

KEEP A CHILD ALIVE
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012
(WITH SUMMARIZED TOTALS FOR THE YEAR
ENDED DECEMBER 31, 2011)

AND

INDEPENDENT AUDITORS' REPORT

KEEP A CHILD ALIVE

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of Financial Position	3
Statements of Activities and Changes in Net Assets	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to Financial Statements	7



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of Keep a Child Alive

We have audited the accompanying financial statements of Keep a Child Alive (a nonprofit organization) which comprise the statements of financial position as of December 31, 2012 and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Keep a Child Alive (a nonprofit organization) as of December 31, 2012 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2011 financial statements, and our report dated May 10, 2012, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Friedman LLP". The signature is written in a cursive, flowing style.

August 5, 2013

KEEP A CHILD ALIVE
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012

	December 31,	
	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 680,485	\$ 706,802
Accounts receivable	848,068	560,237
Unconditional promises to give	241,000	400,000
Prepaid expenses	28,424	33,529
Total current assets	1,797,977	1,700,568
Property and equipment - at cost, less accumulated depreciation	13,436	20,462
Other assets	14,327	15,820
	\$ 1,825,740	\$ 1,736,850
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	\$ 204,664	\$ 142,438
Loan payable	-	100,000
Grants payable	-	16,627
Total current liabilities	204,664	259,065
Commitments		
NET ASSETS		
Unrestricted	598,830	288,705
Board designated	338,788	333,813
	937,618	622,518
Temporarily restricted	683,458	855,267
	1,621,076	1,477,785
	\$ 1,825,740	\$ 1,736,850

See notes to financial statements.

KEEP A CHILD ALIVE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED DECEMBER 31, 2012

	Year Ended December 31, 2012			Summarized 2011
	Unrestricted	Temporarily Restricted	Total	
Support and revenues				
Special events	\$3,362,009	\$ -	\$ 3,362,009	\$ 2,017,975
Less - direct costs of event	(1,161,478)	-	(1,161,478)	(682,500)
	2,200,531	-	2,200,531	1,335,475
Contributions	876,239	843,777	1,720,016	2,575,050
Change in fair value of promise to give	-	(59,000)	(59,000)	-
Merchandise sales	18,056	-	18,056	23,744
Other income	6,755	-	6,755	118,579
	3,101,581	784,777	3,886,358	4,052,848
Net assets released from restriction				
Satisfaction of program restrictions	956,586	(956,586)	-	-
	4,058,167	(171,809)	3,886,358	4,052,848
Expenses				
Program services	3,196,319	-	3,196,319	3,978,913
Management and general	272,007	-	272,007	271,315
Fundraising costs	263,844	-	263,844	233,380
	3,732,170	-	3,732,170	4,483,608
Cost of merchandise sales	10,897	-	10,897	16,177
Termination benefit	-	-	-	144,891
	3,743,067	-	3,743,067	4,644,676
Change in net assets before the effect of in-kind donations	315,100	(171,809)	143,291	(591,828)
In-kind donations - revenue	440,577	-	440,577	536,128
In-kind donations - expense	(440,577)	-	(440,577)	(536,128)
Change in net assets	315,100	(171,809)	143,291	(591,828)
Net assets, beginning of year	622,518	855,267	1,477,785	2,069,613
Net assets, end of year	\$ 937,618	\$ 683,458	\$ 1,621,076	\$ 1,477,785

See notes to financial statements.

KEEP A CHILD ALIVE

STATEMENTS OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2012

	Year Ended December 31, 2012				Summarized 2011
	Program Services	Management and General	Fundraising Costs	Total	
Grants	\$ 2,083,396	\$ -	\$ -	\$ 2,083,396	\$ 2,551,007
Salaries and wages	582,402	112,704	139,291	834,397	849,008
Employee benefits	145,026	30,842	36,463	212,331	194,229
Professional fees	10,982	12,625	8,045	31,652	64,379
Telephone	11,831	3,914	1,916	17,661	32,149
Postage	2,684	3,070	138	5,892	13,849
Office expense	7,844	20,709	2,856	31,409	31,168
Occupancy	67,649	9,481	11,908	89,038	83,849
Site visit expense	32,443	-	-	32,443	59,121
Printing	7,005	1,260	303	8,568	22,274
Consulting fees	86,077	25,667	30,267	142,011	64,800
Insurance	5,814	1,304	1,394	8,512	7,385
Marketing and promotion	65,027	-	-	65,027	265,963
Travel and related expenses	22,327	4,309	1,129	27,765	63,119
Outside services	43,207	14,888	25,096	83,191	80,558
Miscellaneous	16,735	18,355	4,449	39,539	53,223
Information technology	5,870	3,655	589	10,114	31,394
Depreciation and amortization	-	9,224	-	9,224	16,133
	\$ 3,196,319	\$ 272,007	\$ 263,844	\$ 3,732,170	\$ 4,483,608

See notes to financial statements.

