

FINANCIAL STATEMENTS AND
ACCOUNTANTS' REVIEW REPORT
LIFENETS INTERNATIONAL, INC.
DECEMBER 31, 2006 AND 2005
WITH SUPPLEMENTARY INFORMATION

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LIFENETS INTERNATIONAL, INC.

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LIFENETS INTERNATIONAL, INC.

STATEMENT OF FINANCIAL POSITION
 (With Summarized Financial Information for 2005)
 (See Accountants' Review Report)
 December 31,

	Unrestricted	Temporarily Restricted	2006 Total (Reviewed)	2005 Total (Audited)
Assets				
Cash and cash equivalents	\$ 83,579	\$ -	\$ 83,579	\$ 80,206
Interfund receivable/(payable)	(36,969)	36,969	-	-
Inventory	17,146	-	17,146	5,140
Property and equipment, net	4,993	-	4,993	3,164
Total Assets	\$ 68,749	\$ 36,969	\$ 105,718	\$ 88,510
Liabilities and Net Assets				
Liabilities				
Accounts payable				
Trade	\$ 481	\$ -	\$ 481	\$ 122
Total Liabilities	481	-	481	122
Net assets				
Unrestricted, undesignated	68,268	-	68,268	57,372
Temporarily restricted	-	36,969	36,969	31,016
Total net assets	68,268	36,969	105,237	88,388
Total Liabilities and Net Assets	\$ 68,749	\$ 36,969	\$ 105,718	\$ 88,510

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

LIFENETS INTERNATIONAL, INC.

STATEMENT OF ACTIVITIES

(With Summarized Financial Information for 2005)

(See Accountants' Review Report)

Year Ended December 31,

	Unrestricted	Temporarily Restricted	2006 Total (Reviewed)	2005 Total (Audited)
Revenue, Gains and Other Support				
Contributions	\$ 190,910	\$ 80,638	\$ 271,548	\$ 306,477
Noncash contributions	172,233	128,926	301,159	309,607
Special events	-	-	-	1,069
	<u>363,143</u>	<u>209,564</u>	<u>572,707</u>	<u>617,153</u>
Net assets released from restrictions	203,611	(203,611)	-	-
Total Revenue, Gains and Other Support	<u>566,754</u>	<u>5,953</u>	<u>572,707</u>	<u>617,153</u>
Expenses				
Program activities:				
Scholarship and education	39,500	-	39,500	38,019
Philanthropy	449,116	-	449,116	582,648
	<u>488,616</u>	<u>-</u>	<u>488,616</u>	<u>620,667</u>
Management and general	67,242	-	67,242	43,779
Total Expenses	<u>555,858</u>	<u>-</u>	<u>555,858</u>	<u>664,446</u>
Change in Net Assets	10,896	5,953	16,849	(47,293)
Net Assets, Beginning	<u>57,372</u>	<u>31,016</u>	<u>88,388</u>	<u>135,681</u>
Net Assets, Ending	<u>\$ 68,268</u>	<u>\$ 36,969</u>	<u>\$ 105,237</u>	<u>\$ 88,388</u>

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

LIFENETS INTERNATIONAL, INC.

STATEMENTS OF CASH FLOWS
 (See Accountants' Review Report)
 Years Ended December 31,

	2006 (Reviewed)	2005 (Audited)
Operating Activities		
Change in net assets	\$ 16,849	\$ (47,293)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	2,290	2,404
Change in contributed inventory	(12,006)	82,376
Changes in Accounts payable	359	(6,480)
Cash provided by operating activities	<u>7,492</u>	<u>31,007</u>
Investing Activities		
Purchase of property and equipment	(4,119)	-
Cash provided by (used in) investing activities	<u>(4,119)</u>	<u>-</u>
Net Increase in Cash and Cash Equivalents	3,373	31,007
Cash and Cash Equivalents, Beginning	<u>80,206</u>	<u>49,199</u>
Cash and Cash Equivalents, Ending	<u>\$ 83,579</u>	<u>\$ 80,206</u>

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

LIFENETS INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS
(See Accountants' Review Report)
Years Ended December 31, 2006 and 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, 2006 and 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.

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. In addition, LifeNets is required to present a statement of cash flows. The classes of net assets are further discussed as follows:

Unrestricted net assets result from all activities for which no donor-imposed restrictions were stipulated beyond the stated purposes of LifeNets. Unrestricted net assets consist of two categories: undesignated and designated. Undesignated net assets represent amounts which are available for any purpose within the scope of LifeNets' activities. Designated net assets represent amounts that have been appropriated by the Board of Directors of LifeNets for a specific activity or group of activities. Such designations could be changed by action of the Board of Directors at any time. As of December 31, 2006 and 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 are 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 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 include net assets whose use by LifeNets is limited by donor-imposed stipulations that neither expire by the passage of time, nor can be fulfilled or otherwise removed by actions of LifeNets. 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 LifeNets. As of December 31, 2006 and 2005, LifeNets had no permanently restricted net assets.

