

KEEP A CHILD ALIVE
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2011 AND 2010
AND
INDEPENDENT AUDITORS' REPORT

KEEP A CHILD ALIVE

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FRIEDMAN LLP

ACCOUNTANTS AND ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Keep a Child Alive

We have audited the accompanying statements of financial position of Keep a Child Alive (a nonprofit organization) as of December 31, 2011 and 2010, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. 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. The prior year summarized comparative information has been derived from the Organization's December 31, 2010 financial statements and, in our report dated May 2, 2011, we expressed an unqualified opinion on those financial statements.

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 Keep a Child Alive as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Friedman LLP

May 10, 2012

KEEP A CHILD ALIVE

STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2011	2010
ASSETS		
Current assets		
Cash and cash equivalents	\$ 706,802	\$ 1,224,285
Accounts receivable	560,237	275,733
Unconditional promises to give	400,000	100,000
Prepaid expenses	33,529	29,029
Total current assets	1,700,568	1,629,047
Property and equipment - at cost, less accumulated depreciation	20,462	34,548
Long-term unconditional promises to give	-	400,000
Other assets	15,820	67,291
	\$ 1,736,850	\$ 2,130,886
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 142,438	\$ 55,642
Loan payable	100,000	-
Grants payable	16,627	5,631
Total current liabilities	259,065	61,273
Commitments		
NET ASSETS		
Unrestricted	288,705	666,568
Board designated	333,813	509,357
	622,518	1,175,925
Temporarily restricted	855,267	893,688
	1,477,785	2,069,613
	\$ 1,736,850	\$ 2,130,886

See notes to financial statements.

KEEP A CHILD ALIVE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	Year Ended December 31,			
	2011		2010	
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenues				
Special event	\$2,017,975	\$ -	\$2,017,975	\$2,141,400
Less - direct costs of event	(682,500)	-	(682,500)	(625,768)
	1,335,475	-	1,335,475	1,515,632
Contributions	1,792,808	782,242	2,575,050	3,409,014
In-kind donations	536,128	-	536,128	356,352
Merchandise sales	23,744	-	23,744	43,145
Other income	118,579	-	118,579	1,390
	3,806,734	782,242	4,588,976	5,325,533
Net assets released from restriction				
Satisfaction of program restrictions	820,663	(820,663)	-	-
	4,627,397	(38,421)	4,588,976	5,325,533
Expenses				
Program services	4,298,920	-	4,298,920	4,558,046
Management and general	286,470	-	286,470	295,763
Fundraising costs	434,346	-	434,346	387,288
	5,019,736	-	5,019,736	5,241,097
Cost of merchandise sales	16,177	-	16,177	25,088
Termination benefit	144,891	-	144,891	-
	5,180,804	-	5,180,804	5,266,185
Change in net assets	(553,407)	(38,421)	(591,828)	59,348
Net assets, beginning of year	1,175,925	893,688	2,069,613	2,010,265
Net assets, end of year	\$ 622,518	\$ 855,267	\$1,477,785	\$2,069,613

See notes to financial statements.

KEEP A CHILD ALIVE

STATEMENTS OF FUNCTIONAL EXPENSES

	Year Ended December 31,				2010
	2011				
	Program Services	Management and General	Fundraising Costs	Total	Total
Grants	\$2,551,007	\$ -	\$ -	\$2,551,007	\$2,324,413
Salaries and wages	618,017	99,530	131,461	849,008	917,801
Employee benefits	142,085	22,031	30,113	194,229	185,437
Professional fees	43,352	13,278	7,749	64,379	43,876
Telephone	23,663	4,629	3,857	32,149	39,584
Postage	9,160	3,482	1,207	13,849	17,220
Office expense	7,028	21,192	2,948	31,168	37,154
Occupancy	59,161	9,751	14,937	83,849	74,624
Site visit expense	59,121	-	-	59,121	96,877
Printing	19,202	2,460	612	22,274	41,119
Consulting fees	39,800	25,000	-	64,800	6,266
Insurance	5,453	804	1,128	7,385	56,795
Marketing and promotion	262,580	195	3,188	265,963	414,796
Travel and related expenses	53,595	4,258	5,266	63,119	417,382
Outside services	36,129	19,047	25,382	80,558	98,315
Miscellaneous	24,023	24,795	4,405	53,223	52,800
Information technology	25,537	4,730	1,127	31,394	36,666
Depreciation and amortization	-	16,133	-	16,133	23,620
	3,978,913	271,315	233,380	4,483,608	4,884,745
In-kind donations	320,007	15,155	200,966	536,128	356,352
	\$4,298,920	\$ 286,470	\$ 434,346	\$5,019,736	\$5,241,097

See notes to financial statements.

