

**THE SONGS OF LOVE FOUNDATION**

**FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2007 AND 2006**

**THE SONGS OF LOVE FOUNDATION**

**FINANCIAL STATEMENTS**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
The Songs of Love Foundation  
Forest Hills, New York 11375

We have audited the accompanying statements of financial position of The Songs of Love Foundation, a non-profit organization, as of December 31, 2007 and 2006, and the related statements of activities, cash flows and functional expenses 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 audit.

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 The Songs of Love Foundation as of December 31, 2007 and 2006, and the changes in net assets and its cash flows and its functional expenses for the year then ended, in conformity with auditing principles generally accepted in The United States of America.

*Vargas, Ghigliotty & Rivera, LLP*

Vargas, Ghigliotty & Rivera, LLP  
Certified Public Accountants  
August 12, 2008



**SONGS OF LOVE FOUNDATION  
STATEMENTS OF FINANCIAL POSITION  
AS OF DECEMBER 31, 2007 AND 2006**

<b>ASSETS</b>	<u>2007</u>	<u>2006</u>
Current Assets		
Cash and Cash Equivalents (Note 3)	\$ 219,571	\$ 94,158
Certificate of Deposit (Note 3)	-	113,703
Pledges Receivable (Note 4)	349,367	194,666
Prepaid Expenses	<u>10,028</u>	<u>3,147</u>
Total Current Assets	<u>578,966</u>	<u>405,674</u>
Fixed Assets - Net (Note 6)	<u>3,044</u>	<u>3,991</u>
Other Assets		
Security Deposits	2,842	2,807
Net Surrender Value - Life Insurance (Note 5)	<u>36,520</u>	<u>14,935</u>
Total Other Assets	<u>39,362</u>	<u>17,742</u>
<b>Total Assets</b>	<b><u>\$ 621,372</u></b>	<b><u>\$ 427,407</u></b>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts Payable and Accrued Expenses	<u>\$ 92,290</u>	<u>\$ 20,129</u>
Total Current Liabilities / Total Liabilities	<u>92,290</u>	<u>20,129</u>
Unrestricted Net Assets	<u>529,082</u>	<u>407,278</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 621,372</u></b>	<b><u>\$ 427,407</u></b>

The accompanying notes form an integral part of these financial statements.

**SONGS OF LOVE FOUNDATION  
STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<b>2007</b>	<b>2006</b>
Changes in Unrestricted Net Assets:		
<b>Revenues and Support:</b>		
Contributions - Auto Donations (Note 7)	\$ 1,576,193	\$ 1,464,923
Contributions - Other	96,589	62,063
In-Kind Travel donation (Note 8)	-	4,800
Grants		
Government	6,200	10,000
Foundation and Corporation	167,114	89,295
Interest Income	7,584	6,091
Special Events (net of expenses)	28,475	43,745
Royalties	1,535	5,156
Other Income	-	1,099
	<b>1,883,690</b>	<b>1,687,172</b>
Total Revenues and Other Support		
	<b>1,883,690</b>	<b>1,687,172</b>
<b>Expenses:</b>		
Program Services	581,514	563,457
Management & General	68,465	72,378
Fundraising	1,111,907	1,047,503
	<b>1,761,886</b>	<b>1,683,338</b>
Total Expenses		
	<b>1,761,886</b>	<b>1,683,338</b>
Increase in Unrestricted Net Assets	121,804	3,834
Net Assets at Beginning of Year	407,278	403,444
<b>Net Assets at End of Year</b>	<b>\$ 529,082</b>	<b>\$ 407,278</b>

The accompanying notes form an integral part of these financial statements.

**SONGS OF LOVE FOUNDATION  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>Cash Flows from Operating Activities:</b>		
Change in Net Assets	\$ 121,804	\$ 3,834
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation Expense	1,825	924
Changes in operating assets and liabilities:		
(Increase)/Decrease in Contributions Receivable	(154,701)	78,299
(Increase)/Decrease in Security Deposits	(35)	-
(Increase)/Decrease in Prepaid Expenses	(6,881)	161
Increase/(Decrease) in Accounts Payable & Accrued Expenses	72,161	(8,978)
Increase/(Decrease) in Salaries Payable and Related Taxes	-	(7,936)
Net Cash Provided By Operating Activities	<u>34,173</u>	<u>66,304</u>
<b>Cash Flows from Investing Activities</b>		
Certificate of Deposit	113,703	(113,703)
Purchase of Equipment	(878)	(3,056)
Life Insurance Policy - Cash Surrender Value	<u>(21,585)</u>	<u>(12,960)</u>
Net Cash Provided by (Used In) Investing Activities	<u>91,240</u>	<u>(129,719)</u>
<b>Cash Flows from Financing Activities</b>		
Repayments of Loan Payable	<u>-</u>	<u>(6,667)</u>
Net Cash Used In Financing Activities	<u>-</u>	<u>(6,667)</u>
Net Increase (Decrease) in Cash	125,413	(70,082)
Cash, at Beginning of Year	<u>94,158</u>	<u>164,240</u>
Cash, at End of Year	<u><b>\$ 219,571</b></u>	<u><b>\$ 94,158</b></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash payments for interest expense	<u>\$ -</u>	<u>\$ 191</u>

