

FRIENDS OF KAREN, INC.

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

MARCH 31, 2010

FRIENDS OF KAREN, INC.

TABLE OF CONTENTS

Independent Auditor's Report

Exhibit

A - Balance Sheet

B - Statement of Activities

C - Statement of Functional Expenses

D - Statement of Cash Flows

Notes to Financial Statements



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, 2010, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of 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 2009 financial statements and, in our report dated June 4, 2009, 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, 2010, 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 21, 2010

FRIENDS OF KAREN, INC.

BALANCE SHEET

MARCH 31, 2010

(With Summarized Financial Information as of March 31, 2009)

	<u>2010</u>	<u>2009</u>
ASSETS		
Cash and cash equivalents	\$ 533,687	\$ 860,592
Investments (Note 2)	4,254,625	3,180,249
Grants receivable	10,000	55,000
Prepaid expenses and other assets	12,976	22,553
Fixed assets - net (Note 4)	<u>457,633</u>	<u>446,752</u>
Total assets	<u>\$ 5,268,921</u>	<u>\$ 4,565,146</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 39,364	\$ 35,713
Deferred revenue	<u>100,797</u>	<u>49,275</u>
Total liabilities	<u>140,161</u>	<u>84,988</u>
Net assets (Exhibit B)		
Unrestricted		
Operating	299,511	1,211,609
Board designated (Note 9)	<u>4,357,441</u>	<u>2,935,804</u>
Total unrestricted	4,656,952	4,147,413
Temporarily restricted (Note 8)	453,808	314,745
Permanently restricted (Note 8)	<u>18,000</u>	<u>18,000</u>
Total net assets	<u>5,128,760</u>	<u>4,480,158</u>
Total liabilities and net assets	<u>\$ 5,268,921</u>	<u>\$ 4,565,146</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2010

(With Summarized Financial Information for the Year Ended March 31, 2009)

	2010						2009
	Operating	Unrestricted Board Designated	Total	Temporarily Restricted	Permanently Restricted	Total	
Revenues and other support							
Contributions (including in-kind revenue of \$275,344)	\$ 1,077,137		\$ 1,077,137	\$ 1,665		\$ 1,078,802	\$ 1,254,411
Grants	386,633		386,633	511,975		898,608	866,256
Special events	846,128		846,128			846,128	1,089,795
Less direct cost of special events (including in-kind expense of \$52,169)	(163,428)		(163,428)			(163,428)	(304,568)
Net assets released from restrictions (Note 8)	374,769		374,769	(374,769)			
Total revenues and other support	2,521,239		2,521,239	138,871		2,660,110	2,905,894
Expenses							
Program services (including in-kind expense of \$189,912)							
Family support	1,995,238		1,995,238			1,995,238	2,284,345
Public education	203,279		203,279			203,279	159,997
Total program services	2,198,517		2,198,517			2,198,517	2,444,342
Supporting services							
Management and general (including in-kind expense of \$2,963)	274,606		274,606			274,606	320,472
Fund raising	226,072		226,072			226,072	256,310
Total supporting services	500,678		500,678			500,678	576,782
Total expenses	2,699,195		2,699,195			2,699,195	3,021,124
Change in net assets before other changes	(177,956)		(177,956)	138,871		(39,085)	(115,230)
Investment income (loss) (Note 3)	15,858	\$ 671,637	687,495	192		687,687	(472,029)
Transfer to board-designated fund (Note 9)	(750,000)	750,000					
Change in net assets (Exhibit D)	(912,098)	1,421,637	509,539	139,063		648,602	(587,259)
Net assets - beginning of year	1,211,609	2,935,804	4,147,413	314,745	\$ 18,000	4,480,158	5,067,417
Net assets - end of year (Exhibit A)	\$ 299,511	\$ 4,357,441	\$ 4,656,952	\$ 453,808	\$ 18,000	\$ 5,128,760	\$ 4,480,158

See independent auditor's report.

The accompanying notes are an integral part of these statements.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED MARCH 31, 2010

(With Summarized Financial Information for the Year Ended March 31, 2009)

	2010						2009	
	Program Services			Management and General	Fund Raising	Direct Cost of Special Events		Total
	Family Support	Public Education	Total					
Salaries	\$ 502,237	\$ 175,095	\$ 677,332	\$ 181,772	\$ 175,095		\$ 1,034,199	\$ 963,614
Payroll taxes and fringe benefits	80,612	19,636	100,248	17,160	19,636		137,044	129,369
Total salaries and related expenses	582,849	194,731	777,580	198,932	194,731		1,171,243	1,092,983
Hospital, laboratory, and medical expenses	108,203		108,203				108,203	112,152
Hospital travel reimbursements	120,050		120,050				120,050	132,812
Hospital expenses - other	51,068		51,068				51,068	64,324
Housing and utilities	424,959		424,959				424,959	579,278
Automobile expenses	71,999		71,999				71,999	81,347
Sibling support therapists	25,303		25,303				25,303	10,560
Donated materials	178,060		178,060			\$ 52,169	230,229	281,761
Donated professional services	11,852		11,852	2,963			14,815	39,750
Child care expense	53,883		53,883				53,883	61,654
Food and gifts	56,461		56,461				56,461	56,012
Other family and sibling expenses	16,077		16,077				16,077	24,301
Funeral and bereavement expenses	64,838		64,838				64,838	107,107
Office, postage and telephone	68,396		68,396	17,099			85,495	97,529
Occupancy	58,643		58,643	14,661			73,304	155,659
Staff travel	13,329	3,351	16,680	195	3,352		20,227	21,513
Insurance	27,490		27,490	6,872			34,362	24,290
Depreciation	45,252		45,252	11,313			56,565	49,476
Investment fees				4,630			4,630	3,081
Outreach and communications	10,392	5,197	15,589		5,196		20,785	33,600
Catering and entertainment					22,793	111,259	134,052	234,553
Professional fees				16,863			16,863	48,470
Seminars and training	6,134		6,134	1,534			7,668	13,392
Miscellaneous				4,174			4,174	3,169
Total expenses	1,995,238	203,279	2,198,517	279,236	226,072	163,428	2,867,253	3,328,773
Less expenses deducted directly from revenues on the statement of activities								
Direct cost of special events						(163,428)	(163,428)	(304,568)
Investment fees				(4,630)			(4,630)	(3,081)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 1,995,238	\$ 203,279	\$ 2,198,517	\$ 274,606	\$ 226,072	\$ -	\$ 2,699,195	\$ 3,021,124

