

REACH THE CHILDREN, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2004

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, 2004 and 2003 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, 2004 and 2003, 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.

Eldredge, Fox & Porretti, LLP

Rochester, New York
April 13, 2005

REACH THE CHILDREN, INC.
Statements of Financial Position
December 31, 2004 and 2003

ASSETS	<u>2004</u>	<u>2003</u>
<i>Current Assets:</i>		
Cash and cash equivalents	\$ 28,578	\$ 11,676
Investments	5,650	1,841
Other receivables	203	64
Due from related parties	-0-	7,723
Loan receivable	20,000	-0-
Other current assets	224	224
Total current assets	<u>54,655</u>	<u>21,528</u>
 <i>Property and Equipment:</i>		
Equipment	4,975	4,975
Less, accumulated depreciation	<u>(2,405)</u>	<u>(1,410)</u>
Property and equipment - net	<u>2,570</u>	<u>3,565</u>
 <i>Total</i>		
	<u><u>\$ 57,225</u></u>	<u><u>\$ 25,093</u></u>
 LIABILITIES AND NET ASSETS		
<i>Current Liabilities:</i>		
Accounts payable	\$ 16,691	\$ -0-
Credit cards payable	165	1,726
Due to related parties	35,530	-0-
Loan payable	5,000	-0-
Loan payable - officer	376,700	183,200
Total current liabilities	<u>434,086</u>	<u>184,926</u>
 <i>Net Assets (Deficit):</i>		
Unrestricted	<u>(376,861)</u>	<u>(159,833)</u>
 <i>Total</i>		
	<u><u>\$ 57,225</u></u>	<u><u>\$ 25,093</u></u>

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

REACH THE CHILDREN, INC.
Statements of Activities
For The Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<i>Support and Revenue:</i>		
Contributions	\$ 350,893	\$ 257,209
Child sponsorship	40	928
Stock donations	3,599	-0-
Membership contributions	311,276	214,351
In-kind donations	402,534	336,785
Investment income	35	143
Other income	4,562	1,088
Realized gain on investments	-0-	522
Total support and revenue	1,072,939	811,026
 <i>Expenses:</i>		
Program	1,251,522	1,055,750
Administrative	38,445	28,554
Total expenses	1,289,967	1,084,304
 <i>Decrease in Net Assets</i>		
	(217,028)	(273,278)
 <i>Net Assets (Deficit) - Beginning of Year</i>		
	(159,833)	113,445
 <i>Net Assets (Deficit) - End of Year</i>		
	\$ (376,861)	\$ (159,833)

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, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<i>Cash Flows From Operating Activities:</i>		
Decrease in net assets	\$ (217,028)	\$ (273,278)
Adjustments to reconcile decrease in net assets to net cash provided by (used for) operating activities:		
Depreciation	995	995
Realized gain on investments	-0-	(522)
(Increase) decrease in operating assets:		
Promises to give	-0-	261,100
Loan receivable	(20,000)	-0-
Other receivables	(139)	(64)
Due to/from related parties	43,253	39,000
Other current assets	-0-	(224)
Increase (decrease) in operating liabilities:		
Accounts payable	16,691	(46)
Credit cards payable	(1,561)	1,493
Total adjustments	<u>39,239</u>	<u>301,732</u>
Net cash provided by (used for) operating activities	<u>(177,789)</u>	<u>28,454</u>
 <i>Cash Flows From Investing Activities:</i>		
Net change in investments	<u>(3,809)</u>	<u>11,627</u>
Net cash provided by (used for) investing activities	<u>(3,809)</u>	<u>11,627</u>
 <i>Cash Flows From Financing Activities:</i>		
Repayment of loan	-0-	(261,100)
Loan proceeds	<u>198,500</u>	<u>183,200</u>
Net cash provided by (used for) financing activities	<u>198,500</u>	<u>(77,900)</u>
 <i>Increase (Decrease) in Cash and Cash Equivalents</i>	 16,902	 (37,819)
 <i>Cash and Cash Equivalents - Beginning</i>	 <u>11,676</u>	 <u>49,495</u>
 <i>Cash and Cash Equivalents - Ending</i>	 <u>\$ 28,578</u>	 <u>\$ 11,676</u>

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

REACH THE CHILDREN, INC.
Notes To Financial Statements

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 1999 that helps poverty-stricken children and families in developing countries in Africa. The Organization builds and supports 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, 2004 and 2003.

