

LUBUTO LIBRARY PROJECT, INC.

AUDITED FINANCIAL STATEMENTS

For the year ended December 31, 2006 and
period from January 25, 2005 (date of incorporation)
to December 31, 2005

HOZIK & COMPANY, P.L.C.

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Lubuto Library Project, Inc.
Washington, D.C.

We have audited the accompanying statements of financial position of Lubuto Library Project, Inc. (a non-profit organization) as of December 31, 2006 and 2005, and the related statements of activities and cash flows for the year ended December 31, 2006 and period from January 25, 2005 (date of incorporation) to December 31, 2005. 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 Lubuto Library Project, Inc. at December 31, 2006 and 2005, and the changes in its net assets and its cash flows for the year ended December 31, 2006 and period from January 25, 2005 (date of incorporation) to December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.



McLean, Virginia
February 16, 2007

LUBUTO LIBRARY PROJECT, INC.
 STATEMENTS OF FINANCIAL POSITION
 December 31, 2006 and 2005

ASSETS	<u>2006</u>	<u>2005</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 27,889	\$ 14,345
Donated books	<u>30,700</u>	<u>12,000</u>
TOTAL CURRENT ASSETS	<u>58,589</u>	<u>26,345</u>
PROPERTY AND EQUIPMENT		
Computer equipment	700	700
Fixtures	2,500	2,500
Website	9,150	9,150
Accumulated depreciation and amortization	<u>(6,948)</u>	<u>(3,417)</u>
	<u>5,402</u>	<u>8,933</u>
TOTAL ASSETS	<u>\$ 63,991</u>	<u>\$ 35,278</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accrued expenses	\$ -	\$ 662
Payable to President	<u>2,344</u>	<u>3,432</u>
TOTAL CURRENT LIABILITIES	2,344	4,094
NET ASSETS		
Unrestricted	30,947	19,184
Temporarily restricted	<u>30,700</u>	<u>12,000</u>
	<u>61,647</u>	<u>31,184</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 63,991</u>	<u>\$ 35,278</u>

See accompanying notes to financial statements.

LUBUTO LIBRARY PROJECT, INC.
 STATEMENTS OF ACTIVITIES
 For the year ended December 31, 2006 and the period from
 January 25, 2005 (date of incorporation) to December 31, 2005

	<u>2006</u>	For the period from January 25, 2005 (date of incorporation) to <u>December 31, 2005</u>
UNRESTRICTED REVENUE AND SUPPORT		
Contributed support	\$ 132,591	\$ 139,058
Individual donations	10,578	16,416
Corporate grants	4,425	-
Foundation grants	16,930	1,100
Other income	20	-
TOTAL UNRESTRICTED REVENUE AND SUPPORT	164,544	156,574
NET ASSETS RELEASED FROM RESTRICTIONS		
Satisfaction of donation restrictions	35,516	-
TOTAL UNRESTRICTED REVENUE, SUPPORT AND NET ASSETS RELEASED FROM RESTRICTIONS	200,060	156,574
EXPENSES		
Program services	151,321	81,965
Supporting services		
General and administrative	32,610	49,426
Fundraising	4,366	5,999
TOTAL EXPENSES	188,297	137,390
INCREASE IN UNRESTRICTED NET ASSETS	11,763	19,184
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributed books	18,700	12,000
Corporate grants	44	-
Foundation grants	26,150	-
Individual donations	9,322	-
Net assets released from restrictions	(35,516)	-
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	18,700	12,000
TOTAL INCREASE IN NET ASSETS	30,463	31,184
NET ASSETS AT BEGINNING OF PERIOD	31,184	-
NET ASSETS AT END OF PERIOD	\$ 61,647	\$ 31,184

See accompanying notes to financial statements.

LUBUTO LIBRARY PROJECT, INC.

STATEMENTS OF CASH FLOWS

For the year ended December 31, 2006 and the period from
January 25, 2005 (date of incorporation) to December 31, 2005

	<u>2006</u>	For the period from January 25, 2005 (date of incorporation) to <u>December 31, 2005</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 30,463	\$ 31,184
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Provision for depreciation and amortization	3,531	3,417
Donated books	(18,700)	(12,000)
Donated property and equipment	-	(12,350)
Changes in assets and liabilities:		
Accrued expenses	(662)	662
Payable to President	(1,088)	3,432
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>13,544</u>	<u>14,345</u>
 NET INCREASE IN CASH AND CASH EQUIVALENTS	 13,544	 14,345
 CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	 <u>14,345</u>	 <u>-</u>
 CASH AND CASH EQUIVALENTS AT END OF PERIOD	 <u>\$ 27,889</u>	 <u>\$ 14,345</u>

See accompanying notes to financial statements.

LUBUTO LIBRARY PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005

NOTE 1 - ORGANIZATION AND OPERATIONS

The Lubuto Library Project, Inc.(the “Project”) is a 501(c) (3) charitable organization, incorporated in the District of Columbia on January 25, 2005. It was launched in January 2005 to improve the lives and future prospects of AIDS orphans and other vulnerable children (OVC) in Africa by providing libraries, as well as to educate U.S. school children about the impact AIDS has on their African peers.

The Project’s mission is to provide (OVC) with a safe haven and a variety of stimulating culturally and age-appropriate books. Books are collected and sorted by American students and shipped to Africa. Lubuto works with host institutions in-country to adapt existing space or construct new library buildings, based on a prototype architectural plan. They are focusing their initial efforts in Zambia with plans to expand into other African countries in future years.

Lubuto libraries are envisioned as a safe and special place where children can read for themselves, look at books or have books read to them. The book collections are designed to appeal to a range of ages, interests and reading abilities, offering enrichment on many levels. The libraries will include the donated books in English as well as books purchased by the Project in local African languages and books created by the children themselves.

