

**FRIENDS OF KAREN, INC.**

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**MARCH 31, 2011**

**FRIENDS OF KAREN, INC.**

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## Independent Auditor's Report

**Board of Directors  
Friends of Karen, Inc.**

We have audited the accompanying balance sheet of Friends of Karen, Inc. as of March 31, 2011, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Friends of Karen, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from Friends of Karen, Inc.'s March 31, 2010 financial statements and, in our report dated June 21, 2010, we expressed an unqualified opinion on those financial statements.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Friends of Karen, Inc.'s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Friends of Karen, Inc. as of March 31, 2011, 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.

*Loeb & Troper LLP*

June 20, 2011

## FRIENDS OF KAREN, INC.

## BALANCE SHEET

MARCH 31, 2011

(With Summarized Financial Information as of March 31, 2010)

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 430,319	\$ 533,687
Certificate of deposit	2,799	2,771
Investments (Note 3)	4,719,600	4,251,854
Contributions receivable - current	25,000	
Grants receivable		10,000
Prepaid expenses and other assets	16,767	12,976
Fixed assets - net (Note 4)	<u>447,257</u>	<u>457,633</u>
Total assets	<u>\$ 5,641,742</u>	<u>\$ 5,268,921</u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 57,766	\$ 43,916
Deferred revenue	<u>82,695</u>	<u>96,245</u>
Total liabilities	<u>140,461</u>	<u>140,161</u>
Net assets (Exhibit B)		
Unrestricted		
Operating	407,428	299,511
Board designated (Note 9)	<u>4,719,600</u>	<u>4,357,441</u>
Total unrestricted	5,127,028	4,656,952
Temporarily restricted (Note 8)	356,253	453,808
Permanently restricted (Note 8)	<u>18,000</u>	<u>18,000</u>
Total net assets	<u>5,501,281</u>	<u>5,128,760</u>
Total liabilities and net assets	<u>\$ 5,641,742</u>	<u>\$ 5,268,921</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2011

(With Summarized Financial Information for the Year Ended March 31, 2010)

	2011					2010
	Operating	Unrestricted Board Designated	Total	Temporarily Restricted	Permanently Restricted	
Revenues and other support						
Contributions (including in-kind revenue of \$406,663)	\$ 1,129,814		\$ 1,129,814	\$ 86,810		\$ 1,216,624
Grants	480,693		480,693	365,000		845,693
Special events	1,228,930		1,228,930			1,228,930
Less direct cost of special events (including in-kind expense of \$128,550)	(298,188)		(298,188)			(298,188)
Net assets released from restrictions (Note 8)	549,522		549,522	(549,522)		
<b>Total revenues and other support</b>	<b>3,090,771</b>		<b>3,090,771</b>	<b>(97,712)</b>		<b>2,993,059</b>
Expenses						
Program services (including in-kind expense of \$243,051)						
Family support	2,182,926		2,182,926			2,182,926
Public education	371,886		371,886			371,886
<b>Total program services</b>	<b>2,554,812</b>		<b>2,554,812</b>			<b>2,554,812</b>
Supporting services						
Management and general	264,070		264,070			264,070
Fundraising	267,707		267,707			267,707
<b>Total supporting services</b>	<b>531,777</b>		<b>531,777</b>			<b>531,777</b>
<b>Total expenses</b>	<b>3,086,589</b>		<b>3,086,589</b>			<b>3,086,589</b>
Change in net assets before investment income	4,182		4,182	(97,712)		(93,530)
Investment income (Note 3)	103,735	\$ 362,159	465,894	157		466,051
Change in net assets (Exhibit D)	107,917	362,159	470,076	(97,555)		372,521
Net assets - beginning of year	299,511	4,357,441	4,656,952	453,808	\$ 18,000	5,128,760
Net assets - end of year (Exhibit A)	\$ 407,428	\$ 4,719,600	\$ 5,127,028	\$ 356,253	\$ 18,000	\$ 5,501,281

