

REACH THE CHILDREN, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2002

REACH THE CHILDREN, INC.

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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, 2002 and 2001 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, 2002 and 2001, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles 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 8 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.

Rochester, New York
September 3, 2003

REACH THE CHILDREN, INC.
Statements of Financial Position
December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
ASSETS		
<i>Current Assets:</i>		
Cash and cash equivalents	\$ 49,495	\$ 64,898
Investments	12,946	12,453
Other receivables	-0-	690
Promises to give	261,100	-0-
Due from related parties	46,723	46,723
Total current assets	370,264	124,764
 <i>Property and Equipment:</i>		
Equipment	4,975	-0-
Accumulatd depreciation	(415)	-0-
Net property and equipment	4,560	-0-
 <i>Total</i>		
	\$ 374,824	\$ 124,764
 LIABILITIES AND NET ASSETS		
<i>Current Liabilities:</i>		
Accounts payable	\$ 46	\$ 212
Credit cards payable	233	182
Loan payable	261,100	-0-
Total current liabilities	261,379	394
 <i>Net Assets:</i>		
Unrestricted	113,445	124,370
 <i>Total</i>		
	\$ 374,824	\$ 124,764

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

REACH THE CHILDREN, INC.
Statements of Activities
For The Years Ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<i>Support and Revenue:</i>		
Contributions	\$ 356,480	\$ 33,020
Child sponsorship	2,294	536
Membership contributions	145,689	150,739
Donated stock - related party	-0-	351,759
In-kind donations	288,530	15,612
Investment income	237	134
Other income	121	8
Realized loss on investments	(1,450)	(2,113)
	791,901	549,695
 <i>Expenses:</i>		
Program	767,714	431,071
Administrative	35,112	9,925
	802,826	440,996
 <i>Increase (Decrease) in Net Assets</i>	 (10,925)	 108,699
<i>Net Assets - Beginning of Year</i>	 124,370	 15,671
<i>Net Assets - End of Year</i>	 \$ 113,445	 \$ 124,370

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

REACH THE CHILDREN, INC.
Statements of Cash Flows
For The Years Ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<i>Cash Flows From Operating Activities:</i>		
Increase (decrease) in net assets	\$ (10,925)	\$ 108,699
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used for) operating activities:		
Depreciation	415	-0-
(Increase) decrease in operating assets:		
Promises to give	(261,100)	-0-
Other receivables	690	(690)
Due from related parties	-0-	(46,723)
Increase (decrease) in operating liabilities:		
Accounts payable	(166)	176
Credit cards payable	51	182
Total adjustments	<u>(260,110)</u>	<u>(47,055)</u>
Net cash provided by (used for) operating activities	<u>(271,035)</u>	<u>61,644</u>
 <i>Cash Flows From Investing Activities:</i>		
Purchase of property and equipment	(4,975)	-0-
Purchase of investments	(493)	(12,453)
Net cash used for investing activities	<u>(5,468)</u>	<u>(12,453)</u>
 <i>Cash Flows From Financing Activities:</i>		
Loan proceeds	<u>261,100</u>	<u>-0-</u>
Net cash provided by financing activities	<u>261,100</u>	<u>-0-</u>
 <i>Increase (Decrease) in Cash and Cash Equivalents</i>	 (15,403)	 49,191
 <i>Cash and Cash Equivalents - Beginning</i>	 <u>64,898</u>	 <u>15,707</u>
 <i>Cash and Cash Equivalents - Ending</i>	 <u><u>\$ 49,495</u></u>	 <u><u>\$ 64,898</u></u>

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

REACH THE CHILDREN, INC.
Notes To Financial Statements

Note 1. Summary of Significant Accounting Policies:

Nature of Organization - Reach the Children, Inc. (RTC) is a not-for-profit humanitarian development organization founded in May 1999 that helps poverty-stricken children and families in developing countries in Africa. They build and support schools, health clinics, vocational training, water and agricultural projects, micro-credit programs and anti-poverty advocacy efforts. The Organization believes these tools and skills will enable the people of Africa to overcome the shackles of extreme poverty and promote community leadership as they reach for a brighter tomorrow. The Organization is primarily funded by contributions from private sector donors. The Organization's initial projects were in Kenya, with expansion to other African countries starting in 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, 2002 and 2001.

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 both U.S. dollars held domestically and Kenyan shillings, reported in U.S. dollars, held at a bank in Kenya.

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.

Advertising - The Organization expenses all advertising costs as they are incurred. Advertising expense for the years ended December 31, 2002 and 2001 was \$3,399 and \$698, 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.

