

LIFENETS INTERNATIONAL, INC.

Financial Statements
December 31, 2005
With Supplementary Information

LIFENETS INTERNATIONAL, INC.

Table of Contents

	Page
Independent Auditor's Report	1
Financial Statements	
Statement of financial position	2
Statement of activities	3
Statement of cash flows	4
Notes to financial statements	5
Supplementary Information	
Schedule of 2005 functional expenses	10

Independent Auditor's Report

Board of Directors
LifeNets International, Inc.
Indianapolis, Indiana

We have audited the accompanying statement of financial position of LifeNets International, Inc. (LifeNets International, Inc.) as of December 31, 2005 and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of LifeNets International, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit 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 audit provides 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 LifeNets International, Inc. as of December 31, 2005, and the changes in its net assets and its cash flows for the year 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 supplementary information, as listed in the accompanying table of contents, is presented for the purpose 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 presented in all material respects in relation to the basic financial statements taken as a whole.

Ness & Co., LLP
Indianapolis, Indiana
August 18, 2006

Ness & Co., LLP

CERTIFIED PUBLIC ACCOUNTANTS

LIFENETS INTERNATIONAL, INC.

Statement of Financial Position

December 31, 2005	Unrestricted	Temporarily Restricted	Total All Funds
Assets			
Cash and cash equivalents	\$ 80,206		\$ 80,206
Interfund receivable/(payable)	(31,016)	\$ 31,016	0
Inventory - <i>Note 2</i>	5,140		5,140
Equipment, net - <i>Note 3</i>	3,164		3,164
Total Assets	\$ 57,494	\$ 31,016	\$ 88,510
Liabilities and Net Assets			
Liabilities			
Accounts payable			
Trade	\$ 122	\$ 0	\$ 122
Total Liabilities	122	0	122
Net Assets			
Unrestricted, undesignated	57,372		57,372
Temporarily restricted		31,016	31,016
Total net assets	57,372	31,016	88,388
Total Liabilities and Net Assets	\$ 57,494	\$ 31,016	\$ 88,510

See notes to financial statements.

LIFENETS INTERNATIONAL, INC.

Statement of Activities

Year Ended December 31, 2005	Unrestricted	Temporarily Restricted	Total All Funds
Revenue, Gains and Other Support			
Contributions	\$ 152,074	\$ 154,403	\$ 306,477
Noncash contributions	189,814	119,793	309,607
Special events	1,069		1,069
	<u>342,957</u>	<u>274,196</u>	<u>617,153</u>
Net assets released from restrictions	283,528	(283,528)	0
Total Revenue, Gains and Other Support	<u>626,485</u>	<u>(9,332)</u>	<u>617,153</u>
Expenses			
Program activities:			
Scholarship and education	38,019		38,019
Philanthropy	582,648		582,648
	<u>620,667</u>	<u>0</u>	<u>620,667</u>
Management and general	43,779		43,779
Total Expenses	<u>664,446</u>	<u>0</u>	<u>664,446</u>
Change in Net Assets	(37,961)	(9,332)	(47,293)
Net Assets, Beginning	<u>95,333</u>	<u>40,348</u>	<u>135,681</u>
Net Assets, Ending	<u>\$ 57,372</u>	<u>\$ 31,016</u>	<u>\$ 88,388</u>

See notes to financial statements.

LIFENETS INTERNATIONAL, INC.

Statement of Cash Flows

Year Ended December 31	2005
Operating Activities	
Change in net assets	\$ (47,293)
Adjustments to reconcile change in net assets to cash provided by operating activities	
Depreciation	2,404
Contributed inventory	82,376
Changes in	
Accounts payable	(6,480)
Cash provided by operating activities	<u>31,007</u>
Investing Activities	
Purchases of property and equipment	0
Proceeds from the sale of equipment	<u>0</u>
Cash (used) by investing activities	<u>0</u>
Increase (Decrease) in Cash and Cash Equivalents	31,007
Cash and Cash Equivalents, Beginning of Year	<u>49,199</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 80,206</u></u>

See notes to financial statements.

