

McGladrey & Pullen

Certified Public Accountants

Project Sunshine, Inc.

Financial Report

December 31, 2009

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Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Project Sunshine, Inc.
New York, New York

We have audited the accompanying statements of financial position of Project Sunshine, Inc. ("Project Sunshine") as of December 31, 2009 and 2008, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of Project Sunshine's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 Project Sunshine, Inc. as of December 31, 2009 and 2008, 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.

McGladrey & Pullen, LLP

New York, New York
August 17, 2010

Project Sunshine, Inc.

**Statements of Financial Position
December 31, 2009 and 2008**

	2009	2008
ASSETS		
Cash and Cash Equivalents	\$ 386,275	\$ 459,838
Contributions Receivable	158,060	86,998
Prepaid Expenses and Other Assets	53,164	58,620
Investments	666,366	583,882
Property and Equipment, net	<u>117,345</u>	<u>140,061</u>
Total assets	<u>\$ 1,381,210</u>	<u>\$ 1,329,399</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 70,139	\$ 54,102
Deferred rent obligation	<u>40,264</u>	<u>46,722</u>
Total liabilities	<u>110,403</u>	<u>100,824</u>
Commitments		
Net Assets:		
Unrestricted	911,643	1,092,101
Temporarily restricted	<u>359,164</u>	<u>136,474</u>
Total net assets	<u>1,270,807</u>	<u>1,228,575</u>
Total liabilities and net assets	<u>\$ 1,381,210</u>	<u>\$ 1,329,399</u>

See Notes to Financial Statements.

Project Sunshine, Inc.

Statements of Activities

Years Ended December 31, 2009 and 2008

	2009			2008		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support, Revenue, Gains and Losses:						
Grants and contributions	\$ 622,381	\$ 359,164	\$ 981,545	\$ 560,668	\$ 136,474	\$ 697,142
Contributed services and materials	94,004	-	94,004	46,806	-	46,806
Special event revenue (net of direct expenses of \$333,996 for 2009 and \$541,320 for 2008, and includes donated goods and services of \$110,244 for 2009 and \$78,712 for 2008)	342,906	-	342,906	403,199	-	403,199
Interest and dividend income	2,149	-	2,149	10,890	-	10,890
Net realized/unrealized (loss) gain on investments	(1,316)	-	(1,316)	5,338	-	5,338
Net assets released from restrictions - satisfaction of purpose restrictions	136,474	(136,474)	-	167,500	(167,500)	-
Total support, revenue, gains and losses	1,196,598	222,690	1,419,288	1,194,401	(31,026)	1,163,375
Expenses:						
Program services	1,031,478	-	1,031,478	1,195,463	-	1,195,463
Supporting services:						
Management and general	146,808	-	146,808	231,221	-	231,221
Fund-raising	193,770	-	193,770	246,621	-	246,621
Total expenses	1,372,056	-	1,372,056	1,673,305	-	1,673,305
Loss on Uncollectible Receivables	(5,000)	-	(5,000)	(97,465)	-	(97,465)
Change in Net Assets	(180,458)	222,690	42,232	(576,369)	(31,026)	(607,395)
Net Assets:						
Beginning	1,092,101	136,474	1,228,575	1,668,470	167,500	1,835,970
Ending	<u>\$ 911,643</u>	<u>\$ 359,164</u>	<u>\$ 1,270,807</u>	<u>\$ 1,092,101</u>	<u>\$ 136,474</u>	<u>\$ 1,228,575</u>

See Notes to Financial Statements.

Project Sunshine, Inc.

