

**FRIENDS OF KAREN, INC.**

**FINANCIAL STATEMENTS  
AND AUDITOR'S REPORT**

**MARCH 31, 2009**

**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, 2009, 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.

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, 2009, 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 4, 2009

## FRIENDS OF KAREN, INC.

## BALANCE SHEET

MARCH 31, 2009

## ASSETS

Cash and cash equivalents	\$ 860,592
Grants receivable	55,000
Investments (Note 3)	3,180,249
Prepaid expenses and other assets	22,553
Fixed assets - net (Note 4)	<u>446,752</u>
Total assets	<u>\$ 4,565,146</u>

## LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	\$ 35,713
Deferred revenue	<u>49,275</u>
Total liabilities	<u>84,988</u>
Net assets (Exhibit B)	
Unrestricted	
Operating	1,211,609
Board designated (Note 9)	<u>2,935,804</u>
Total unrestricted	4,147,413
Temporarily restricted (Note 8)	314,745
Permanently restricted (Note 8)	<u>18,000</u>
Total net assets	<u>4,480,158</u>
Total liabilities and net assets	<u>\$ 4,565,146</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## FRIENDS OF KAREN, INC.

## EXHIBIT B

## STATEMENT OF ACTIVITIES

YEAR ENDED MARCH 31, 2009

	Operating	Unrestricted Board Designated	Total	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support						
Contributions (including in-kind revenue of \$421,511)	\$ 1,253,171		\$ 1,253,171	\$ 1,240		\$ 1,254,411
Grants	456,256		456,256	410,000		866,256
Special events	1,089,795		1,089,795			1,089,795
Less direct cost of special events (including in-kind expenses of \$140,192)	(304,568)		(304,568)			(304,568)
Net assets released from restrictions (Note 8)	102,116		102,116	(102,116)		
Total revenues and other support	<u>2,596,770</u>		<u>2,596,770</u>	<u>309,124</u>		<u>2,905,894</u>
Expenses (Exhibit C)						
Program services (including in-kind expenses of \$252,925)						
Family support	2,284,345		2,284,345			2,284,345
Public education	159,997		159,997			159,997
Total program services	<u>2,444,342</u>		<u>2,444,342</u>			<u>2,444,342</u>
Supporting services						
Management and general (including in-kind expenses of \$28,394)	320,472		320,472			320,472
Fund raising	256,310		256,310			256,310
Total supporting services	<u>576,782</u>		<u>576,782</u>			<u>576,782</u>
Total expenses	<u>3,021,124</u>		<u>3,021,124</u>			<u>3,021,124</u>
Change in net assets before other changes	(424,354)		(424,354)	309,124		(115,230)
Investment income (loss) (Note 3)	27,403	\$ (499,656)	(472,253)	224		(472,029)
Transfer to Board designated fund (Note 9)	(266,495)	266,495				
Reclassifications (Note 2)	47,953	101,150	149,103	(167,103)	\$ 18,000	
Change in net assets (Exhibit D)	(615,493)	(132,011)	(747,504)	142,245	18,000	(587,259)
Net assets - beginning of year	1,827,102	3,067,815	4,894,917	172,500		5,067,417
Net assets - end of year (Exhibit A)	<u>\$ 1,211,609</u>	<u>\$ 2,935,804</u>	<u>\$ 4,147,413</u>	<u>\$ 314,745</u>	<u>\$ 18,000</u>	<u>\$ 4,480,158</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED MARCH 31, 2009