KEEP A CHILD ALIVE

STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2011	2010
Cash flows from operating activities		
Change in net assets	\$ (591,828)	\$ 59,348
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation and amortization	16,133	23,620
Loss on retirement of fixed assets	3,414	-
Changes in assets and liabilities		
Accounts receivable	(284,504)	6,905
Prepaid expenses	(4,500)	37,921
Unconditional promises to give	100,000	(200,000)
Other assets	51,471	14,753
Accounts payable and accrued expenses	86,796	42,055
Grants payable	10,996	(42,243)
Net cash used in operating activities	(612,022)	(57,641)
Cash flows from investing activities		
Acquisition of property and equipment	(5,461)	(11,491)
Cash flows from financing activities		
Proceeds of loan payable	100,000	-
Net decrease in cash and cash equivalents	(517,483)	(69,132)
Cash and cash equivalents, beginning of year	1,224,285	1,293,417
Cash and cash equivalents, end of year	\$ 706,802	\$ 1,224,285
Non cash investing activities		
Retired fully depreciated property and equipment	\$ 101,656	\$ -

See notes to financial statements.

KEEP A CHILD ALIVE

NOTES TO FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

Keep a Child Alive (“the Organization”) is a nonprofit organization dedicated to providing lifesaving anti-retroviral (ARV) treatment and surrounding care to children and their families with HIV/AIDS in Africa, India, and other impoverished countries by directly engaging the global public in the fight against AIDS. The Organization works to create sustainability at treatment sites through local funding and partnerships on the ground. The Organization also builds and sustains orphanages to keep the most vulnerable children out of harms way.

The Organization monitors sites to determine that grant terms are being met. Videos documenting progress and growth of the life-saving work of the community based organizations in Sub-Saharan Africa and India are made possible by generous donations of editing services and support the Organization’s public education mission. The Organization also uses the footage from these sites to create and distribute documentaries to raise public awareness of the AIDS issue.

Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and support and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Unrestricted net assets consist of assets, public support and revenues which are available and used for operations and programs. Contributions are considered available for unrestricted use unless specifically restricted by the donor.

Unrestricted Board designated net assets is a limit imposed by the Board of Directors representing grants approved as of December 31, 2011 and 2010 to be disbursed in the first quarter of 2012 and 2011, respectively.

Temporarily restricted net assets include funds with donor-imposed restrictions which permit the Organization to expend the assets as specified either by the passage of time or by actions of the Organization.

Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended December 31, 2010 from which the summarized information was derived.

KEEP A CHILD ALIVE

NOTES TO FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash balances in banks are insured by the Federal Deposit Insurance Corporation subject to certain limitations. For purposes of the statement of cash flows, the Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents include all money market accounts.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect. Based on the Organization's history of past write-off's, collections and contractual terms, no allowance for doubtful accounts has been established.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional and are included in temporarily restricted net assets.

Depreciation and Amortization

Property and equipment are stated at cost at the date of acquisition or fair value at the date of donation. The Organization capitalizes all fixed assets over \$1,000 with an estimated useful life greater than one year. Maintenance and repairs are charged to expense as incurred.

Depreciation and amortization are provided using the straight line method over the estimated useful lives, or lease term, whichever is shorter as follows:

Office equipment	5 to 7 years
Photo equipment	5 to 7 years
Leasehold Improvements	3 years

Grants Payable

Grants authorized but unpaid at year end are reported as liabilities.

KEEP A CHILD ALIVE

NOTES TO FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

Functional Allocation of Expenses

The costs of providing the various programs and other activities of the Organization have been summarized on a functional basis in the statement of activities and include certain costs that have been allocated among the programs and supporting services benefited.

Revenue Recognition

All contributions are generally available for unrestricted use in the year received unless specifically restricted by the donor. Restricted contracts and contributions whose restrictions are met in the same reporting period are shown as unrestricted.

Contributions of cash and other assets are reported as temporarily restricted support if they are received with donor-imposed restrictions 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 to unrestricted net assets and reported in the statement of activity as net assets released from restrictions.

Other revenue includes a fee earned in connection with licensing distribution rights for the documentary, "Keep a Child Alive ("KCA") with Alicia Keys".