Statements of Functional Expenses
Years Ended December 31, 2009 and 2008

	2009				2008			
	Program Services	Supporting Services Management and General	Fund-Raising	Total Expenses	Program Services	Supporting Services Management and General	Fund-Raising	Total Expenses
Employee Compensation:								
Salaries	\$ 406,956	\$ 38,435	\$ 120,462	\$ 565,853	\$ 456,499	\$ 64,653	\$ 130,058	\$ 651,210
Employee benefits	47,657	3,907	6,373	57,937	44,119	4,227	9,775	58,121
Payroll taxes	38,483	1,324	5,291	45,098	35,656	5,089	10,280	51,025
Total employee compensation	493,096	43,666	132,126	668,888	536,274	73,969	150,113	760,356
Other Expenses:								
Computers	25,900	630	2,854	29,384	14,600	1,235	3,366	19,201
Food	6,741	-	2,754	9,495	24,897	-	-	24,897
Insurance	10,718	369	1,473	12,560	10,730	1,028	2,377	14,135
Miscellaneous	16,920	601	5,717	23,238	35,934	1,863	5,688	43,485
Occupancy	98,781	3,398	13,579	115,758	81,432	7,802	18,042	107,276
Office supplies and materials	16,004	492	2,139	18,635	17,195	1,626	4,830	23,651
Printing and postage	15,549	33	1,801	17,383	41,442	3,419	16,107	60,968
Materials and other support	192,386	260	2,248	194,894	281,648	-	-	281,648
Professional fees	19,687	96,291	4,377	120,355	14,485	137,501	3,621	155,607
Consulting fees	88,186	-	11,949	100,135	88,712	-	19,089	107,801
Telephone	7,646	263	2,844	10,753	9,339	885	2,464	12,688
Travel	16,474	-	6,694	23,168	19,329	29	16,616	35,974
Depreciation and amortization	23,390	805	3,215	27,410	19,446	1,864	4,308	25,618
Total other expenses	538,382	103,142	61,644	703,168	659,189	157,252	96,508	912,949
Total expenses	\$ 1,031,478	\$ 146,808	\$ 193,770	\$ 1,372,056	\$ 1,195,463	\$ 231,221	\$ 246,621	\$ 1,673,305

See Notes to Financial Statements.

Project Sunshine, Inc.

**Statements of Cash Flows
Years Ended December 31, 2009 and 2008**

	2009	2008
Cash Flows From Operating Activities:		
Change in net assets	\$ 42,232	\$ (607,395)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	27,410	25,618
Loss on uncollectible receivables	5,000	97,465
Net realized/unrealized loss (gain) on investments	1,316	(5,338)
Changes in operating assets and liabilities:		
(Increase) decrease in contributions receivable	(76,062)	502
Decrease (increase) in prepaid expenses and other assets	5,456	(3,069)
Increase (decrease) in accounts payable and accrued expenses	16,037	(1,461)
Decrease in deferred rent	(6,458)	(23,237)
Net cash provided by (used in) operating activities	14,931	(516,915)
Cash Flows From Investing Activities:		
Net proceeds from sales/maturity of investments	326,172	1,200,462
Purchases of investments	(409,972)	(583,882)
Purchases of property and equipment	(4,694)	(28,883)
Net cash (used in) provided by investing activities	(88,494)	587,697
Net (decrease) increase in cash and cash equivalents	(73,563)	70,782
Cash and Cash Equivalents:		
Beginning	459,838	389,056
Ending	<u>\$ 386,275</u>	<u>\$ 459,838</u>

See Notes to Financial Statements.

Project Sunshine, Inc.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Project Sunshine, Inc. ("Project Sunshine") is a corporation organized under the New Jersey State not-for-profit corporation law. It is an organization that provides numerous free programs and services to children and families who are affected by medical challenges. As of December 31, 2009, Project Sunshine has programs in over 100 cities throughout the United States that coordinate the services of over 10,000 volunteers who make packages and visit hospitals to provide Project Sunshine's programs on a regular basis. Project Sunshine also has programs in Kenya, Israel and China. Project Sunshine is supported primarily through grants and contributions. Project Sunshine Canada, whose financial statements are not included in these financial statements, operates programs in Canada.

The Financial Accounting Standards Board (the "FASB") Accounting Standards Codification (the "Codification" or "ASC") was effective July 1, 2009, at which point all then-existing non-SEC accounting and reporting standards have been superseded. As a result of the adoption of the Codification, Project Sunshine changed the way it references accounting principles generally accepted in the United States of America throughout the notes to the financial statements. This standard did not have an impact on the financial statements.

