

# Eldredge, Fox & Porretti, LLP

## Financial Report Control Sheet

Client name: Reach The Children, Inc.  
Client address: 14 Chesham Way  
City, State Zip: Fairport, NY 14450-3808

F.Y.E./F.P.E.: December 31, 2005

Client Number: 81037-101

Filepath: \\CHANNEL\CLIENT\80000\81037101\CASEWARE\12-05-REACH THE CHILDREN\12-05-Reach the Children

Partner in charge: TJM

Special Remarks and Instructions: \_\_\_\_\_

Type of work: Audit

	By	First Run Date	Redo1	Redo2
Preparer initials:	<u>KMF</u>	<u>4/29/2006</u>	_____	_____
Accountant-In-Charge Review:	<u>JLA</u>	<u>5/30/2006</u>	_____	_____
A&A Technical Review - Report:	<u>CMJ</u>	<u>5/30/2006</u>	_____	_____
A&A Technical Review - W/P's:	<u>TJM</u>	<u>5/30/2006</u>	_____	_____
Partner Review:	<u>TJM</u>	<u>5/30/2006</u>	_____	_____
SEC Engagement - Concurring Partner:	<u>N/A</u>	_____	_____	_____
Processing/Binding:	<u>AA</u>	<u>6/26/06</u>	_____	_____

<u>PRODUCTION:</u>	By	Date
Drafts discussed with client:	_____	_____
Date representation letter received:	_____	_____

*To be delivered w/ tax return*

Binding:	Long	Short	Comments
Office:	<u>1</u>	<u>-</u>	<u>UNBOUND</u>
Client:	<u>5</u>	<u>-</u>	<u>BOUND</u>
Other:	<u>1</u>	<u>-</u>	<u>UNBOUND for tax return</u>
Total:	<u>7</u>	<u>-</u>	_____

### FINAL SIGN-OFF:

Partner	Date Issued	Type	Delivery
<u>Choose one of the following:</u>	_____	<u>Choose one of the following:</u>	<u>Choose one of the following:</u>

**REACH THE CHILDREN, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**

**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, 2005 and 2004 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, 2005 and 2004, 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 19, 2006

**REACH THE CHILDREN, INC.**  
**Statements of Financial Position**  
**December 31, 2005 and 2004**

<b>ASSETS</b>	<b><u>2005</u></b>	<b><u>2004</u></b>
<b><i>Current Assets:</i></b>		
Cash and cash equivalents	\$ 19,741	\$ 28,578
Investments	238	5,650
Other receivables	837	203
Loan receivable	10,507	20,000
Other current assets	224	224
Total current assets	31,547	54,655
 <b><i>Property and Equipment:</i></b>		
Equipment	4,975	4,975
Less, accumulated depreciation	(3,400)	(2,405)
Property and equipment - net	1,575	2,570
 <b><i>Total</i></b>		
	\$ 33,122	\$ 57,225
 <b>LIABILITIES AND NET ASSETS</b>		
<b><i>Current Liabilities:</i></b>		
Accounts payable	\$ -0-	\$ 11,691
Credit cards payable	8,290	165
Due to related parties	-0-	35,530
Loan payable - misc.	-0-	5,000
Loan payable - EBS, Inc.	7,000	5,000
Loan payable - officer	571,344	376,700
Total current liabilities	586,634	434,086
 <b><i>Net Deficit:</i></b>		
Unrestricted	(553,512)	(376,861)
 <b><i>Total</i></b>		
	\$ 33,122	\$ 57,225

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

**REACH THE CHILDREN, INC.**  
**Statements of Activities**  
**For The Years Ended December 31, 2005 and 2004**

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	<u>2005</u>	<u>2004</u>
<b><i>Support and Revenue:</i></b>		
Contributions	\$ 337,579	\$ 350,893
Child sponsorship	20	40
Stock donations	-0-	3,599
Membership contributions	270,076	311,276
In-kind donations	185,692	402,534
Investment income	21	35
Other income	7,630	4,235
Realized loss on investments	(293)	-0-
Total support and revenue	800,725	1,072,612
 <b><i>Expenses:</i></b>		
Program	909,462	1,251,522
Administrative	67,914	38,118
Total expenses	977,376	1,289,640
 <b><i>Decrease in Net Assets</i></b>	 (176,651)	 (217,028)
 <b><i>Net Deficit - Beginning of Year</i></b>	 <u>(376,861)</u>	 <u>(159,833)</u>
 <b><i>Net Deficit - End of Year</i></b>	 <u>\$ (553,512)</u>	 <u>\$ (376,861)</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, 2005 and 2004**

