

LUBUTO LIBRARY PROJECT, INC.

AUDITED FINANCIAL STATEMENTS

Period From January 25, 2005 To December 31, 2005

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of financial position of Lubuto Library Project, Inc. (a non-profit organization) as of December 31, 2005, and the related statements of activities and cash flows for the 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 audit.

We 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 Lubuto Library Project, Inc. at December 31, 2005, and the changes in its net assets and its cash flows for the 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
March 17, 2006

LUBUTO LIBRARY PROJECT, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2005

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 14,345
Donated books	<u>12,000</u>
TOTAL CURRENT ASSETS	<u>26,345</u>

PROPERTY AND EQUIPMENT

Computer equipment	700
Fixtures	2,500
Website	9,150
Accumulated depreciation and amortization	<u>(3,417)</u>
	<u>8,933</u>

TOTAL ASSETS \$ 35,278

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accrued expenses	\$ 662
Payable to President	<u>3,432</u>
TOTAL CURRENT LIABILITIES	4,094

NET ASSETS

Unrestricted	<u>31,184</u>
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TOTAL LIABILITIES AND NET ASSETS \$ 35,278

See accompanying notes to financial statements.

LUBUTO LIBRARY PROJECT, INC.

STATEMENT OF ACTIVITIES

For the period From January 25, 2005 (date of incorporation) to December 31, 2005

UNRESTRICTED REVENUE SUPPORT AND REVENUE	
Contributed support	\$ 139,058
Contributed books	12,000
Individual donations	16,416
Foundation grants	<u>1,100</u>
TOTAL UNRESTRICTED SUPPORT AND REVENUE	168,574
EXPENSES	
Program services	81,965
Supporting services	
General and administrative	49,426
Fundraising	<u>5,999</u>
TOTAL EXPENSES	137,390
INCREASE IN UNRESTRICTED NET ASSETS	31,184
NET ASSETS AT BEGINNING OF PERIOD	<u>-</u>
NET ASSETS AT END OF PERIOD	<u>\$ 31,184</u>

See accompanying notes to financial statements.

LUBUTO LIBRARY PROJECT, INC.

STATEMENT OF CASH FLOWS

For the period From January 25, 2005 (date of incorporation) to December 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in net assets	\$ 31,184
Adjustments to reconcile increase in net assets to net cash provided by operating activities	
Provision for depreciation and amortization	3,417
Donated books	(12,000)
Donated property and equipment	(12,350)
Changes in assets and liabilities:	
Accrued expenses	662
Payable to President	<u>3,432</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>14,345</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,345
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>-</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 14,345</u>

See accompanying notes to financial statements.

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

December 31, 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. The Project is focusing its 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 regional office branch, a non profit organization, 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 temporarily or 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, donated books and property and equipment are recorded at the estimated fair value of such services, books 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.

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.

NOTE 3 - RELATED PARTY TRANSACTIONS AND BALANCES

Payable at December 31, 2005 to President for expenses incurred	\$3,432
Contribution of computer by President and husband	\$700

LUBUTO LIBRARY PROJECT, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - MAJOR CONTRIBUTORS

Major contributors for the period from January 25, 2005 (date of incorporation) to December 31, 2005 include:

In-kind legal services from one law firm	\$	28,680
Salaries in-kind – President	\$	65,000
Contribution of computer – President and husband		<u>700</u>
	\$	<u>65,700</u>

NOTE 5 - FUNCTIONAL ALLOCATION OF EXPENSES

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				
Salaries - in-kind	\$ 69,000	\$ 10,000	\$ 5,000	\$ 84,000
Bank fees	-	186	-	186
Catering expenses	-	-	662	662
Communications - in-kind	600	-	-	600
Depreciation and amortization	3,357	58	-	3,415
Grant application expense	-	-	500	500
Legal services - in-kind	1,820	37,418	-	39,238
Licenses and fees	-	1,727	-	1,727
Meals	185	-	-	185
Office expenses	396	37	-	433
Postage and delivery	335	-	-	335
Program development	250	-	-	250
Program development - in-kind	2,750	-	-	2,750
Registration fees	150	-	-	150
Supplies	1,806	-	(163)	1,643
Telephone	75	-	-	75
Travel	1,121	-	-	1,121
Website hosting - in-kind	<u>120</u>	<u>-</u>	<u>-</u>	<u>120</u>
	<u>\$ 81,965</u>	<u>\$ 49,426</u>	<u>\$ 5,999</u>	<u>\$ 137,390</u>