KEEP A CHILD ALIVE
STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2012

	Year Ended December 31,	
	2012	2011
Cash flows from operating activities		
Change in net assets	\$ 143,291	\$ (591,828)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	9,224	16,133
Loss on retirement of fixed assets	-	3,414
Change in fair value of promise to give	59,000	-
Changes in assets and liabilities		
Accounts receivable	(287,831)	(284,504)
Prepaid expenses	5,105	(4,500)
Unconditional promises to give	100,000	100,000
Other assets	1,493	51,471
Accounts payable and accrued expenses	62,226	86,796
Grants payable	(16,627)	10,996
Net cash provided by (used in) operating activities	75,881	(612,022)
Cash flows from investing activities		
Acquisition of property and equipment	(2,198)	(5,461)
Cash flows from financing activities		
(Repayment) proceeds of loan payable	(100,000)	100,000
Net decrease in cash and cash equivalents	(26,317)	(517,483)
Cash and cash equivalents, beginning of year	706,802	1,224,285
Cash and cash equivalents, end of year	\$ 680,485	\$ 706,802
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”) believes that every person has the right to health care and deserves a future. The Organization provides funding and administrative support to encourage innovative, community-led responses that increase access to life-saving HIV care and treatment, nutritious food, and loving support for children and families living with and affected by HIV in Kenya, Rwanda, South Africa, Uganda, and India. The Organization monitors sites to determine that grant terms are being met. With Alicia Keys as Global Ambassador, the Organization uses its voice to raise awareness, mobilize people to take action, and rally resources in the global response to HIV.

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 to the Organization’s public education mission.

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, 2012 and 2011 to be disbursed in the first quarter of 2013 and 2012, 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 accordance 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, 2011 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. Adjustments are made for changes in fair value.

Depreciation

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 is provided using the straight line method over the estimated useful lives as follows:

Office equipment	5 to 7 years
Photo equipment	5 to 7 years

Grants Payable

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

Reclassifications

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

KEEP A CHILD ALIVE

NOTES TO FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 activities as net assets released from restrictions.

Other revenue in 2011 includes a fee of \$100,000 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 \$8,000 and \$21,000 for the years ended December 31, 2012 and 2011, respectively. Marketing and promotion includes the cost of production of public service announcements totaling approximately \$55,000 and \$155,000 for the years ended December 31, 2012 and 2011, 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.

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).

KEEP A CHILD ALIVE

NOTES TO FINANCIAL STATEMENTS

1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

Federal and State information returns for years prior to 2009 are no longer subject to examination by tax authorities.

Subsequent Events

These financial statements were approved by management and available for issuance on August 5, 2013. Management has evaluated subsequent events through this date.

2 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	December 31,	
	2012	2011
Office equipment	\$ 51,944	\$ 49,746
Accumulated depreciation and amortization	(38,508)	(29,284)
	<u>\$ 13,436</u>	<u>\$ 20,462</u>

3 - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give, from one donor and two donors in 2012 and 2011, respectively, are reflected as temporarily restricted contributions accordingly. Management expects to collect amounts prior to the end of 2013.

4 - CONCENTRATIONS

Major Donors

The Organization received contributions from two donors that approximated 25% and 13% of the Organization's total revenues or \$1,500,000 in 2012. Additionally, amounts due from one donor represented 58% of the total receivable balance at December 31, 2012.

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.

KEEP A CHILD ALIVE

NOTES TO FINANCIAL STATEMENTS

4 - CONCENTRATIONS (Continued)

Major Donors (Continued)

Included in the receivable balance at December 31, 2011 is \$150,000 due from Children Affected by Aids Foundation (“CAAF”) which was collected during 2012 after the acquisition. (See Note 11, Acquisition).