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	<u>2005</u>	<u>2004</u>
<b><i>Cash Flows From Operating Activities:</i></b>		
Decrease in net assets	\$ (176,651)	\$ (217,028)
Adjustments to reconcile decrease in net assets to net cash used for operating activities:		
Depreciation	995	995
Realized loss on investments	293	-0-
(Increase) decrease in operating assets:		
Loan receivable	9,493	(20,000)
Other receivables	(634)	(139)
Due to/from related parties	-0-	43,253
Increase (decrease) in operating liabilities:		
Accounts payable	(11,691)	16,691
Credit cards payable	8,125	(1,561)
Total adjustments	<u>6,581</u>	<u>39,239</u>
Net cash used for operating activities	<u>(170,070)</u>	<u>(177,789)</u>
 <b><i>Cash Flows From Investing Activities:</i></b>		
Net change in investments	<u>5,119</u>	<u>(3,809)</u>
 <b><i>Cash Flows From Financing Activities:</i></b>		
Repayment of loans	(33,530)	-0-
Loan proceeds	<u>189,644</u>	<u>198,500</u>
Net cash provided by financing activities	<u>156,114</u>	<u>198,500</u>
 <b><i>Increase (Decrease) in Cash and Cash Equivalents</i></b>	 (8,837)	 16,902
 <b><i>Cash and Cash Equivalents - Beginning</i></b>	 <u>28,578</u>	 <u>11,676</u>
 <b><i>Cash and Cash Equivalents - Ending</i></b>	 <u>\$ 19,741</u>	 <u>\$ 28,578</u>

*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 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, 2005 and 2004.

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.

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, 2005 and 2004, the Company did not feel it necessary to have an allowance for doubtful accounts.

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, 2005 and 2004 was \$9,194 and \$15,147, respectively.

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

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

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:**

Investments are stated at fair market value and consist of stock and cash. The fair market value of the investments at December 31, 2005 and 2004 is \$238 and \$5,650, respectively.

Earnings on these investments for the years ending December 31, 2005 and 2004 are as follows:

	<u>2005</u>	<u>2004</u>
Investment income	\$ <u>21</u>	\$ <u>35</u>

**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, 2005 and 2004 of \$17,500. The amount outstanding on these credit cards as of December 31, 2005 and 2004 was \$8,290 and \$165, 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, 2005 and 2004, the Foundation had paid administrative expenses on behalf of the Organization of \$48,178 and \$165,041, respectively.

Additionally, the Organization had a payable due to the Foundation of \$35,530 as of December 31, 2004. This payable was a non interest bearing and was paid off in 2005.

During 2005, the President of the Organization loaned an additional \$169,000 to the Organization. The loan is payable on demand, and interest has been accrued at the prime rate, which was 7.0% at December 31, 2005. Total interest accrued on the loan was \$25,500 during the year ending December 31, 2005. The outstanding balance of the officer loans, including accrued interest, at December 31, 2005 was \$571,344. The President of the Organization has personally guaranteed this loan.

During 2004, the President of the Organization loaned \$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.

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 \$7,000 and \$5,000, at December 31, 2005 and 2004, respectively.

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

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***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.

***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, 2005 and 2004, in-kind contributions related to contributions of school and medical supplies amounted to \$97,573 and \$119,474, respectively. In-kind contributions of specialized services amounted to \$88,119 and \$283,060 for the years ended December 31, 2005 and 2004, respectively, bringing the total amount of in-kind donations to \$185,692 and \$402,534 for the years ending December 31, 2005 and 2004, 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 7. Reclassification:***

Certain reclassifications have been made to the financial statements for the year ended December 31, 2004. These reclassifications are for comparative purposes only and have no effect on net assets as originally reported.

**REACH THE CHILDREN, INC.**  
**Schedules of Program and Administrative Expenses**  
**For The Years Ended December 31, 2005 and 2004**

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	<u>2005</u>	<u>2004</u>
<b><i>Program:</i></b>		
Advertising and marketing	\$ 275	\$ 11,087
Equipment and set-up	-0-	21,657
Microenterprise	-0-	8,850
Professional fees	30,000	-0-
Program grants and allocations	546,511	865,521
Travel	3,373	3,703
Training	-0-	364
Volunteer expenses	329,303	340,340
Total program expenses	\$ 909,462	\$ 1,251,522
 <b><i>Administrative:</i></b>		
Advertising and marketing	\$ 8,919	\$ 4,060
Audit and accounting fees	8,479	6,016
Bank service charges	418	866
Consulting	-0-	625
Contract labor	4,800	-0-
Credit card fees	2,202	2,856
Depreciation	995	995
Interest expense	25,500	10,500
Legal fees	5,484	1,168
Licenses expense	150	130
Miscellaneous	551	-0-
Office supplies	2,822	4,130
Postage	1,542	1,522
Repairs and maintenance	471	-0-
Telephone	3,846	4,302
Web hosting service	1,735	948
Total administrative expenses	\$ 67,914	\$ 38,118