

REACH THE CHILDREN, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2011

REACH THE CHILDREN, INC.

TABLE OF CONTENTS

<u>AUDITED FINANCIAL STATEMENTS</u>	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
STATEMENTS OF FINANCIAL POSITION	2
STATEMENTS OF ACTIVITIES	3
STATEMENTS OF CASH FLOWS	4
NOTES TO FINANCIAL STATEMENTS	5 - 7
<u>SUPPLEMENTARY INFORMATION</u>	
SCHEDULES OF PROGRAM AND ADMINISTRATIVE EXPENSES	8



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Reach the Children, Inc., (a not-for-profit corporation), as of December 31, 2011 and 2010 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 audits 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, 2011 and 2010, 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 conducted 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

EFP Rotenberg, LLP

EFP Rotenberg, LLP
Rochester, New York
August 17, 2012

REACH THE CHILDREN, INC.
Statements of Financial Position
December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 98,841	\$ 35,827
Due from related parties	229	123,056
Loans receivable	2,047	2,047
Other current assets	7,787	2,042
Total current assets	108,904	162,972
Property and Equipment		
Equipment	5,209	4,716
Less, accumulated depreciation	(4,692)	(4,349)
Property and equipment - net	517	367
Total Assets	\$ 109,421	\$ 163,339
LIABILITIES AND NET DEFICIT		
Current Liabilities		
Credit cards payable	\$ 17,408	\$ 20,627
Accounts payable	7,357	5,675
Loan payable - Cala	-	8,971
Loan payable - Sharing Hands, Inc.	2,370	2,370
Loan payable - Educational Broadcasting Services, Inc.	6,535	6,525
Loan payable - officer	653,771	867,887
Total current liabilities	687,441	912,055
Net Deficit		
Unrestricted	(625,520)	(748,716)
Temporarily restricted	47,500	-
Total net assets	(578,020)	(748,716)
Total Liabilities and Net Deficit	\$ 109,421	\$ 163,339

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

REACH THE CHILDREN, INC.
Statements of Activities
For the Years Ended December 31, 2011 and 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2011</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2010</u>
Support and Revenue						
Contributions	\$ 354,310	\$ 47,500	\$ 401,810	\$ 331,136	\$ -	\$ 331,136
Stock donations	5,274	-	5,274	3,042	-	3,042
Membership contributions	159,736	-	159,736	160,631	-	160,631
In-kind contributions	257,087	-	257,087	253,821	-	253,821
Total support and revenue	<u>776,407</u>	<u>47,500</u>	<u>823,907</u>	<u>748,630</u>	<u>-</u>	<u>748,630</u>
Expenses						
Program	598,111	-	598,111	702,317	-	702,317
Administrative	55,100	-	55,100	92,580	-	92,580
Total expenses	<u>653,211</u>	<u>-</u>	<u>653,211</u>	<u>794,897</u>	<u>-</u>	<u>794,897</u>
Change in Net Assets	123,196	47,500	170,696	(46,267)	-	(46,267)
Net Deficit - Beginning	<u>(748,716)</u>	<u>-</u>	<u>(748,716)</u>	<u>(702,449)</u>	<u>-</u>	<u>(702,449)</u>
Net Deficit - Ending	<u>\$ (625,520)</u>	<u>\$ 47,500</u>	<u>\$(578,020)</u>	<u>\$ (748,716)</u>	<u>\$ -</u>	<u>\$(748,716)</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, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 170,696	\$ (46,267)
Adjustments		
Bad debt expense	-	40,455
Depreciation	349	245
Change in assets and liabilities		
Due from related parties	122,827	(42,250)
Other current assets	(5,745)	8
Credit cards payable	(3,219)	(182)
Accounts payable	1,682	5,675
Net cash flows from operating activities	286,590	(42,316)
 Cash Flows from Investing Activities		
Purchase of property and equipment	(499)	-
 Cash Flows from Financing Activities		
Payments on loans payable	(223,077)	(10,334)
 Net Change in Cash and Cash Equivalents	63,014	(52,650)
 Cash and Cash Equivalents - Beginning	35,827	88,477
 Cash and Cash Equivalents - Ending	\$ 98,841	\$ 35,827

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 and Nature of Organization

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.

Method of Accounting - The Organization maintain its books and prepares its financial statements on the accrual basis of accounting.

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 that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation - The Organization prepares its financial statements in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205. Under ASC 958-205, 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.

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.

Temporarily Restricted Net Assets - Temporarily restricted net assets include resources which contain donor or grantor restrictions about how or when they can be used. At December 31, 2011 and 2010, temporarily restricted net assets consisted of \$47,500 and \$0, respectively.

