance of the officer loans, including accrued interest, at December 31, 2007 was \$761,044. The President of the Organization has personally guaranteed these loans.

The Organization has a loan payable to Educational Broadcasting Services, Inc., a related party owned by the President of the Organization. The outstanding balance on this payable was \$6,550, at December 31, 2008 and 2007. This is a non-interest bearing loan with no set repayment terms.

The Organization has a loan payable to Bountiful Resources, LLC, a related party owned by the President of the Organization. The outstanding balance on this payable was \$14,715 and \$0, at December 31, 2008 and 2007, respectively. This is a non-interest bearing loan with no set repayment terms.

***Note 6. Functional Allocation of Expenses:***

The cost of conducting the Organization's activities has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between program activities and administrative services.

**REACH THE CHILDREN, INC.**  
**Notes To Financial Statements**

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***Note 7. In-Kind Contributions:***

The Organization records various types of in-kind contributions, including tangible assets and services. The contributions of tangible assets are recognized at the date of the contribution and are recorded at the fair market value. Contributed services are recognized if the services received either create or enhance long-lived assets, or require specialized skills that are provided by individuals possessing those skills that typically would need to be purchased if not provided by donation. The amounts reflected in the accompanying financial statements as in-kind contributions are recorded by the gross method with offsetting amounts included in expenses.

For the years ended December 31, 2008 and 2007, in-kind contributions related to contributions of school and medical supplies amounted to \$14,625 and \$12,567, respectively. In-kind contributions of specialized services amounted to \$309,005 and \$286,840 for the years ended December 31, 2008 and 2007, respectively, bringing the total amount of in-kind donations to \$323,630 and \$299,407 for the years ending December 31, 2008 and 2007, respectively.

No amounts have been reflected in the accompanying financial statements for donated (volunteer) services. Volunteers have donated significant amounts of time, but such services did not enhance the assets of the organization nor require specialized skills.

***Note 8. Concentration of Credit Risk:***

The Organization maintains its cash at various banks. Effective October 3, 2008, the Emergency Economic Stabilization Act of 2008 provided a temporary increase in the Federal Deposit Insurance Corporation's (FDIC) deposit insurance amount of \$100,000 to \$250,000. Additionally, banks may participate in the FDIC's Transaction Account Guarantee Program that is in addition to and separate from coverage under the FDIC's general deposit rules. Through December 31, 2009, under the Transaction Account Guarantee Program, all non-interest bearing transaction accounts are fully guaranteed by the FDIC. At December 31, 2008, the financial institutions serving the Organization have elected to participate in this program. At December 31, 2008 and 2007, there were no amounts in excess of insurable limits.

***Note 9. Prior Period Adjustment:***

The 2007 financial statements were restated to properly reflect the related party loan receivable balance. The effect of the restatement was to increase accounts receivable – related party and decrease the net deficit by \$20,220.

**REACH THE CHILDREN, INC.**  
**Schedules of Program and Administrative Expenses**  
**For The Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
<b><i>Program:</i></b>		
Advertising and marketing	\$ 150	\$ 3,420
Conference	1,250	430
Fundraising	1,590	-0-
Program grants and allocations	753,622	684,518
Travel	546	5,645
Volunteer expenses	142,738	187,299
Total program expenses	<u>\$ 899,896</u>	<u>\$ 881,312</u>
<b><i>Administrative:</i></b>		
Advertising and marketing	\$ 302	\$ 694
Bank service charges	240	150
Contract labor	4,670	4,000
Credit card fees	2,900	1,453
Depreciation	680	1,005
Interest expense	57,500	53,100
Legal and accounting fees	5,188	5,500
Licenses expense	783	160
Miscellaneous	681	2,169
Office supplies	149	834
Postage	456	609
Printing and publications	4,375	4,100
Repairs and maintenance	1,361	210
Telephone	1,004	1,271
Utilities	-0-	48
Web hosting service	1,201	776
Total administrative expenses	<u>\$ 81,490</u>	<u>\$ 76,079</u>