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED MARCH 31, 2011

(With Summarized Financial Information for the Year Ended March 31, 2010)

	2011			Management and General	Fund Raising	Direct cost of Special Events	Total	2010 Total
	Family Support	Public Education	Total					
Salaries	\$ 565,023	\$ 236,951	\$ 801,974	\$ 175,927	\$ 145,527		\$ 1,123,428	\$ 1,034,199
Payroll taxes and fringe benefits	92,408	28,085	120,493	23,567	15,518		159,578	137,044
Total salaries and related expenses	657,431	265,036	922,467	199,494	161,045		1,283,006	1,171,243
Hospital, laboratory, and medical expenses	151,805		151,805				151,805	108,203
Hospital travel reimbursements	112,635		112,635				112,635	120,050
Hospital expenses - other	40,994		40,994				40,994	51,068
Housing and utilities	476,807		476,807				476,807	424,959
Automobile expenses	84,575		84,575				84,575	71,999
Sibling support therapists								25,303
Donated materials	154,636		154,636			\$ 128,550	283,186	230,229
Donated professional services		88,415	88,415				88,415	14,815
Child care expense	75,386		75,386				75,386	53,883
Food and gifts	65,306		65,306				65,306	56,461
Other family and sibling expenses	22,103		22,103				22,103	16,077
Funeral and bereavement expenses	87,237		87,237				87,237	64,838
Office, postage and telephone	68,156	945	69,101	15,935	17,088		102,124	85,495
Occupancy	66,842		66,842	10,286			77,128	73,304
Staff travel	20,339	3,458	23,797	632	3,458		27,887	20,227
Insurance	16,704		16,704	3,639			20,343	34,362
Depreciation	52,835		52,835	13,208			66,043	56,565
Investment fees				8,743			8,743	4,630
Outreach and communications	13,936	6,968	20,904		6,968		27,872	20,785
Catering and entertainment					64,463	169,638	234,101	134,052
Professional fees	9,437	4,744	14,181	16,250	14,181		44,612	16,863
Seminars and training	3,618	2,320	5,938	1,911			7,849	7,668
Miscellaneous	2,144		2,144	2,715	504		5,363	4,174
Total expenses	2,182,926	371,886	2,554,812	272,813	267,707	298,188	3,393,520	2,867,253
Less expenses deducted directly from revenues on the statement of activities								
Direct cost of special events						(298,188)	(298,188)	(163,428)
Investment fees				(8,743)			(8,743)	(4,630)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 2,182,926	\$ 371,886	\$ 2,554,812	\$ 264,070	\$ 267,707	\$ -	\$ 3,086,589	\$ 2,699,195

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## FRIENDS OF KAREN, INC.

## STATEMENT OF CASH FLOWS

YEARS ENDED MARCH 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 372,521	\$ 648,602
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	66,043	56,565
Net gain on investments	(323,404)	(560,176)
Donated stock	(43,694)	(46,228)
Donated fixed assets	(35,062)	(30,300)
Decrease (increase) in assets		
Contributions receivable	(25,000)	
Grants receivable	10,000	45,000
Prepaid expenses and other assets	(3,791)	9,577
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	13,850	3,651
Deferred revenue	(13,550)	51,522
	<u>17,913</u>	<u>178,213</u>
Net cash provided by operating activities		
Cash flows from investing activities		
Purchase of fixed assets	(20,605)	(37,146)
Proceeds from sale of investments	91,198	3,860,590
Purchase of investments	(191,874)	(4,328,562)
	<u>(121,281)</u>	<u>(505,118)</u>
Net cash used by investing activities		
Net change in cash and cash equivalents	(103,368)	(326,905)
Cash and cash equivalents - beginning of year	<u>533,687</u>	<u>860,592</u>
Cash and cash equivalents - end of year	<u>\$ 430,319</u>	<u>\$ 533,687</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