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.

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, 2004 and 2003 was \$15,147 and \$9,134, 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. Investments:

Investments are stated at fair market value and consist of stock and cash. The fair market value of the investments at December 31, 2004 and 2003 is \$5,650 and \$1,841, respectively.

Earnings on these investments for the years ending December 31, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Investment income	\$ 35	\$ 143
Realized gain	\$ -0-	\$ 522

Note 3. Credit Cards Payable:

The Organization has available corporate credit cards. These credit cards have available a combined maximum line as of December 31, 2004 and 2003 of \$17,500 and \$22,500, respectively. The amount outstanding on these credit cards as of December 31, 2004 and 2003 was \$165 and \$1,726, respectively.

Note 4. 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, 2004 and 2003, the Foundation had paid administrative expenses on behalf of the Organization of \$165,041 and \$97,424, respectively.

Additionally, the Organization has a payable due to the Foundation of \$35,530 as of December 31, 2004. This payable is non interest bearing and is expected to be received during the next fiscal year.

The Organization had a receivable due from the Foundation of \$7,723 at December 31, 2003. This receivable was non interest bearing and was paid back during the current year.

During 2004, the President of the Organization loaned an additional \$183,000 to the Organization. The loan is payable on demand, and interest has been accrued at the prime rate, which was 5.0% at December 31, 2004. Total interest accrued on the loan was \$10,500 during the year ending December 31, 2004. The outstanding balance of the officer loans, including accrued interest, at December 31, 2004 was \$376,700.

During 2003, the President of the Organization loaned \$181,000 to the Organization. The loan is payable on demand, and interest has been accrued at the prime rate, which was 4.0% at December 31, 2003. Interest accrued on this loan was \$2,200 during the year ending December 31, 2003. The outstanding balance of the loan, including accrued interest, at December 31, 2003 was \$183,200.

Note 5. 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

Note 6. 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, 2004 and 2003, in-kind contributions related to contributions of school and medical supplies amounted to \$119,474 and \$260,470, respectively. In-kind contributions of specialized services amounted to \$283,060 and \$76,315 for the years ended December 31, 2004 and 2003, respectively, bringing the total amount of in-kind donations to \$402,534 and \$336,785 for the years ending December 31, 2004 and 2003, 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.

REACH THE CHILDREN, INC.
Schedules of Program and Administrative Expenses
For The Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
<i>Program:</i>		
Advertising and marketing	\$ 11,087	\$ 8,528
Consulting	-0-	76,300
Equipment and set-up	21,657	27,566
Microenterprise	8,850	-0-
Professional fees	-0-	7,214
Program grants and allocations	865,521	662,282
Program supplies	-0-	951
Travel	3,703	18,175
Training	364	114
Volunteer expenses	340,340	254,620
Total program expenses	\$ 1,251,522	\$ 1,055,750
 <i>Administrative:</i>		
Advertising and marketing	\$ 4,060	\$ 606
Audit and accounting fees	6,016	3,948
Bank service charges	866	2,761
Consulting	625	-0-
Credit card fees	2,856	643
Depreciation	995	995
Interest expense	10,500	2,200
Legal fees	1,168	2,000
Licenses expense	130	274
Miscellaneous	327	3,324
Office supplies	4,130	1,768
Postage	1,522	1,273
Printing and copying	-0-	851
Repairs and maintenance	-0-	1,287
Telephone	4,302	5,929
Web hosting service	948	695
Total administrative expenses	\$ 38,445	\$ 28,554