A summary of Project Sunshine's significant accounting policies follows:

All financial activities of the chapters originate at the Project Sunshine level. Accordingly, the accompanying financial statements include the financial activities of the chapters. These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The financial statement presentation follows the requirements of the FASB in accordance with ASC 958 (formerly Statement of Financial Accounting Standards ("SFAS") No. 117), *Financial Statements of Not-For-Profit Organizations*. Under ASC 958, Project Sunshine is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources to be maintained permanently, but permit the organization to use or expend part or all of the income derived from the donated assets for specified or unspecified purposes. Currently, Project Sunshine does not have any permanently restricted net assets.

Temporarily restricted net assets contain donor-imposed restrictions that permit the organization to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by the action of the organization. Project Sunshine's temporarily restricted net assets at December 31, 2009 and 2008 are available for future periods and specific programs.

Project Sunshine's revenue consists of grants, contributions, fund-raising and special event revenue. Unrestricted grants, contributions and fund-raising revenue are recorded as temporarily restricted support and net assets if they are received with donor stipulations that limit the use of the contributed assets. When a donor or sponsor restriction expires restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. However, when a donor or sponsor restrictions are met in the same period, the temporarily restricted support is recorded as unrestricted support.

Project Sunshine records various types of contributed support, including services and materials. Contributed support is recognized in accordance with ASC 958 (formerly SFAS No. 116), *Accounting for Contributions Received and Contributions Made*. Accordingly, contributed services are recognized as revenue if those services (a) create or enhance long-lived assets or (b) require specialized skills that would typically be purchased by Project Sunshine if not provided by contribution.

Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying financial statements as in-kind support are offset by like amounts included in expenses or assets.

Project Sunshine, Inc.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Unpaid volunteers have made a contribution of their time to assist in Project Sunshine's programs. The value of this contributed time is not reflected in these financial statements because such services either do not require specialized skills or would not typically be purchased had they not been provided by donation. The value of these services is not readily determinable.

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited based on time spent by employees on the services.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions by management that could affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Property and equipment is recorded at cost. Project Sunshine capitalizes all purchases of property and equipment with a cost in excess of \$500, and leave an estimated life greater than one year. Depreciation is provided using the straight-line method based on the estimated useful lives of the assets. Leasehold improvements are amortized over the remaining life of the lease.

Cash and cash equivalents include cash in banks. Project Sunshine maintains cash in deposit accounts which, at times, may exceed federally insured limits and potentially subjects Project Sunshine to a concentration of credit risk. Project Sunshine manages this risk by placing its monies in high-quality financial institutions. Project Sunshine has not experienced any losses in such accounts.

Project Sunshine was incorporated in 1998 and is exempt from federal income taxes under Internal Revenue Code (the "IRC") Section 501(a) as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the IRC.

On January 1, 2009, Project Sunshine adopted the accounting standard on accounting for uncertainty in income taxes (ASC 740, formerly FASB Interpretation No. 48), which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, Project Sunshine may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses derecognition, classification, interest and penalties on income taxes, and accounting in interim periods.

Management has analyzed all of Project Sunshine's tax positions for all open tax years and has concluded that Project Sunshine had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, Project Sunshine, as a non-profit organization, is no longer subject to income tax examinations by U.S. federal, state or local tax authorities for years before 2006, which is the standard statute of limitations look-back period.

Project Sunshine, Inc.

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Project Sunshine evaluates events occurring after the date of the financial statements to consider whether or not the impact of such events needs to be reflected or disclosed in the financial statements. Such evaluation is performed through the date the financial statements are issued, which is August 17, 2010 for these financial statements.