The accompanying notes form an integral part of these financial statements.

**SONGS OF LOVE FOUNDATION  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Program Services</u>	<u>Management &amp; General</u>	<u>Fundraising</u>	<u>2007 Total</u>
<i>Personnel services:</i>				
Salaries	\$ 115,999	\$ 30,823	172,228	\$ 319,050
Payroll Taxes	9,052	2,405	14,070	25,527
Employee Fringe Benefits	11,652	3,096	18,788	33,536
Total personnel services	<u>136,703</u>	<u>36,324</u>	<u>205,086</u>	<u>378,113</u>
 <i>Other than personnel services:</i>				
Consultants	2,940	-	13,737	16,677
Auto Donation Prm. Op. Exp.	-	-	185,624	185,624
Accounting and Audit Fees	16,578	4,405	2,700	23,683
Bank Charges	1,130	1,129	-	2,259
Occupancy Cost	15,330	4,073	23,791	43,194
Maintenance & Repairs	537	143	1,059	1,739
Dues & Subscriptions	2,076	551	373	3,000
Office	15,532	4,127	15,869	35,528
Postage	6,385	1,697	4,405	12,487
Song Compositions & Production	305,380	-	-	305,380
Advertising & Promotional	11,115	2,953	632,396	646,464
Outreach	26,270	-	-	26,270
Equipment Rental	4,180	1,111	681	5,972
Equipment Purchases	725	-	-	725
Freight & Delivery	3,914	3,913	6,567	14,394
Telephone	6,832	1,815	9,905	18,552
Travel and Transportation	13,934	3,703	8,308	25,945
Insurance	5,293	1,407	862	7,562
Life Insurance	2,416	642	394	3,452
Depreciation	1,642	183	-	1,825
Miscellaneous	2,602	289	150	3,041
Total Expenditures	<u>\$ 581,514</u>	<u>\$ 68,465</u>	<u>\$ 1,111,907</u>	<u>\$ 1,761,886</u>

The accompanying notes form an integral part of these financial statements.

**SONGS OF LOVE FOUNDATION  
SCHEDULE OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Program Services</u>	<u>Management &amp; General</u>	<u>Fundraising</u>	<u>2006 Total</u>
<i>Personnel services:</i>				
Salaries	\$ 117,916	\$ 31,332	171,745	\$ 320,993
Payroll Taxes	16,193	4,303	14,306	34,802
Employee Fringe Benefits	6,917	1,838	11,363	20,118
Total personnel services	<u>141,026</u>	<u>37,473</u>	<u>197,414</u>	<u>375,913</u>
 <i>Other than personnel services:</i>				
Consultants	10,388	-	508	10,896
Auto Donation Prm. Op. Exp.	-	-	236,398	236,398
Accounting and Audit Fees	14,639	3,890	2,384	20,913
Legal Fees	495	132	3,193	3,820
Interest	-	14	177	191
Occupancy Cost	14,797	3,932	23,159	41,888
Maintenance & Repairs	2,630	699	2,723	6,052
Dues & Subscriptions	25	7	1,529	1,561
Office	13,517	3,592	12,514	29,623
Postage	5,226	1,388	4,213	10,827
Song Compositions	265,263	-	-	265,263
Advertising & Promotional	22,474	5,972	533,969	562,415
Outreach	15,021	-	108	15,129
Equipment Rental	3,530	938	575	5,043
Equipment Purchases	3,406	-	282	3,688
Freight & Delivery	2,752	2,752	5,376	10,880
Telephone	2,884	766	12,309	15,959
Travel and Transportation	23,782	6,319	6,584	36,685
Insurance	4,974	1,322	810	7,106
Life Insurance	8,639	2,295	1,407	12,341
Depreciation	832	92	-	924
Miscellaneous	7,157	795	1,871	9,823
Total Expenditures	<u>\$ 563,457</u>	<u>\$ 72,378</u>	<u>\$ 1,047,503</u>	<u>\$ 1,683,338</u>

The accompanying notes form an integral part of these financial statements.