FRIENDS OF KAREN, INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

**NOTE 1 - NATURE OF ORGANIZATION**

Friends of Karen, Inc. (the "Organization") was organized in the State of New York for the purpose of providing emotional, financial and advocacy support for families of children with catastrophic and life-threatening illnesses. The Organization helps families cope with the myriad of problems associated with their children's serious illnesses, including assistance with illness-related expenses such as transportation costs to and from the hospital, meals for parents when their child is hospitalized, parking, in-hospital telephone and television, medical expenses not covered by insurance, and travel and lodging for medical care to take place in distant cities. The Organization also subsidizes certain basic living expenses, such as rent and mortgage payments, utilities, food and child care for siblings, in an effort to keep families in their homes and stable for the duration of their child's illness. The Organization's primary sources of support are contributions, grants and special events.

The Organization is tax-exempt under Section 501(c)(3) of the Internal Revenue Code.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of accounting* - The financial statements are prepared on the accrual basis of accounting.

*Use of 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.

*Cash and cash equivalents* - Cash and cash equivalents include investments in highly liquid instruments with original maturities when acquired of three months or less.

*Investments* - Investments are stated at fair value. The Organization invests in various types of investment securities. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in the Organization's financial statements.

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## FRIENDS OF KAREN, INC.

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Contributions receivable* - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are subsequently met.

*Grants receivable* - Friends of Karen, Inc. records grant income based on costs expended as the grants are cost reimbursable grants.

*Allowance for doubtful accounts* - Grants and contributions receivable are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Factors used to determine whether an allowance should be recorded include the age of the receivable and a review of payments subsequent to year end. Interest income is not accrued or recorded on outstanding accounts receivable.

*Fixed assets* - Fixed assets are recorded at cost. Items with a cost of \$1,000 or more with a useful life of greater than one year are capitalized. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets.

*Deferred revenue* - Deferred revenue is recorded for funds received during the current fiscal year but not yet earned; therefore, the funds are recorded as a liability at year end.

*Grants and contributions* - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently 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 as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Donated services, space and materials* - A substantial number of unpaid volunteers have made significant contributions of their time to develop the Organization's programs. The Organization pays for most services requiring specific expertise. The value of donated time for unpaid volunteers is not reflected in the financial statements, since it is not subject to objective measurement or valuation. Donated materials and donated professional services are recorded at fair value at the date of the donation.

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## FRIENDS OF KAREN, INC.

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Functional expenses* - The costs of providing the Organization's programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

*Net assets* - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors. These net assets account for resources over which the Board of Directors has discretionary control to use for operations. In 1999, the Board of Directors authorized the creation of a board-designated fund to provide a stable source of funding for the operations of the Organization. Temporarily restricted net assets are those whose use has been limited by donors to a specific time period or purpose. Temporarily restricted contributions received and spent during the year are recorded as unrestricted. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity.

*Fair Value Measurements and Disclosures*

*Fair Value Measurements and Disclosures* establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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## FRIENDS OF KAREN, INC.

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Fair Value Measurements and Disclosures (continued)*

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at March 31, 2011.

*Money market funds* - Valued at the closing price reported on the active market on which the individual securities are traded.

*Corporate bonds and U.S. Treasury obligations* - Valued at the closing price reported on the active market on which the individual securities are traded.

*Mutual funds* - Valued at the net asset value ("NAV") of shares held at year end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of March 31, 2011:

	<u>Level 1</u>
Money market funds	\$ 140,299
Corporate bonds	432,297
U.S. Treasury obligations	960,276
Mutual funds	<u>3,186,728</u>
	<u>\$ 4,719,600</u>

*Summarized financial information* - The financial statements include certain prior-year summarized comparative information in total but not by net asset class and functional category. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Friends of Karen, Inc.'s financial statements for the year ended March 31, 2010, from which the summarized information was derived.

*Uncertainty in income taxes* - The Organization has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending March 31, 2008 and subsequent remain subject to examination by applicable taxing authorities.

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## FRIENDS OF KAREN, INC.