	Program Services			Management and General	Fund Raising	Direct Costs of Special Events	Total
	Family Support	Public Education	Total				
Salaries	\$ 517,115	\$ 128,248	\$ 645,363	\$ 190,003	\$ 128,248		\$ 963,614
Payroll taxes and fringe benefits	77,327	13,876	91,203	24,290	13,876		129,369
Total salaries and related expenses	594,442	142,124	736,566	214,293	142,124		1,092,983
Hospital, laboratory, and medical expense	112,152		112,152				112,152
Hospital travel reimbursements	132,812		132,812				132,812
Hospital expenses - other	64,324		64,324				64,324
Housing and utilities	579,278		579,278				579,278
Automobile expenses	81,347		81,347				81,347
Sibling support therapists	10,560		10,560				10,560
Donated materials	141,569		141,569			\$ 140,192	281,761
Donated legal services	31,356		31,356	8,394			39,750
Child care expense	61,654		61,654				61,654
Food and gifts	56,012		56,012				56,012
Other family and sibling expenses	24,301		24,301				24,301
Funeral and bereavement expenses	107,107		107,107				107,107
Office, postage, and telephone	78,023		78,023	19,506			97,529
Occupancy (including donated space of \$100,000)	124,527		124,527	31,132			155,659
Staff travel	16,004	2,566	18,570	377	2,566		21,513
Insurance	3,662		3,662	20,628			24,290
Depreciation	39,581		39,581	9,895			49,476
Outreach and communications	16,800	8,400	25,200		8,400		33,600
Catering and entertainment					70,177	164,376	234,553
Professional fees	6,512	5,000	11,512	13,078	23,880		48,470
Seminars and training	2,322	1,907	4,229		9,163		13,392
Miscellaneous				3,169			3,169
Total expenses	2,284,345	159,997	2,444,342	320,472	256,310	304,568	3,325,692
Direct cost of special events						(304,568)	(304,568)
Total expenses reported by function on the statement of activities (Exhibit B)	\$ 2,284,345	\$ 159,997	\$ 2,444,342	\$ 320,472	\$ 256,310	\$ -	\$ 3,021,124

See independent auditor's report.

The accompanying notes are an integral part of these statements.

## EXHIBIT D

## FRIENDS OF KAREN, INC.

## STATEMENT OF CASH FLOWS

YEAR ENDED MARCH 31, 2009

Cash flows from operating activities	
Change in net assets (Exhibit B)	\$ (587,259)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	49,476
Net loss on investments	626,306
Donated stock	98,883
Increase in assets	
Grants receivable	(55,000)
Prepaid expenses and other current assets	(6,764)
Increase in liabilities	
Accounts payable and accrued expenses	5,915
Deferred revenue	49,275
	<hr/>
Net cash provided by operating activities	180,832
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Cash flows from investing activities	
Purchase of fixed assets	(46,244)
Proceeds from sale of investments	428,553
Purchase of investments	(1,263,501)
	<hr/>
Net cash used by investing activities	(881,192)
	<hr/>
Net decrease in cash and cash equivalents	(700,360)
Cash and cash equivalents - beginning of year	1,560,952
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Cash and cash equivalents - end of year	\$ 860,592
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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, 2009**

**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.

*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 debt instruments with original maturities when acquired of three months or less.

*Grants receivable and bad debts* - Grant receivables 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 lives of two year or more are capitalized. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets.

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## FRIENDS OF KAREN, INC.

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2009

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

**Investments** - Investments are stated at fair value, based on quoted market prices. 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 statement of activities and investment portfolio.

**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.

**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-free 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 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. For the year ended March 31, 2009, the Organization received donated legal services for the benefit of families being assisted in the amount of \$39,750, which is included as revenue and expense in the statement of activities.

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## FRIENDS OF KAREN, INC.

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2009

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

*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.

*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.

*Reclassification* - Certain amounts were reclassified between net asset classes to conform to the donor's original intent.

*Fair Value Measurements*

Financial Accounting Standards Board (FASB) Statement No. 157 *Fair Value Measurements* (FASB Statement No. 157), 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 under FASB Statement No. 157 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, 2009.

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## FRIENDS OF KAREN, INC.

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2009

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

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

*Certificates of deposit* - 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, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 104,251	\$ -	\$ -	\$ 104,251
Certificates of deposit	345,595	-	-	345,595
Corporate bonds	152,823	-	-	152,823
U.S. Treasury obligations	824,593	-	-	824,593
Mutual funds	<u>1,752,987</u>	<u>-</u>	<u>-</u>	<u>1,752,987</u>
	<u>\$ 3,180,249</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,180,249</u>

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## FRIENDS OF KAREN, INC.