**THE SONGS OF LOVE FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

**NOTE 1 – NATURE OF THE ORGANIZATION**

*Organizational History*

The Songs of Love Foundation was incorporated as a not-for-profit organization in 1996. Its mission is to bring joy and comfort, laughter and healing to children and young adults who are chronically or terminally ill. It does so through personalized songs that ‘honor the child’. Its motto is: “The Medicine of Music”. It has written and recorded more than 16,500 such songs and delivered them to those for whom the songs were written. Funding to support these efforts is provided by individuals, foundations, corporations and the revenue generated by a auto donation program.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Accounting*

The Organization maintains its accounting records on the accrual basis pursuant to Statement of Financial Accounting (SFAS) No. 116, “Accounting for Contributions Received and Contributions Made”, and SFAS 117, “Financial Statements of Not For Profit Organizations”. Contributions are considered unrestricted unless specifically restricted by the donor.

*Functional Expenses*

Expenses are charged to each program based on direct expenditures incurred.

*Fixed Assets*

The Organization follows the practice of capitalizing all expenditures for equipment and furniture and fixtures in excess of \$800. Depreciation is provided on a straight-line basis over the estimated useful lives of the depreciable assets.

*Cash Flows*

For the purpose of reporting cash flows, cash consists of time and demand deposit accounts.

*Tax Status*

The Songs of Love Foundation is incorporated under the Not-For-Profit laws of New York State and is exempt from federal income taxes under Section 501 (c) (3) of the Internal Revenue Code. No provision for income taxes has been made.

*Estimates*

The preparation of the financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Advertising Costs*

Advertising costs for the auto donation program are expensed as incurred. Advertising costs for the car program only were \$630,586 and \$530,309 as of December 31, 2007 and 2006, respectively.

**NOTE 3 – CASH AND CASH EQUIVALENTS**

	<u>2007</u>	<u>2006</u>
Operating Accounts	\$ 99,685	\$ 94,158
Short-Term Certificates of Deposit	<u>119,886</u>	<u>-</u>
Total	<u>\$ 219,571</u>	<u>\$ 94,158</u>

**THE SONGS OF LOVE FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

**NOTE 3 – CASH AND CASH EQUIVALENTS (continued)**

As of December 31, 2007, the Organization maintained \$113,703 in a Certificate of Deposit that was due more than three months after the fiscal year end. The Certificate was renewed for a shorter term and is due within three months after fiscal year end.

**NOTE 4 – PLEDGES RECEIVABLE**

Pledges receivable represent actual cash receipts for cars or boats for which pledges by donors were made prior to December 31, 2007 and for which cash has been received as of audit date. The amount reported is net of the expenses deducted from the sale price by the car or boat handler. Average turnover of auto or boat donations from date of donor call to cash receipt is approximately 4 to 5 weeks. Unsold donations at audit date have not been recorded because actual value can not be determined.

**NOTE 5 – CASH SURRENDER VALUE OF LIFE INSURANCE**

The Organization has purchased insurance policies on the life of the Organization's President for benefits payable totaling \$1,000,000. As beneficiary, the Organization receives the cash surrender value if the policies are terminated and, upon death of the insured, receives all benefits payable. A summary of 'Cash Surrender value - Life Insurance' as reported in the accompanying Balance Sheets at December 31, 2007 and 2006 is as follows:

<u>Cash Surrender Value of Life Insurance</u>	<u>Variable Life</u>	<u>Universal Life</u>	<u>Total</u>
FYE December 31, 2007	<u>\$ 17,706</u>	<u>\$ 18,814</u>	<u>\$ 36,520</u>
FYE December 31, 2006	<u>\$ 4,912</u>	<u>\$ 10,023</u>	<u>\$ 14,935</u>

**NOTE 6 - FIXED ASSETS**

The Organization's fixed assets consist of the following:

	<u>2007</u>	<u>2006</u>
Recording Equipment	\$ 13,455	\$ 12,577
Computer and Equipment	<u>12,111</u>	<u>12,111</u>
	25,566	24,688
Less Accumulated Depreciation	<u>(22,522)</u>	<u>(20,697)</u>
Total	<u>\$ 3,044</u>	<u>\$ 3,991</u>

**THE SONGS OF LOVE FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

**NOTE 7 – FUNDRAISING**

***AUTO DONATION***

The Songs of Love Foundation utilizes an Auto Donation Program as a means of generating contributions from the general public to supply the majority of its funding. The Organization sells the donated cars and uses the proceeds to fund its mission. The Organization obtains full control and discretion over the donated vehicle. Upon disposal and/or sale of each vehicle, the Organization provides the donor with a written acknowledgment of the donation pursuant to IRS regulations. The program is run under the direct control of Songs of Love.