The organization’s primary activities are: building libraries, working through their regional office which is a registered nonprofit charitable organization in Zambia; soliciting donated books, selecting excellent and appropriate books from among the donations and organizing them for the African libraries; and raising awareness of the effect of HIV/AIDS on African children through school programs, educational materials and presentations. In the U.S., this entails an extensive volunteer mobilization effort.

The Project established a branch in the Republic of Zambia on September 21, 2005.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Project have been prepared on the accrual basis of accounting and, accordingly, revenues and expenses are recognized in the period to which they relate.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

LUBUTO LIBRARY PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

In accordance with SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*, Lubuto reports information regarding its financial position and activities according to three classes of assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Lubuto does not have any permanently restricted net assets.

Contributions

Contributions are accounted for in accordance with Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted, depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by donors are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the contributions are recognized. Contributed services and property and equipment are recorded at the estimated fair value of such services and property and equipment.

Cash and cash equivalents

Cash and cash equivalents consist of a checking account at a commercial bank in Washington, D.C.

Property, Equipment and Depreciation and Amortization

Property and equipment are carried at cost. The Project capitalizes all acquisitions of property and equipment over \$500. Depreciation and amortization of property and equipment is calculated using the straight-line method over useful lives of three to five years.

Library Construction Costs

Library construction costs are recorded as an expense because the African host organization will own the library.

Income Taxes

The Project is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code.

Reclassification

Certain balances at December 31, 2005 have been reclassified to conform to the 2006 presentation.

NOTE 3 - RELATED PARTY TRANSACTIONS AND BALANCES

The President and her husband contributed a computer to the project during the year ended December 31, 2005. At December 31, 2006 and 2005, the project owed \$2,344 and \$3,432, respectively, to the President for expenses incurred.

LUBUTO LIBRARY PROJECT, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 - MAJOR CONTRIBUTORS

Major contributors (10% or more of total revenue and support) for the year ended December 31, 2006 and the period from January 25, 2005 (date of incorporation) to December 31, 2005, is as follows:

	<u>2006</u>	<u>For the period from January 25, 2005 (date of incorporation) to December 31, 2005</u>
Foundation grant	\$25,000	\$ -
In-kind legal services from a law firm	\$ -	\$28,680
Salaries in-kind - Zambia Project Field Director	\$35,500	\$ -
Salaries in-kind - President and contribution of computer (2005)	\$65,000	\$65,700

NOTE 5 - COMMITMENTS

The Project has a commitment at December 31, 2006 for approximately \$35,000 for the remaining payment on a contract from the library under construction in Zambia.

NOTE 6 - RENT EXPENSE

Office space for the headquarters and for the office in Zambia is provided on a pro bono basis during 2006. In-kind rent expenses for the headquarters and the office in Zambia for 2006 is \$4,000 and \$4,000, respectively.

LUBUTO LIBRARY PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and activities for the year ended December 31, 2006 have been summarized on a functional basis below:

	Program	General and administrative	Fundraising	Total
EXPENSES				
Headquarter Expenses				
Salaries - in-kind	\$ 50,000	\$ 12,000	\$ 3,000	\$ 65,000
Communications - in-kind	1,250	-	-	1,250
Communications - other	1,523	-	-	1,523
Depreciation and amortization	3,533	-	-	3,533
Grant application expense	-	-	1,335	1,335
Legal services - in-kind	-	15,825	-	15,825
Accounting	-	2,561	-	2,561
Accounting - in-kind	-	1,150	-	1,150
Rent - in-kind	4,000	-	-	4,000
Program development	1,779	-	25	1,804
Supplies	1,253	31	-	1,284
Travel - in-kind	2,865	-	-	2,865
Travel	1,668	-	-	1,668
Other	1,115	1,043	6	2,164
Subtotal Headquarter Expenses	68,986	32,610	4,366	105,962
Zambia Expenses				
Salaries in-kind	35,500	-	-	35,500
Salaries - officer	12,500	-	-	12,500
Library construction	24,735	-	-	24,735
Consulting fees - in-kind	3,000	-	-	3,000
Zambia rent- in-kind	4,000	-	-	4,000
Zambia other	2,600	-	-	2,600
Subtotal Zambia Expenses	82,335	-	-	82,335
	\$ 151,321	\$ 32,610	\$ 4,366	\$ 188,297

LUBUTO LIBRARY PROJECT, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 - FUNCTIONAL ALLOCATION OF EXPENSES (CONTINUED)

The costs of providing the various programs and activities for the period from January 25, 2005 (date of incorporation) to December 31, 2005 have been summarized on a functional basis below:

	<u>Program</u>	<u>General and administrative</u>	<u>Fundraising</u>	<u>Total</u>
EXPENSES				
Headquarter Expenses				
Salaries - in-kind	\$ 50,000	\$ 10,000	\$ 5,000	\$ 65,000
Depreciation and amortization	3,357	58	-	3,415
Legal services - in-kind	1,820	37,418	-	39,238
Licenses and fees	-	1,727	-	1,727
Program development - in-kind	2,750			2,750
Supplies	1,806	-	(163)	1,643
Travel	1,121	-	-	1,121
Other	<u>2,111</u>	<u>223</u>	<u>1,162</u>	<u>3,496</u>
Subtotal Headquarter Expenses	62,965	49,426	5,999	118,390
Zambia Expenses				
Salaries - in-kind	<u>19,000</u>	<u>-</u>	<u>-</u>	<u>19,000</u>
	<u>\$ 81,965</u>	<u>\$ 49,426</u>	<u>\$ 5,999</u>	<u>\$ 137,390</u>