

McGladrey & Pullen

Certified Public Accountants

Project Sunshine, Inc.

Financial Statements

December 31, 2007

Contents

Independent Auditor's Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 9

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying statement of financial position of Project Sunshine, Inc. ("Project Sunshine") as of December 31, 2007, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. The financial statements of Project Sunshine as of and for the year ended December 31, 2006 were audited by Goldstein Golub Kessler LLP ("GGK"), independent accountants, certain of whose partners became partners of McGladrey & Pullen, LLP on October 3, 2007. GGK's report, dated November 12, 2007, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2007 financial statements referred to above present fairly, in all material respects, the financial position of Project Sunshine, Inc. as of December 31, 2007, 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.

McGladrey & Pullen, LLP

New York, New York
November 5, 2008

Project Sunshine, Inc.

**Statements of Financial Position
December 31, 2007 and 2006**

	2007	2006
ASSETS		
Cash and Cash Equivalents	\$ 389,056	\$ 990,645
Contributions Receivable	184,965	174,500
Prepaid Expenses and Other Assets	55,551	17,224
Investments	1,195,124	491,708
Property and Equipment, net	<u>136,796</u>	<u>43,124</u>
Total assets	<u>\$ 1,961,492</u>	<u>\$ 1,717,201</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 55,563	\$ 24,978
Deferred rent obligation	<u>69,959</u>	<u>6,351</u>
Total liabilities	<u>125,522</u>	<u>31,329</u>
Commitment		
Net Assets:		
Unrestricted	1,668,470	1,452,255
Temporarily restricted	<u>167,500</u>	<u>233,617</u>
Total net assets	<u>1,835,970</u>	<u>1,685,872</u>
Total liabilities and net assets	<u>\$ 1,961,492</u>	<u>\$ 1,717,201</u>

See Notes to Financial Statements.

Project Sunshine, Inc.

Statements of Activities

Years Ended December 31, 2007 and 2006

	2007			2006		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support, revenue, gains and losses:						
Grants and contributions	\$ 490,728	\$ 30,000	\$ 520,728	\$ 310,539	\$ 175,000	\$ 485,539
Contributed services and materials	200,797	-	200,797	50,056	-	50,056
Special event revenue (net of direct expenses of \$863,925 for 2007 and \$737,362 for 2006 and includes donated goods and services of \$59,725 for 2007 and \$74,051 for 2006)	758,491	-	758,491	1,218,452	35,000	1,253,452
Interest and dividend income	11,990	-	11,990	3,398	-	3,398
Net realized/unrealized gain on investments	41,794	-	41,794	17,716	-	17,716
Net assets released from restrictions - satisfaction of purpose restrictions	96,117	(96,117)	-	267,800	(267,800)	-
Total support, revenue, gains and losses	1,599,917	(66,117)	1,533,800	1,867,961	(57,800)	1,810,161
Expenses:						
Program services	1,020,855	-	1,020,855	657,461	-	657,461
Supporting services:						
Management and general	237,076	-	237,076	105,719	-	105,719
Fund-raising	125,771	-	125,771	145,961	-	145,961
Total expenses	1,383,702	-	1,383,702	909,141	-	909,141
Change in net assets	216,215	(66,117)	150,098	958,820	(57,800)	901,020
Net assets:						
Beginning	1,452,255	233,617	1,685,872	493,435	291,417	784,852
Ending	\$ 1,668,470	\$ 167,500	\$ 1,835,970	\$ 1,452,255	\$ 233,617	\$ 1,685,872

See Notes to Financial Statements.

Project Sunshine, Inc.