For the year ended December 31, 2007 and 2006, the Organization incurred expenses of \$1,060,523 and \$1,005,382 respectively for the Auto Donation Program. The program is self sustaining and all expenses incurred are paid solely from the sale of donated vehicles. The expenses include personnel, advertising, towing, space rental, and other related expenses.

The Songs of Love Foundation considers the expenses incurred to be worthwhile because the increased revenue resulting from this fundraising effort supports the greater mission of the Organization of bringing joy and comfort, laughter and healing to children and young adults who are chronically or terminally ill.

Fundraising income and expenses are as follows:

*FYE 12/31/07*

	<u>Auto Donation</u>	<u>All Other</u>
Income	\$ 1,576,193	\$ 307,497
Allocated Fundraising Expenses	(1,060,523)	(51,384)
Other Expenses	-	(649,979)
Net Income	<u>\$ 515,670</u>	<u>\$ (393,866)</u>

Fundraising Expenses as a Percentage of Total Organization Expenses	60.2%	2.9%
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*FYE 12/31/06*

Income	\$ 1,464,923	\$ 217,449
Allocated Fundraising Expenses	(1,005,382)	(42,121)
Other Expenses	-	(635,835)
Net Income	<u>\$ 459,541</u>	<u>\$ (460,507)</u>

Fundraising Expenses as a Percentage of Total Organization Expenses	59.7%	2.5%
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**NOTE 8—IN-KIND CONTRIBUTION**

In the FYE December 31, 2006, Jet Blue Airways flew 24 participants to Buffalo, NY to a Black-Eyed Peas concert to celebrate the 10,000 songs created through Songs of Love. Round-trip airfare value is estimated at \$200 per participant for a total of \$4,800.

**THE SONGS OF LOVE FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

**NOTE 9 – COMMITMENTS AND CONTINGENCIES**

*Operating Leases:*

Songs of Love is obligated under an auto lease for a business vehicle. The lease term is for a 36-month period starting May 2007 through April 2009. The following schedule shows future minimum lease payments for this lease:

<u>Year Ended</u>	
December 31, 2008	\$ 4,308
December 31, 2009	<u>1,436</u>
Total Minimum Future Payments	<u><u>\$ 5,744</u></u>

Songs of Love is obligated under a business lease for computer and photocopying equipment. The lease terms are for 36-month periods. The following schedule shows future minimum lease payments for these leases.

<u>Period Ended</u>	
December 31, 2008	\$ 1,650
December 31, 2009	428
December 31, 2010	<u>428</u>
Total Minimum Future Payments	<u><u>\$ 2,078</u></u>

*Occupancy Leases*

In May of 2007, The Songs of Love Foundation renewed its 3-year lease for office space for the Auto Donation Program on Queens Blvd, in Forest Hills, NY. The following schedule shows future minimum lease payments for this lease:

<u>Period Ended</u>	
December 31, 2008	\$ 19,892
December 31, 2009	20,489
December 31, 2010	<u>6,897</u>
Total Minimum Future Payments	<u><u>\$ 47,278</u></u>

In June, 2007, The Songs of Love Foundation renewed a 1 year lease for program office space in Queens, New York. The following schedule show future minimum lease payments for this lease.

<u>Period Ended</u>	
December 31, 2008	\$ 7,860
Total Minimum Future Payments	<u><u>\$ 7,860</u></u>

**NOTE 10 – RELATED PARTY TRANSACTIONS**

*Space Rental*

The Organization utilizes space belonging to the President for a recording studio on a month-to-month basis. The Organization reimbursed the President \$418 per month for 11 months and \$400 for 1 month in 2007. The reimbursement amount was \$400 per month for 12 months in 2006.

*Insurance Policy*

A director of the Organization has an ownership interest in an insurance agency that has brokered life insurance policies for the Organization with annual premiums totaling \$25,301.