LIFENETS INTERNATIONAL, INC.
Notes to Financial Statements
Year Ended December 31, 2005

► **NOTE 1—Summary of Significant Accounting Policies**

General

LifeNets International, Inc. (LifeNets) was organized and incorporated under the laws of the state of Indiana on September 2, 1999, with headquarters now located in Indianapolis, Indiana. At December 31, 2005, LifeNets had affiliated chapters in Kenya, South Africa, Ukraine and Zambia.

The mission of LifeNets is to help the disadvantaged and vulnerable in practical ways, promote self-sufficiency and, where possible, enable the recipients to pass their benefit on to others. LifeNets works on the basis of mutual respect and dignity with recipients and donors, delivers services through known and trusted local leaders, is culturally sensitive in the type and amount of aid delivered and leverages donations by partnering with organizations and individuals that provide products for free or at low cost.

Reporting Entity

Each affiliated chapter of LifeNets is an independently governed and managed entity and, accordingly, the financial position and revenues and expenses of the chapters are not combined in the accompanying financial statements.

Financial Statement Presentation

LifeNets has adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, LifeNets is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Unrestricted net assets result from all activities for which no donor-imposed restrictions were stipulated, beyond the general stated purpose of LifeNets. Unrestricted net assets consist of two categories; undesignated funds and designated funds. Undesignated funds are available for any purpose within the scope of LifeNets' activities. Designated funds may be appropriated by the Board of Directors for a specific activity or group of activities. Such designations could be changed by action of the Board of Directors. As of December 31, 2005, LifeNets had no designated net assets.

Restricted net assets result from various activities conducted under donor-imposed restrictions, both temporary and permanent in nature.

Temporarily restricted net assets include net assets whose use by LifeNets is limited by donor-imposed stipulations that either expire by the passage of time, or are fulfilled and removed by actions of LifeNets, pursuant to those stipulations. As the restrictions are met, the net assets are released

LIFENETS INTERNATIONAL, INC.

Notes to Financial Statements

Year Ended December 31, 2005

from restrictions and included in unrestricted net assets. Contributions for which the restrictions are met in the same period in which the contribution is received are also recorded as temporarily restricted revenues.

Permanently restricted net assets are those whose use by the Foundation is limited by donor-imposed stipulations that neither expire by the passage of time, nor can be fulfilled or otherwise removed by actions of the Foundation. Uses of investment income, gains and losses earned on permanently restricted investments are limited by donor-imposed stipulations which can be fulfilled by actions of the Foundation. As of December 31, 2005, LifeNets had no permanently restricted net assets.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, *Disclosures about Fair Value of Financial Instruments*, requires disclosure of an estimate of fair value of certain financial instruments. LifeNets' significant financial instruments are cash, and other short-term assets and liabilities. For these financial instruments, carrying value approximates fair value.

Concentrations of Credit Risk

LifeNets is supported by contributions from the public. It is always considered reasonably possible that benefactors, grantors, or contributors might be lost in the near term. Financial instruments that are exposed to concentrations of credit risk consist of cash, which is held in high quality institutions and companies with high credit ratings. As of December 31, 2005, LifeNets had no significant concentrations of credit risk.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant areas involving the use of estimates and assumptions include the valuation of donated inventory and the depreciation of property and equipment.

Cash and Cash Equivalents

Cash and cash equivalents consist of amounts on deposit with commercial banks, all available within 90 days following demand.

LIFENETS INTERNATIONAL, INC.

Notes to Financial Statements

Year Ended December 31, 2005

Inventory

Inventory consists of eyeglasses, clothing, toys, supplies and wheelchairs and is stated at the lower of cost or market, determined on the first-in, first-out method.

Property and Equipment

Expenditures for property and equipment and items which substantially increase the useful life of existing assets are capitalized at cost. Maintenance, repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gain or loss on disposition is credited to or charged against income for the period.