Statements of Functional Expenses
Years Ended December 31, 2007 and 2006

	2007				2006			
	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	\$ 386,587	\$ 128,452	\$ 43,451	\$ 558,490	\$ 276,956	\$ 31,129	\$ 92,025	\$ 400,110
Employee benefits	36,880	12,259	4,272	53,411	41,059	4,615	13,642	59,316
Payroll taxes	30,154	10,022	3,493	43,669	22,935	2,577	7,620	33,132
Total	453,621	150,733	51,216	655,570	340,950	38,321	113,287	492,558
Other expenses:								
Computer	10,509	-	4,668	15,177	13,362	-	5,935	19,297
Food	19,582	-	-	19,582	16,200	-	-	16,200
Insurance	9,625	1,070	-	10,695	14,065	1,563	-	15,628
Bank charges and other miscellaneous expenses	35,814	16,564	21,723	74,101	12,030	5,564	3,728	21,322
Occupancy	92,811	4,268	12,613	109,692	37,755	1,736	5,131	44,622
Office supplies and materials	25,521	2,869	8,480	36,870	17,179	1,931	5,708	24,818
Printing and postage	60,376	-	2,288	62,664	41,438	-	1,570	43,008
Program materials	230,309	-	-	230,309	115,565	-	-	115,565
Professional fees	10,335	25,511	741	36,587	21,691	53,544	1,555	76,790
Telephone	30,001	3,373	9,969	43,343	8,255	928	2,743	11,926
Travel	24,929	2,801	8,284	36,014	10,930	1,228	3,632	15,790
Depreciation and amortization	17,422	1,959	5,789	25,170	8,041	904	2,672	11,617
Moving expenses	-	6,210	-	6,210	-	-	-	-
Write-down of leasehold improvements	-	21,718	-	21,718	-	-	-	-
Total other expenses	567,234	86,343	74,555	728,132	316,511	67,398	32,674	416,583
Total expenses	\$ 1,020,855	\$ 237,076	\$ 125,771	\$ 1,383,702	\$ 657,461	\$ 105,719	\$ 145,961	\$ 909,141

See Notes to Financial Statements.

Project Sunshine, Inc.

Statements of Cash Flows
Years Ended December 31, 2007 and 2006

	2007	2006
Cash Flows From Operating Activities:		
Change in net assets	\$ 150,098	\$ 901,020
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	25,170	11,617
Write-down of leasehold improvements	21,718	-
Contributed office furniture	(69,725)	(8,802)
Net realized/unrealized gain on investments	(41,794)	(17,716)
Changes in operating assets and liabilities:		
(Increase) decrease in contributions receivable	(10,465)	73,000
Increase in prepaid expenses and other assets	(38,327)	(11,305)
Increase (decrease) in accounts payable and accrued expenses	30,585	(68,201)
Increase in deferred rent	19,448	654
	<u>86,708</u>	<u>880,267</u>
Net cash provided by operating activities	86,708	880,267
Cash Flows From Investing Activities:		
Net purchase of investments	(661,622)	(424,115)
Purchase of property and equipment	(26,675)	(6,409)
	<u>(688,297)</u>	<u>(430,524)</u>
Cash used in investing activities	(688,297)	(430,524)
Net (decrease) increase in cash and cash equivalents	(601,589)	449,743
Cash and Cash Equivalents:		
Beginning	<u>990,645</u>	<u>540,902</u>
Ending	<u>\$ 389,056</u>	<u>\$ 990,645</u>
Supplemental Disclosure of Cash Flow Information:		
Leasehold incentives provided by landlord and included in leasehold improvements and deferred rent obligation	<u>\$ 44,160</u>	<u>\$ -</u>

See Notes to Financial Statements.

Project Sunshine, Inc.

Notes to Financial Statements

Note 1. 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 a nondenominational organization that provides numerous free programs and services to children and families who are affected by medical challenges. As of December 31, 2007, Project Sunshine has chapters in 66 cities throughout the United States which coordinate the services of over 10,000 volunteers who visit hospitals to provide Project Sunshine's programs on a regular basis. Project Sunshine also has programs in Canada, Kenya, Israel and China. Project Sunshine is supported primarily through grants and contributions.