Grants

The Organization disbursed grants to approved program sites, which reflects funding for support services and direct expenses for the individual program sites as follows:

		December 31,	
		2012	2011
The Blue Roof Clinic	South Africa	\$ 486,265	\$ 580,729
Icyuzuzo Clinic	Rwanda	226,052	250,999
Alive Medical Services	Uganda	1,048,648	955,315
Family Care Clinic	Kenya	50,500	59,679
Bobbi Bear	South Africa	87,587	266,712
Ikageng Itireteng Aids Ministry	South Africa	36,106	227,069
Sahara Centre for Residential Care	India	122,738	519
RNP+	India	-	95,311
Living India Orphanage	India	25,500	55,800
S.A.F.E.	Kenya	-	58,874
		<u>\$ 2,083,396</u>	<u>\$ 2,551,007</u>

Grants disbursed to three (3) approved program sites in 2012 and in 2011 individually exceeded 10% of total grants made in each year aggregating 85% and 71% of total grants in 2012 and 2011, 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 in 2012.

KEEP A CHILD ALIVE

NOTES TO FINANCIAL STATEMENTS

6 - RELATED PARTIES

The former Vice President of the Organization was 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). Subsequent to the year end, the Executive Director has replaced the Vice President as a board member on KCA-SA.

During the years ended December 31, 2012 and 2011, the Organization received the proceeds of a grant for KCA-SA from the Stephen Lewis Foundation totaling \$78,878 and \$288,266, respectively. The grant was recorded on the Organization’s books as contribution revenue and a corresponding program grant.

The president and CEO of a company which donated in-kind editing services totaling \$79,649 and \$240,841 for the years ended December 31, 2012 and 2011 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, 2012 and 2011 totaled \$61,806 and \$60,362, respectively.

Future minimum lease payments are as follows:

Year Ending December 31,	
2013	\$ 61,550
2013	66,000
2014	67,980
2016	23,340
	<hr/>
	\$ 218,870

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 2013 and 2012 budgets for approved treatment sites totaling \$338,788 and \$333,813, respectively.

Line of Credit

The Organization has a \$750,000 line of credit with Chase Bank. Interest is payable at the LIBOR rate plus 3.718% (3.92% as of December 31, 2012). The line is due for renewal in July 2013. The Organization has no outstanding balance under the line as of December 31, 2012. In the subsequent period the Organization borrowed \$400,000 on the line.

Termination Benefit

The Organization's former president resigned in 2011. In consideration for services performed, the past president was compensated through September 2012. There is no compensation or benefits outstanding as of December 31, 2012.

8 - TEMPORARILY RESTRICTED NET ASSETS

The following summarizes the changes in temporarily restricted net assets for the year ended December 31, 2012:

	Balance, Beginning of Year	Contributions	Satisfaction of Program Restriction	Balance, End of Year
Program services-site expenses	\$ 384,696	\$ 673,777	\$ (758,446)	\$ 300,027
Time restricted	-	170,000	(81,667)	88,333
Public education program - "KCA with Alicia Keys" documentary	70,571	-	(16,473)	54,098
Unconditional promises to give	400,000	(59,000)	(100,000)	241,000
	<u>\$ 855,267</u>	<u>\$ 784,777</u>	<u>\$ (956,586)</u>	<u>\$ 683,458</u>

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>

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, 2012				
	Program Services	Management and General	Fundraising	Total
Editing services	\$ -	\$ -	\$ 129,649	\$ 129,649
Venue, food and beverages	-	-	210,745	210,745
Miscellaneous goods and services	50,091	25,046	25,046	100,183
	<u>\$ 50,091</u>	<u>\$ 25,046</u>	<u>\$ 365,440</u>	<u>\$ 440,577</u>

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>

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, 2012 and 2011, revenues from the Black Ball event represented approximately 50% and 38%, respectively, of the Organization's total revenues. Additionally, for the year ended December 31, 2012, revenues from the Dream Halloween - Los Angeles event represented approximately 10% of revenues.

KEEP A CHILD ALIVE

NOTES TO FINANCIAL STATEMENTS

11 - ACQUISITION

On June 30, 2012, the Organization acquired certain assets of CAAF a not-for-profit organization, including two trademarked fundraising events, Dream Halloween and Night of Comedy and cash recorded as contributions in 2012 totaling approximately \$42,000. Proceeds from these fundraising events in 2012 totaling approximately \$703,000 are included in special event revenue. In December 2011, the Organization was awarded by CAAF's Board an unrestricted grant of \$150,000 to reflect the intent of acquisition. Grant amount was collected upon acquisition pursuant to the asset purchase agreement.

12 - SUBSEQUENT EVENT

In January 2013, the Organization incurred a termination liability in consideration for services performed of approximately \$150,000 to be paid over the next six to nine months dependent upon the type of benefit paid.