LifeNets provides for depreciation on the modified accelerated cost recovery system method, at rates designed to depreciate the cost of assets over estimated useful lives as follows:

	Years
Furniture and equipment	3-10

Income Taxes

LifeNets International, Inc. is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. However, should LifeNets ever have income from certain activities not directly related to LifeNets' tax-exempt purpose, such income would be subject to taxation as unrelated business income. In addition, LifeNets qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a).

Support and Revenue

LifeNets reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

LifeNets reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, LifeNets reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

LIFENETS INTERNATIONAL, INC.

Notes to Financial Statements

Year Ended December 31, 2005

In-kind Contributions and Contributed Services

In-kind contributions are reflected as contributions at their estimated fair value at the date of donation and are reported as unrestricted support unless explicit donor stipulations specify how donated assets must be used. LifeNets benefited from donated administrative services including accounting, fundraising, and program management which were valued at \$87,486 for the year ended December 31, 2005. These amounts have been reported as both noncash contribution revenue and donated services. LifeNets received contributed goods of wheelchairs, medicine, medical equipment, and other supplies which were valued at \$222,121 for the year ended December 31, 2005. These amounts have been reported as noncash contribution revenue and donations and grants expenses.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis on the statement of activities. Certain costs have been allocated among the program and supporting services categories.

Expenses are reported by the nature of activities they support, in the following categories:

Scholarships and Education - LifeNets provides scholarships for a variety of educational opportunities.

Philanthropy - LifeNets provides other support in the way of supplies, wheelchairs, equipment and cash for specific projects.

Management and General - This area accounts for all general and administrative expenses associated with maintaining LifeNets international office.

► **NOTE 2—Inventories**

Inventories consist of donated items awaiting shipment to those in need, primarily eyeglasses, clothing, toys, supplies and wheelchairs, and are valued at the lower of cost or market. As of December 31, 2005, LifeNets had inventory items worth \$5,140 on hand.

LIFENETS INTERNATIONAL, INC.
Notes to Financial Statements
Year Ended December 31, 2005

► **NOTE 3—Equipment**

LifeNets International, Inc.'s fixed assets are as follows:

<u>December 31</u>	<u>2005</u>
Equipment	\$ 16,973
Accumulated depreciation	<u>(13,809)</u>
	<u>\$ 3,164</u>

Depreciation expense was \$2,404 for the year ending December 31, 2005.

► **NOTE 4—Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes:

<u>December 31</u>	<u>2005</u>
Program Activities	
Substantially all related to donations and grants for projects in foreign countries	<u>\$ 31,016</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Purpose restrictions accomplished during the year ended December 31, 2005:

Donations and grants	<u>\$ 283,528</u>
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SUPPLEMENTARY INFORMATION

LIFENETS INTERNATIONAL, INC.

Schedule of Functional Expenses

Year Ended December 31, 2005

	Program Activities				
	Scholarship and Education	Philanthropy	Total	Management and General	Total
Donations and grants	\$ 38,019	\$ 483,492	\$ 521,511		\$ 521,511
Donated services		71,720	71,720	\$ 15,766	87,486
Supplies		17,439	17,439	6,884	24,323
Shipping and freight		1,686	1,686	2,455	4,141
Travel		320	320	1,041	1,361
Other program expense		7,991	7,991	38	8,029
Bank and credit card service fees			0	710	710
Depreciation			0	2,404	2,404
Equipment rental			0	1,792	1,792
Insurance			0	473	473
Development and promotion			0	928	928
Maintenance			0	185	185
Meals and entertainment			0	189	189
Membership and dues			0	213	213
Occupancy			0	270	270
Printing and publications			0	24	24
Professional fees			0	5,720	5,720
Telephone			0	485	485
Contract services			0	3,530	3,530
Other			0	672	672
Total expenses	\$ 38,019	\$ 582,648	\$ 620,667	\$ 43,779	\$ 664,446