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*Reclassification* - Certificate of deposit on Exhibit A was reclassified from investments into a separate line on the balance sheet. Certain liabilities were reclassified from deferred revenue to accounts payable.

*Subsequent events* - Subsequent events have been evaluated through June 20, 2011, which is the date the financial statements were available to be issued.

## NOTE 3 - INVESTMENTS

Investment income consists of the following:

Interest and dividends	\$	151,390
Net unrealized gain		288,226
Net realized gain		<u>35,178</u>
		474,794
Investment fees		<u>(8,743)</u>
Net investment income	\$	<u>466,051</u>

## NOTE 4 - FIXED ASSETS

		<u>Estimated Useful Lives</u>
Grave sites	\$ 56,362	
Building and improvements	634,904	20-40 years
Computer hardware, software and website	135,294	5-7 years
Telephone and security system	26,304	7-10 years
Furniture and fixtures	32,152	7 years
Vehicles	<u>19,947</u>	5-7 years
	904,963	
Accumulated depreciation	<u>(457,706)</u>	
	\$ <u>447,257</u>	

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## FRIENDS OF KAREN, INC.

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2011

**NOTE 5 - DONATIONS**

The Organization receives various non-monetary donations which are subsequently disbursed to multiple families. \$154,636 of such donations has been reflected in the 2011 financial statements as donated materials. In addition, during 2011 the Organization received non-monetary contributions of approximately \$128,550 in connection with its fund-raising activities, which were recorded as contribution income and fund-raising expenses. Friends of Karen, Inc. also received \$88,415 in donated professional services, which have been recorded as revenue and expenses. Grave sites and a copier in the amount of \$35,062 were also donated in 2011 and were capitalized. These items have been capitalized as of year end. Items for which the fair value cannot be readily determined have not been recorded.

**NOTE 6 - OPERATING LEASES**

The Organization leases space located at 21 Perry Street, Port Jefferson, NY for its programs. The lease expires on August 31, 2013.

In addition, the Organization entered into a sublease, as of February 1, 2009, located at 116 East 16th Street, New York, NY for an annual rental of \$25,460. The sublease expired on January 31, 2010. The Organization exercised the option of continuing to sublease the space through December 31, 2011.

Future minimum rental payments are due as follows:

2012	\$ 39,350
2013	21,267
2014	<u>9,041</u>
	<u>\$ 69,658</u>

Rent expense for the year ended March 31, 2011 was \$47,308.

**NOTE 7 - RETIREMENT PLAN**

The Organization sponsors a 403(b) retirement plan. Participation in this plan is voluntary and there were no employer contributions to the plan.

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**FRIENDS OF KAREN, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**MARCH 31, 2011**

**NOTE 8 - RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

Time restriction	\$ 25,000
Family support	207,144
Medical expenses	10,000
Sibling support	<u>114,109</u>
	<u>\$ 356,253</u>

Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

Family support	\$ 473,368
Sibling support	<u>76,154</u>
	<u>\$ 549,522</u>

Permanently restricted net assets of \$18,000 are to be held in perpetuity, the earnings of which are to be used for items that are important to the well-being of the child, such as tickets to the prom and guitar lessons, etc., that are not normally paid for by Friends of Karen, Inc.

**NOTE 9 - BOARD-DESIGNATED ADMINISTRATIVE FUND**

In 1999, the Board of Directors authorized the creation of the Friends of Karen Administrative Fund for the purpose of providing a stable source of funding for the operations of the Organization. The fund is a board-designated fund with no donor-imposed restrictions. The board has directed that the income and/or losses increase or decrease the value of the fund. Transfers will be made to the undesignated funds by the Board of Directors on an as-needed basis. The Board of Directors can change the terms and conditions governing the operation of the fund. During 2011, the Board of Directors authorized additional transfers into the fund which are recorded as transfers to the Board Designated Fund in the statement of activities.

**NOTE 10 - RELATED-PARTY TRANSACTIONS**

A board member's firm provided pro bono legal services to the Organization in the amount of \$1,443.