Note 2. Property and Equipment, Net

Property and equipment, net, at December 31, 2009 and 2008, consists of the following:

	<u>2009</u>	<u>2008</u>
Website	\$ 40,210	\$ 36,390
Leasehold improvements	65,060	65,060
Office furniture and equipment	<u>110,186</u>	<u>109,312</u>
	215,456	210,762
Less accumulated depreciation and amortization	<u>(98,111)</u>	<u>(70,701)</u>
Property and equipment, net	<u>\$ 117,345</u>	<u>\$ 140,061</u>

Note 3. In-Kind Contributions

Project Sunshine receives contributed materials and services in support of the various aspects of its programs and operations. Project Sunshine received contributions of \$94,004 and \$46,806 during the years ended December 31, 2009 and 2008, respectively. Project Sunshine also received in-kind contributions and donated materials and services for special events, which were valued at \$110,244 for 2009 and \$78,712 for 2008.

Note 4. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following periods or purposes at December 31:

	<u>2009</u>	<u>2008</u>
Future periods	\$ 75,000	\$ 50,000
Purpose restrictions	<u>284,164</u>	<u>86,474</u>
	<u>\$ 359,164</u>	<u>\$ 136,474</u>

Project Sunshine, Inc.

Notes to Financial Statements

Note 5. Investments

Project Sunshine reports its investments under ASC 820 (formerly SFAS No. 157), *Fair Value Measurements*. ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement. ASC 820 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under ASC 820, fair value measurements are disclosed by level within that hierarchy.

Project Sunshine determines the fair values of its investments based on the fair value hierarchy established in ASC 820, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value, which are as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 investments are traded in an active exchange market.
- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets. Level 2 assets include investments that are not actively traded, whose value is determined by management based on the values of the underlying assets of Project Sunshine. Project Sunshine has no such investments as of December 31, 2009 and 2008.
- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. Level 3 assets include investments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Project Sunshine has no such investments as of December 31, 2009 and 2008.

Project Sunshine, Inc.

Notes to Financial Statements

Note 5. Investments (Continued)

The following table summarizes investments measured at fair value on a recurring basis as of December 31, 2009 and 2008, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

Description	2009 Cost	2009 Fair Value	Fair Value Measurements Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of deposit	\$ 450,000	\$ 451,776	\$ 451,776	\$ -	\$ -
U.S. Treasury Bills	109,991	109,998	109,998	-	-
Money market mutual funds	104,592	104,592	104,592	-	-
	<u>\$ 664,583</u>	<u>\$ 666,366</u>	<u>\$ 666,366</u>	<u>\$ -</u>	<u>\$ -</u>

Description	2008 Cost	2008 Fair Value	Fair Value Measurements Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market mutual funds	\$ 583,882	\$ 583,882	\$ 583,882	\$ -	\$ -
	<u>\$ 583,882</u>	<u>\$ 583,882</u>	<u>\$ 583,882</u>	<u>\$ -</u>	<u>\$ -</u>

Note 6. Commitments

In 2007, Project Sunshine entered into a new seven-year operating lease agreement (the "lease") expiring on June 30, 2014. The lease is subject to escalations for Project Sunshine's pro rata share of increases in real estate taxes and other maintenance charges. Below is the future aggregate minimum commitment under this agreement.

Year ending December 31,

2010	\$ 98,000
2011	98,000
2012	100,800
2013	103,600
2014	51,800
	<u>\$ 452,200</u>

Project Sunshine, Inc.

Notes to Financial Statements

Note 6. Commitments (Continued)

The deferred rent obligation of \$40,264 and \$46,722 is the difference between the cumulative amounts recorded for rent expense on a straight-line basis over the term of the lease, as compared to the cumulative required amounts paid under the lease as of December 31, 2009 and 2008, respectively.

Project Sunshine received an incentive of \$44,160 of leasehold improvements upon signing the lease from the landlord. Such amount is included in leasehold improvements and deferred rent obligation in the accompanying statements of financial position, and is being amortized over the lease term of seven (7) years.

Rent expense for the years ended December 31, 2009 and 2008 amounted to \$110,580 and \$102,088, respectively.

Note 7. Employee Benefits

Project Sunshine participates in a tax-deferred annuity retirement plan under Section 403(b) of the Code for the benefit of eligible employees. During the years ended December 31, 2009 and 2008, Project Sunshine made contributions of \$10,000 and \$0, respectively.