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

The accompanying financial statements include the activities of the chapters and 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 Financial Accounting Standards Board in its Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-For-Profit Organizations*. Under SFAS No. 117, 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, 2007 and 2006 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 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.

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.

Project Sunshine, Inc.

Notes to Financial Statements

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

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. 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 and investments in money funds/sweep options. Project Sunshine maintains cash in deposit accounts which, at times, exceed federally insured limits. Project Sunshine has not experienced any losses in such accounts.

Investments are stated at fair value based on quoted market prices.

In September 2006, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. SFAS No. 157 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 SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. This statement is effective for fiscal years beginning after November 15, 2007. Project Sunshine is currently assessing the potential effect of SFAS No. 157 on its financial position, results of operations and cash flows. The adoption of SFAS No. 157 is not expected to have a material impact on Project Sunshine's financial position, results of operations or cash flows.

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 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. The cumulative effect of applying the provisions of FIN 48, if any, will be reported as an adjustment to the opening balance of net assets for the fiscal year of adoption. Additional disclosures about the amounts of such liabilities will also be required. In February 2008, the FASB delayed the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2007. In October 2008, the FASB announced that it will be proposing to delay the effective date for an additional year for certain nonpublic enterprises. If this proposal is adopted, as expected, Project Sunshine will be required to adopt FIN 48 in its 2009 annual financial statements.

Project Sunshine, Inc.

Notes to Financial Statements

Note 2. Property and Equipment, Net

Property and equipment, net, at December 31, 2007 and 2006 consists of the following:

	<u>2007</u>	<u>2006</u>
Web site	\$ 22,610	\$ 16,834
Leasehold improvements	65,060	36,399
Office furniture and equipment	94,209	24,484
	<u>181,879</u>	<u>77,717</u>
Less accumulated depreciation and amortization	<u>(45,083)</u>	<u>(34,593)</u>
Property and equipment, net	<u>\$ 136,796</u>	<u>\$ 43,124</u>

Note 3. In-Kind Contributions

Project Sunshine receives contributed materials and services in support of the various aspects of its programs and operations. During the years ended December 31, 2007 and 2006, Project Sunshine received the following contributions of materials and services that have been reflected in the accompanying financial statements:

	<u>2007</u>	<u>2006</u>
Office furniture	\$ 69,725	\$ 8,802
Professional services	131,072	41,254
	<u>\$ 200,797</u>	<u>\$ 50,056</u>

Project Sunshine also received in-kind contributions and donated services for special events, which were valued at \$59,725 for 2007 and \$74,051 for 2006.

Note 4. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following periods or purposes at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Future periods	\$ 37,500	\$ 112,500
China Project	100,000	100,000
Other purpose restrictions	30,000	21,117
	<u>\$ 167,500</u>	<u>\$ 233,617</u>

Project Sunshine, Inc.

Notes to Financial Statements

Note 5. Investments

Investments consist of commercial paper and money market instruments valued at \$1,195,124 on December 31, 2007 and \$491,708 on December 31, 2006.

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have a significant adverse impact on investment portfolios. As a result, Project Sunshine's investments have likely incurred a significant decline in fair value since December 31, 2007.

Note 6. Commitment

In 2007, Project Sunshine entered into a new seven-year operating lease agreement 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 minimum commitment under this agreement.

Year ending December 31,

2008	\$	98,000
2009		98,000
2010		98,000
2011		98,000
2012		100,800
Thereafter		155,400
		<hr/>
	\$	648,200
		<hr/> <hr/>

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

In July 2007, Project Sunshine vacated its prior office space before the end of the lease term. At December 31, 2007, Project Sunshine recognized a liability of \$16,778 on this lease, and wrote off the associated leasehold improvements. Project Sunshine obtained a cancellation agreement with the landlord in March 2008.

Rent expense for the years ended December 31, 2007 and 2006 amounted to \$101,987 and \$36,525, respectively.