Advertising Costs

Advertising costs, included in marketing and promotion, which are expensed as incurred totaled approximately \$21,000 and \$40,000 for the years ended December 31, 2011 and 2010, respectively. Marketing and promotion includes the cost of production of public service announcements totaling approximately \$155,000 and \$200,000 for the years ended December 31, 2011 and 2010, respectively.

Donated Services and Materials

Donated services are recognized as in-kind donations if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

Donated non-cash assets including services and materials are reflected as in-kind donation revenue and expense at their estimated fair values upon the date of receipt.

KEEP A CHILD ALIVE

NOTES TO FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

The Organization is exempt from Federal and State income taxes under Internal Revenue code Section 501(c)(3), and is classified as a publicly supported organization as described in Section 509(a).

Federal and State information returns for years prior to 2008 are no longer subject to examination by tax authorities.

Subsequent Events

These financial statements were approved by management and available for issuance on May 10, 2012. Management has evaluated subsequent events through this date.

2 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31,	
	2011	2010
Photo equipment	\$ -	\$ 6,241
Office equipment	49,746	87,622
Leasehold improvements	-	52,078
	49,746	145,941
Accumulated depreciation and amortization	(29,284)	(111,393)
	\$ 20,462	\$ 34,548

3 - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are due as follows:

	December 31,	
	2011	2010
Less than one year	\$ 400,000	\$ 100,000
One to five years	-	400,000
	\$ 400,000	\$ 500,000

Unconditional promises to give, from two donors in 2011 and 2010, will be received in a future period and are reflected as temporarily restricted contributions accordingly. Management expects to collect both these amounts prior to the end of 2012.

KEEP A CHILD ALIVE

NOTES TO FINANCIAL STATEMENTS

4 - CONCENTRATIONS

Major Donors

The Organization received contributions from two donors that approximated 13% from each totaling 26% of the Organization's total revenues or \$1,005,000 in 2011. Additionally, amounts due from three donors represented 38%, 27% and 18% of the total receivable balance at December 31, 2011.

Included in the receivable balance at December 31, 2011 is \$150,000 due from Children Affected by Aids Foundation ("CAAF") which is expected to be collected during 2012, (See Note 11).

The Organization received contributions from three donors that approximated 10% from each totaling 30% of the Organization's total revenues or \$1,500,000 in 2010.

Grants

The Organization disbursed grants to approved program sites, which reflect only direct expenses for the individual program sites as follows:

		December 31,	
		2011	2010
The Blue Roof Clinic	South Africa	\$ 580,729	\$ 482,118
Icyuzuzo Clinic	Rwanda	250,999	251,000
Alive Medical Services	Uganda	955,315	952,843
Agape Orphanage	South Africa	-	44,366
Family Care Clinic	Kenya	59,679	29,234
Bobbi Bear	South Africa	266,712	189,040
Ikageng Itireteng Aids Ministry	South Africa	227,069	199,852
Sahara Centre for Residential Care	India	519	113,266
RNP+	India	95,311	52,694
Nkosi's Haven	South Africa	-	10,000
Living India Orphanage	India	55,800	-
S.A.F.E.	Kenya	58,874	-
		\$ 2,551,007	\$ 2,324,413

Grants disbursed to three (3) approved program sites in 2011 and in 2010 individually exceeded 10% of total grants made in each year aggregating 71% and 73% of total grants in 2011 and 2010, respectively.

5 - LOAN PAYABLE

The Organization borrowed \$100,000 during 2011 from an organization that was formerly a related party. The amount was repaid in full subsequent to the year end.

KEEP A CHILD ALIVE

NOTES TO FINANCIAL STATEMENTS

6 - RELATED PARTIES

The Vice President of the Organization is also a board member of an affiliate, Keep A Child Alive, South Africa (“KCA-SA”) which operates the Blue Roof Clinic in South Africa (See Note 4 Concentrations). During the years ended December 31, 2011 and 2010, the Organization received the proceeds of a grant for KCA-SA from the Stephen Lewis Foundation totaling \$288,266 and \$218,596, respectively. The grant was recorded on the Organization’s books as contribution revenue and a corresponding program grant. (See Note 8, temporarily restricted net assets).

In 2010, the Organization supported the growth of KCA-UK. Certain indirect expenses such as staff salaries were absorbed by the Organization. All advances for direct expenses were reimbursed. Funds advanced totaling \$53,069 at December 31, 2010 (included in other assets), were repaid to the Organization after the June 2011 Black Ball in the United Kingdom. As of December 31, 2011, KCA-UK no longer is affiliated or operating with KCA’s name, trademarks, or logos. (See Note 5, loan payable).