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 30, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 648,602	\$ (587,259)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	56,565	49,476
Net loss (gain) on investments	(560,176)	626,306
Donated stock	(46,228)	(98,883)
Donated fixed assets	(30,300)	
Decrease (increase) in assets		
Grants receivable	45,000	(55,000)
Prepaid expenses and other current assets	9,577	(6,764)
Increase in liabilities		
Accounts payable and accrued expenses	3,651	5,915
Deferred revenue	51,522	49,275
Net cash provided (used) by operating activities	<u>178,213</u>	<u>(16,934)</u>
Cash flows from investing activities		
Purchase of fixed assets	(37,146)	(46,244)
Proceeds from sale of investments	3,860,590	428,553
Purchase of investments	(4,328,562)	(1,065,735)
Net cash used by investing activities	<u>(505,118)</u>	<u>(683,426)</u>
Net decrease in cash and cash equivalents	(326,905)	(700,360)
Cash and cash equivalents - beginning of year	<u>860,592</u>	<u>1,560,952</u>
Cash and cash equivalents - end of year	<u>\$ 533,687</u>	<u>\$ 860,592</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, 2010

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.

FASB Accounting Standards Codification - In July 2009, the FASB released FASB Accounting Standards Codification (ASC) as the single source of authoritative nongovernmental U.S. Generally Accepted Accounting Principles (GAAP). The Codification is effective for interim and annual periods ending after September 15, 2009. All existing accounting standards documents are superseded as described in FASB Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. All other accounting literature not included in the Codification is nonauthoritative.

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.

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FRIENDS OF KAREN, INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Grants receivable and allowance for doubtful accounts - Friends of Karen, Inc. records grant income based on costs expended as the grants are cost reimbursable grants. Grants 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 and useful life of more 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.

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.

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FRIENDS OF KAREN, INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Fair Value Measurements

Fair Value Measurements 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.

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, 2010.

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

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FRIENDS OF KAREN, INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value Measurements (continued)

Certificate of deposit - Valued at fair value by discounting the related cash flows based upon current yields of similar instruments, considering the creditworthiness of the issuer.

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, 2010:

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Money market funds	\$ 41,257	\$ -	\$ 41,257
Certificate of deposit	-	2,771	2,771
Corporate bonds	448,419	-	448,419
U.S. Treasury obligations	955,673	-	955,673
Mutual funds	<u>2,806,505</u>	<u>-</u>	<u>2,806,505</u>
	<u>\$ 4,251,854</u>	<u>\$ 2,771</u>	<u>\$ 4,254,625</u>

Accounting for uncertainty in income taxes - Effective January 1, 2009, the Organization adopted the provision pertaining to uncertain tax positions (ASC Topic 740) and has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Subsequent events - Subsequent events have been evaluated through June 21, 2010, which is the date the financial statements were available to be issued.

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FRIENDS OF KAREN, INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassification - Certain prior-year items have been reclassified to conform to the current year's presentation.

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, 2009, from which the summarized information was derived.

NOTE 3 - INVESTMENTS

Investment income (loss) consists of the following:

Interest and dividends	\$	132,141
Net unrealized gain		838,530
Net realized loss		<u>(278,354)</u>
		692,317
Investment fees		<u>(4,630)</u>
	\$	<u>687,687</u>

NOTE 4 - FIXED ASSETS

		<u>Estimated Useful Lives</u>
Grave sites	\$	26,300
Building and improvements		624,244
Computers		135,650
Telephone and security system		26,304
Furniture and fixtures		27,152
Vehicles		<u>19,947</u>
		859,597
Accumulated depreciation		<u>(401,964)</u>
	\$	<u>457,633</u>

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FRIENDS OF KAREN, INC.

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2010

NOTE 5 - DONATIONS

The Organization receives various non-monetary donations which are subsequently disbursed to multiple families. Approximately \$178,060 of such donations has been reflected in the 2010 financial statements as donated materials and donated materials revenue. In addition, during 2010 the Organization received non-monetary contributions of approximately \$52,169 in connection with its fund-raising activities, which were recorded as contribution income and fund-raising expenses. Friends of Karen, Inc. also received \$14,815 in donated professional services, which have been recorded as revenue and expenses. Grave sites and a copier in the amount of \$30,300 were also donated in 2010. 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. The lease expires on August 31, 2010.

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 \$24,000. 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:

2011	\$	32,655
2012		19,096

Rent expense for the year ended March 31, 2010 was \$45,389.

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, 2010

NOTE 8 - RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Family support	\$ 324,130
Sibling support	<u>129,678</u>
	\$ <u>453,808</u>

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

Family support	\$ 319,022
Sibling support	<u>55,747</u>
	\$ <u>374,769</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 in an amount established 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 2010, 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 \$11,660.