LIFENETS INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
(See Accountants' Review Report)
Years Ended December 31, 2006 and 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Accounting

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

Comparative Information

The amounts shown for 2005 in the accompanying financial statements are presented to provide a basis for comparison with 2006 and present summarized totals only.

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 primarily 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, 2006 and 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 Equivalents

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

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.

LIFENETS INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
(See Accountants' Compilation Report)
Years Ended December 31, 2006 and 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 straight-line method, at rates designed to allocate the cost of assets over estimated useful lives as follows:

	Years
Furniture and equipment	3 - 10

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.

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 valued at \$68,136 and \$87,486 for the years ended December 31, 2006 and 2005, respectively. These amounts are reported as both non-cash contribution revenue and donated services. LifeNets received contributed goods of wheelchairs, medicine, medical equipment, and other supplies valued at \$233,023 and \$222,121 for the years ended December 31, 2006 and 2005, respectively. These amounts are reported as non-cash contribution revenue and donation or grant expenses.

LIFENETS INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
(See Accountants' Review Report)
Years Ended December 31, 2006 and 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Income Taxes

LifeNets is exempt from federal income tax 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).

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, 2006 and 2005, LifeNets had inventory items worth \$17,146 and \$5,140 on hand.

NOTE 3 - EQUIPMENT

LifeNets' equipment is as follows:

December 31	2006	2005
Equipment	\$ 21,092	\$ 16,973
Accumulated depreciation	(16,099)	(13,809)
	<u>\$ 4,993</u>	<u>\$ 3,164</u>

Depreciation expense was \$2,290 and \$2,404 for the years ending December 31, 2006 and 2005, respectively.

LIFENETS INTERNATIONAL, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
(See Accountants' Review Report)
Years Ended December 31, 2006 and 2005

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

December 31	2006	2005
Program Activities		
Substantially all related to donations and grants for projects in foreign countries	<u>\$ 36,969</u>	<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, 2006:	
Donations and grants	<u>\$ 203,611</u>

LIFENETS INTERNATIONAL, INC.

SUPPLEMENTARY INFORMATION



LIFENETS INTERNATIONAL, INC.

ANALYSIS OF FUNCTIONAL EXPENSES

(See Accountants' Review Report)
Year Ended December 31, 2006

	Program Activities			Administrative and General	Total (Reviewed)
	Scholarship and Education	Philanthropy	Total		
Donations and grants	\$ 39,500	\$ 395,619	\$ 435,119	\$ -	\$ 435,119
Donated services	-	38,735	38,735	29,401	68,136
Supplies	-	8,694	8,694	5,287	13,981
Shipping and freight	-	494	494	3,365	3,859
Travel	-	1,131	1,131	441	1,572
Other program expense	-	4,443	4,443	-	4,443
Bank and credit card service fees	-	-	-	1,054	1,054
Depreciation	-	-	-	2,290	2,290
Equipment rental	-	-	-	1,587	1,587
Insurance	-	-	-	320	320
Development and promotion	-	-	-	1,502	1,502
Meals and entertainment	-	-	-	804	804
Membership and dues	-	-	-	690	690
Occupancy	-	-	-	654	654
Printing and publications	-	-	-	2,799	2,799
Professional fees	-	-	-	9,900	9,900
Telephone	-	-	-	413	413
Contract services	-	-	-	6,450	6,450
Other	-	-	-	285	285
Total expenses	\$ 39,500	\$ 449,116	\$ 488,616	\$ 67,242	\$ 555,858

LIFENETS INTERNATIONAL, INC.

ANALYSIS OF FUNCTIONAL EXPENSES

(See Accountants' Review Report)
Year Ended December 31, 2005

	Program Activities			Total	Administrative and General	Total (Audited)
	Scholarship and Education	Philanthropy	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	-	-	-	710	710	
Depreciation	-	-	-	2,404	2,404	
Equipment rental	-	-	-	1,792	1,792	
Insurance	-	-	-	473	473	
Development and promotion	-	-	-	928	928	
Maintenance	-	-	-	185	185	
Meals and entertainment	-	-	-	189	189	
Membership and dues	-	-	-	213	213	
Occupancy	-	-	-	270	270	
Printing and publications	-	-	-	24	24	
Professional fees	-	-	-	5,720	5,720	
Telephone	-	-	-	485	485	
Contract services	-	-	-	3,530	3,530	
Other	-	-	-	672	672	
Total expenses	\$ 38,019	\$ 582,648	\$ 620,667	\$ 43,779	\$ 664,446	