REACH THE CHILDREN, INC.
Notes To Financial Statements

Note 2. Promise To Give:

Promises to give or pledges that are expected to be collected in future years are recorded at the present value of estimated future cash flows. These pledges are unsecured and collateral is generally not required. The discounts on these amounts are computed using an interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue. Included in promises to give as of December 31, 2002 are the following unconditional pledges:

	<u>2002</u>	<u>2001</u>
Unrestricted pledges due in less than one year	\$ 261,100	\$ -0-
Gross pledges receivable	261,100	-0-
Less, unamortized discount	<u>-0-</u>	<u>-0-</u>
Net pledges receivable	261,100	-0-
Current portion of pledges receivable	<u>261,100</u>	<u>-0-</u>
Long-term portion of pledges receivable	<u>\$ -0-</u>	<u>\$ -0-</u>

There was no discount to present value calculated on the promise to give for December 31, 2002. There is no allowance for uncollectible promises to give recorded as of December 31, 2002.

Note 3. Investments:

Investments are stated at fair market value and consist of stock and cash. The fair market value of the investments at December 31, 2002 and 2001 is \$12,946 and \$12,453, respectively, and are comprised of the following:

	<u>2002</u>	<u>2001</u>
Cash and cash equivalents	\$ 391	\$ 1,941
Stock	\$ 12,555	\$ 10,512

Earnings on these investments for the years ending December 31, 2002 and 2001 are as follows:

	<u>2002</u>	<u>2001</u>
Investment income	\$ 237	\$ 134
Realized losses	\$ (1,450)	\$ (2,113)

Note 4. Credit Cards Payable:

The Organization has available corporate credit cards. These credit cards have available a combined maximum line of \$34,500. The amount outstanding on these credit cards as of December 31, 2002 and 2001 was \$233 and \$182, respectively.

Note 5. Related Party Transactions:

In 2001, the Organization formed a separate not-for-profit corporation called Bountiful Resources Foundation, Inc (the Foundation). This 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, 2002, the Foundation had paid \$77,455 in administrative expenses on behalf of the Organization.

REACH THE CHILDREN, INC.
Notes To Financial Statements

Note 5. Related Party Transactions (Continued):

Additionally, the Organization has a receivable due from the Foundation of \$46,723 as of December 31, 2002 and 2001, respectively. This receivable is non interest bearing and is expected to be received during the next fiscal year.

During 2002, the President of the Organization loaned \$254,800 to the Organization. The loan is payable on demand, and interest has been accrued at the prime rate, which was 4.25% at December 31, 2002. The outstanding balance of the loan at December 31, 2002 was \$261,100. Interest accrued on this loan was \$6,300 during the year ending December 31, 2002.

During the year ended December 31, 2001, the President of the Organization also donated securities totaling \$351,759. There were no securities donated by the President to the Organization in 2002.

Note 6. Concentration of Credit Risk:

The Organization maintains shillings at a bank in Kenya. The funds held in Kenya are not insured. The amount held at December 31, 2002 and 2001 have been reported in U.S. dollars and amount to approximately \$7,373 and \$38, respectively.

Note 7. 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.

Note 8. 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, 2002 and 2001, in-kind contributions related to contributions of school and medical supplies amounted to \$75,403 and \$15,612, respectively. In-kind contributions of specialized services amounted to \$213,127 and \$0- for the years ended December 31, 2002 and 2001, respectively, bringing the total amount of in-kind donations to \$288,530 and \$15,612 for the years ending December 31, 2002 and 2001, 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 9. Reclassifications:

Reclassifications have been made to the 2001 financial statements to conform with the 2002 presentation. These reclassifications had no effect on the increase in net assets as originally reported.

REACH THE CHILDREN, INC.
Schedules of Program and Administrative Expenses
For The Years Ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<i>Program:</i>		
Advertising and marketing	\$ 3,847	\$ -0-
Consulting	172,300	-0-
Equipment and set-up	4,572	672
Licenses, permits and dues	198	-0-
Medical services	37,500	-0-
Program grants and allocations	282,512	252,209
Program supplies	34,970	15,612
Travel	13,533	24,489
Training	480	-0-
Volunteer expenses	217,802	138,089
	<u>\$ 767,714</u>	<u>\$ 431,071</u>
<i>Administrative:</i>		
Advertising and marketing	\$ 3,399	\$ 698
Audit and accounting fees	2,502	-0-
Bank service charges	1,906	1,079
Brochure/newsletter expense	2,257	-0-
Credit card fees	1,232	48
Depreciation	415	-0-
Interest expense	6,300	-0-
Legal fees	566	-0-
Licenses expense	484	440
Miscellaneous	1,308	1,284
Office supplies	4,557	-0-
Outside services	157	600
Postage	1,131	808
Printing and copying	3,745	492
Repairs and maintenance	137	937
Telephone	3,689	1,923
Web hosting service	1,327	1,616
	<u>\$ 35,112</u>	<u>\$ 9,925</u>