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2009

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

*Fair Value Measurements on a Nonrecurring Basis*

As permitted by FSP 157-2, the fair value measurement disclosure was deferred for any (a) long-lived assets and finite-lived intangible assets in the determination of impairment under SFAS No. 142 or SFAS No. 144, (b) asset retirement obligations initially measured at fair value under SFAS No. 143, *Accounting for Asset Retirement Obligations*, and (c) nonfinancial liabilities for exit or disposal activities initially measured at fair value under SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*.

SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of SFAS No. 115* (SFAS No. 159) permits but does not require measurement of financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. As the Organization did not elect to fair value any of the financial instruments under the provisions of SFAS No. 159, the adoption of this statement effective January 1, 2008 did not have an impact on the financial statements.

*FASB Interpretation No. 48 - Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109 (FIN 48)*

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

As of March 31, 2009, the Organization has adopted FIN 48. Adoption of FIN 48 had no impact on the financial statements.

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## FRIENDS OF KAREN, INC.

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2009

## NOTE 3 - INVESTMENTS

Investments consist of the following:

	<u>Fair Value</u>
Money market funds	\$ 104,251
Certificates of deposit	345,595
Corporate bonds	152,823
U.S. Treasury obligations	824,593
Mutual funds	<u>1,752,987</u>
	<u>\$ 3,180,249</u>

Investment income (loss) consists of the following:

Interest and dividends	\$ 157,358
Net unrealized loss	(603,294)
Net realized loss	<u>(23,012)</u>
	(468,948)
Investment fees	<u>(3,081)</u>
	<u>\$ (472,029)</u>

## NOTE 4 - FIXED ASSETS

		<u>Estimated Useful Lives</u>
Building and improvements	\$ 608,698	20-40 years
Computers	114,051	5-7 years
Telephone and security system	26,304	7-10 years
Furniture and fixtures	25,151	7 years
Vehicles	<u>19,947</u>	5-7 years
	794,151	
Accumulated depreciation	<u>(347,399)</u>	
	<u>\$ 446,752</u>	

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**FRIENDS OF KAREN, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**MARCH 31, 2009**

**NOTE 5 - DONATIONS**

The Organization receives various non-monetary donations which are subsequently disbursed to multiple families. Approximately \$141,569 of such donations has been reflected in the 2009 financial statements. The Organization received various non-monetary donations for office space rental. Approximately \$100,000 of such donations has been reflected in the 2009 financial statements. In addition, during 2009 the Organization received non-monetary contributions of approximately \$140,192 in connection with its fund-raising activities, which were recorded as contributions received and fund-raising expenses. Items for which the fair value cannot be readily determined have not been recorded.

**NOTE 6 - OPERATING LEASE**

In July 2005, the Organization extended its lease agreement dated October 1, 2001 by an additional five years commencing September 1, 2005 and expiring August 31, 2010 for space located at 21 Perry St., Port Jefferson, NY. In December 2007, the Organization extended its lease agreement dated October 15, 2004 for additional space at the same location by an additional three years commencing October 1, 2007 and expiring 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 expires on January 31, 2010.

Future minimum rental payments are due as follows:

2010	\$	40,346
2011		7,812

The Organization receives donated office space in New York City. The fair value of the office space rental is recorded as a contribution income and occupancy expense in the amount of \$100,000. Rental expense, including donated rent was \$120,929.

**NOTE 7 - RETIREMENT PLAN**

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

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## FRIENDS OF KAREN, INC.

## NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2009

**NOTE 8 - RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

Family support	\$ 298,795
Sibling support	<u>15,950</u>
	<u>\$ 314,745</u>

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

Family support	\$ 93,066
Sibling support	<u>9,050</u>
	<u>\$ 102,116</u>

**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 as needed basis. The Board of Directors can change the terms and conditions governing the operation of the fund. During 2009, the Board of Directors authorized additional transfers into the fund which are recorded as fund transfers in the statement of activities.

**NOTE 10 - CONCENTRATIONS**

Financial instruments which potentially subject the Organization to a concentration of credit risk are cash accounts with major financial institutions in excess of FDIC insurance limits. Management believes that credit risk related to these accounts is minimal.

The Organization derives substantially all of its support from various foundations, individuals, corporations, and government agencies.

**NOTE 11 - RELATED PARTY TRANSACTIONS**

A board member's firm provided legal services to the Organization in the amount of \$8,394.