Cash and Cash Equivalents - For the purposes of statements of financial position and the statements of cash flows, cash and cash equivalents include deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less. The Organization maintains cash and cash equivalents at financial institutions which may periodically exceed federally insured limits.

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.

REACH THE CHILDREN, INC.
Notes to Financial Statements

Income Taxes - The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income.

In accordance with Accounting Standards Codification (ASC) 740-15-50, the Organization recognizes the tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities. Management believes that the Organization is currently in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no liability for unrecorded tax benefits has been included on the Organization's financial statements. The exempt Organization's informational returns are subject to audit by various taxing authorities and its open audit periods are 2008 - 2011.

Contributions - The Organization accounts for contributions in accordance with the recommendations of ASC 958-605. In accordance with ASC 958-605, 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.

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.

Subsequent Events - In accordance with ASC 855-10, the Organization evaluated subsequent events through August 17, 2012, the date these financial statements were available to be issued.

Note 2. Loans Receivable

The Organization made a loan to a partner organization in Africa to support a humanitarian effort. During 2010, this loan was determined uncollectible and written off as bad debt expense.

Remaining in loans receivable at December 31, 2011 and 2010 was an additional loan for a small project for \$2,047. There are no set repayment terms for this loan.

Note 3. Credit Cards Payable

The Organization has available corporate credit cards. These credit cards have a combined maximum line as of December 31, 2011 and 2010 of \$21,500. The amount outstanding on these credit cards as of December 31, 2011 and 2010 was \$17,408 and \$20,627, 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, 2011 and 2010, the Foundation had paid administrative expenses on behalf of the Organization of \$36,264 and \$22,104, respectively which have been recorded by the Organization as a contribution and expense as of December 31, 2011 and 2010. In addition, at various times throughout the year, the Organization transfers funds to the Foundation. As of December 31, 2011 and 2010, the Foundation owed the Organization \$- and \$113,781, respectively. As of December 31, 2011 and 2010, the Organization owed the Foundation \$1,678 and \$-, respectively.

REACH THE CHILDREN, INC.
Notes to Financial Statements

The Organization also has amounts due from Bountiful Resources, LLC which is a related party owned by the President of the Organization. As of December 31, 2011 and 2010, the Bountiful Resources, LLC owed the Organization \$- and \$9,275, respectively.

The Organization has loans payable to the President. There were no additional loans made in 2011. The loan is payable on demand, and interest has been accrued at the prime rate, which was 3.25% at December 31, 2011 and 2010. The total interest accrued on the loan was \$28,200 and \$29,400 for December 31, 2011 and 2010, respectively. Payments of approximately \$242,000 and \$34,000 were made to the President to pay down this loan in 2011 and 2010, respectively. The outstanding balance of the officer loans, including accrued interest, at December 31, 2011 and 2010 is \$653,571 and \$867,887, respectively.

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 \$6,535 and \$6,525 as of December 31, 2011 and 2010, respectively. This is a non-interest bearing loan with no set repayment terms.

Note 5. Loans Payable

The Organization has two loans payable with unrelated parties. As of December 31, 2011 and 2010, the total outstanding balance on both loans was \$2,370 and \$11,341, respectively. There are no set repayment terms on these loans.

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, 2011 and 2010, in-kind contributions of specialized services and contributions of school and medical supplies amounted to \$257,087 and \$253,821, 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. Partnering Organizations

The Organization partners with various other non-profit organizations throughout the year in order to provide the best avenues for accomplishing their like missions and goals. The Organization works together with these partnering organizations to facilitate projects in Africa and other areas of the world in areas of AIDS prevention, education, health and hygiene, micro-enterprise, orphan care, water and agriculture and community development. For the years ended December 31, 2011 and 2010, approximately \$76,000 and \$100,000, respectively, of the Organization's revenues were attributed to these partnership efforts.

REACH THE CHILDREN, INC.
Schedules of Program and Administrative Expenses
For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Program		
Fundraising	\$ -	\$ 958
Program grants and allocations	517,892	560,257
Volunteer expenses	80,219	141,102
Total program expenses	<u>\$ 598,111</u>	<u>\$ 702,317</u>
Administrative		
Bad debt expense	\$ -	\$ 40,455
Bank service charges	172	235
Credit card fees	5,311	6,709
Depreciation	349	245
Interest expense	28,404	29,400
Legal and accounting fees	11,361	6,621
Licenses expense	240	270
Miscellaneous	1,306	622
Office supplies	285	54
Postage	567	452
Professional	3,845	4,599
Repairs and maintenance	-	193
Utilities	2,029	1,055
Web hosting service	1,231	1,670
Total administrative expenses	<u>\$ 55,100</u>	<u>\$ 92,580</u>