The president and CEO of a company which donated in-kind editing services totaling \$240,841 and \$207,095 for the years ended December 31, 2011 and 2010 respectively, is a board member.

7 - COMMITMENTS

The Organization leases its administrative offices under an operating lease that expires April 2016. The lease contains stated increases payable over the lease term.

Rent expense for the years ended December 31, 2011 and 2010 totaled \$60,362 and \$55,727, respectively.

Future minimum lease payments are as follows:

Year Ending December 31,	
2012	\$ 60,940
2013	61,550
2014	66,000
2015	67,980
2016	23,340
	<u>\$ 279,810</u>

KEEP A CHILD ALIVE

NOTES TO FINANCIAL STATEMENTS

7 - COMMITMENTS (Continued)

Grants

The Board of Directors has designated unrestricted net assets to fund the first quarter 2012 and 2011 budgets for approved treatment sites totaling \$333,813 and \$509,357, respectively.

Line of Credit

The Organization has a \$750,000 line of credit with Chase Bank. Interest is payable at the LIBOR rate plus 2.494% (2.76% as of December 31, 2011). The line is due for renewal June 2012. The Organization has no outstanding balance under the line as of December 31, 2011.

Termination Benefit

The Organization's president resigned in 2011. In consideration for services performed, the past president will be compensated through September 2012. Compensation and benefits totaling approximately \$92,000 have been accrued as of December 31, 2011.

8 - TEMPORARILY RESTRICTED NET ASSETS

The following summarizes the changes in temporarily restricted net assets for the year ended December 31, 2011:

	Balance, Beginning of Year	Contributions	Satisfaction of Program Restriction	Balance, End of Year
Program services-site expenses	\$ 294,435	\$ 782,242	\$ (691,981)	\$ 384,696
Public education program - "KCA with Alicia Keys" documentary	99,253	-	(28,682)	70,571
Unconditional promises to give	500,000	-	(100,000)	400,000
	<u>\$ 893,688</u>	<u>\$ 782,242</u>	<u>\$ (820,663)</u>	<u>\$ 855,267</u>

The following summarizes the changes in temporarily restricted net assets for the year ended December 31, 2010:

	Balance, Beginning of Year	Contributions	Satisfaction of Program Restriction	Balance, End of Year
Program services-site expenses	\$ 215,236	\$ 668,596	\$ (589,397)	\$ 294,435
Public education program - "KCA with Alicia Keys" documentary	-	566,000	(466,747)	99,253
Unconditional promises to give	300,000	300,000	(100,000)	500,000
	<u>\$ 515,236</u>	<u>\$1,534,596</u>	<u>\$ (1,156,144)</u>	<u>\$ 893,688</u>

KEEP A CHILD ALIVE

NOTES TO FINANCIAL STATEMENTS

9 - IN-KIND DONATIONS

The fair value of donated services and materials included as contributions in the financial statements and the corresponding cost classification are as follows:

December 31, 2011				
	Program Services	Management and General	Fundraising	Total
Editing services	\$ 284,067	\$ -	\$ 200,966	\$ 485,033
Miscellaneous goods and services	35,940	15,155	-	51,095
	<u>\$ 320,007</u>	<u>\$ 15,155</u>	<u>\$ 200,966</u>	<u>\$ 536,128</u>

December 31, 2010				
	Program Services	Management and General	Fundraising	Total
Editing services	\$ 207,095	\$ -	\$ -	\$ 207,095
Miscellaneous goods and services	76,365	20,876	52,016	149,257
	<u>\$ 283,460</u>	<u>\$ 20,876</u>	<u>\$ 52,016</u>	<u>\$ 356,352</u>

Editing services were provided to create video montages for special events and for the documentary, "KCA with Alicia Keys".

There are numerous well-known celebrities who donate considerable time and resources to promote and publicize the Organization's mission. They are integral to promoting the mission of the Organization, however, no amounts have been reflected in the statements for these services in as much as no objective basis is available to measure the value of such services.

10 - SPECIAL EVENTS

The Organization holds various fundraising events. For the years ended December 31, 2011 and 2010, revenues from the Black Ball event represented approximately 38% and 36%, respectively, of the Organization's total revenues.

KEEP A CHILD ALIVE

NOTES TO FINANCIAL STATEMENTS

11 - SUBSEQUENT EVENT

On March 19, 2012, the Organization announced that it will acquire certain assets of CAAF a not-for-profit organization, including two trademarked fundraising events, Dream Halloween and Night of Comedy. The asset acquisition is expected to close in June 2012, (See Note 4).