

KEREN OR, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2009

KEREN OR, INC.
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FOR THE YEAR ENDED DECEMBER 31, 2009

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Keren Or, Inc.

We have audited the accompanying statement of financial position of Keren Or, Inc. as of December 31, 2009, and the related statements of activities, functional expenses and cash flows for the year 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 did not audit the financial statements of The Jerusalem Center for Multi-Handicapped Blind Children, which statements reflect total assets of \$6,239,179 as of December 31, 2009, and total revenues of \$5,043,548 for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for The Jerusalem Center for Multi-Handicapped Blind Children, is based solely on the report of the other auditors.

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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the Keren Or, Inc. financial statements referred to above present fairly, in all material respects, the financial position of Keren Or, Inc. as of December 31, 2009 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.

Wasser, Brettler, Klar & Lipstein, LLP

WASSER, BRETTLER, KLAR & LIPSTEIN, LLP
Certified Public Accountants

October 20, 2010

KEREN OR, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2009

ASSETS

Cash and cash equivalents (Notes 2 and 6)	\$ 594,747
Accounts receivable - Israel	261,583
Other receivables (Note 9)	301,423
Prepaid expenses	15,520
Promises to give	88,650
Marketable securities (cost of \$35,841) (Note 3)	38,349
Security deposit	8,535
Construction in progress (Note 4)	4,336,863
Fixed assets (net of accumulated depreciation of \$3,048,822) (Notes 2 and 4)	<u>3,446,091</u>
Total Assets	<u>\$9,091,761</u>

LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable and accrued expenses	\$1,408,199
Reserve for severance pay	316,548
Loan payable	925,000
Note payable	<u>239,418</u>
Total Liabilities	2,889,165
Commitments and contingencies (Note 5)	
Net Assets (Note 2)	
	\$5,982,535
Unrestricted	-0-
Temporarily restricted (Note 7)	<u>220,061</u>
Permanently restricted (Note 8)	
Total Net Assets	<u>6,202,596</u>
Total Liabilities and Net Assets	<u>\$9,091,761</u>

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

KEREN OR INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Total</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Revenues, Gains, Losses and Other Support				
Contributions	\$1,162,688	\$1,162,688	\$ -0-	\$ -0-
Legacies and bequests	1,637,727	1,637,727	-0-	-0-
Israeli Government grants	3,564,790	3,564,790	-0-	-0-
Special events (net of \$107,118 cost of functions)	101,462	101,462	-0-	-0-
Tuition	4,500	4,500	-0-	-0-
Investment income (losses)	1,811	(4,596)	6,251	156
Other income	62,070	62,070	-0-	-0-
Total Revenues, Gains, Losses and Other Support	<u>6,535,048</u>	<u>6,528,641</u>	<u>6,251</u>	<u>156</u>
Expenses				
Program related expenses	5,226,066	5,226,066	-0-	-0-
Administrative expenses - Israeli Centre	641,847	641,847	-0-	-0-
Administrative expenses	206,682	206,682	-0-	-0-
Fundraising expenses	252,587	252,587	-0-	-0-
Total Expenses	<u>6,327,182</u>	<u>6,327,182</u>	<u>-0-</u>	<u>-0-</u>
Increase (Decrease) in Net Assets	207,866	201,459	6,251	156
Assets Released from Restriction	-0-	241,914	(241,758)	(156)
Net Assets - January 1, 2009	5,994,730	5,539,162	235,507	220,061
Net Assets - December 31, 2009	<u>\$6,202,596</u>	<u>\$5,982,535</u>	<u>\$ -0-</u>	<u>\$220,061</u>

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

KEREN OR INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2009

	<u>Program Related</u>	<u>Israel Centre Administration</u>	<u>Total Program Services</u>	<u>New York Office Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and related expenses	\$3,752,743	\$337,829	\$4,090,572	\$ 88,533	\$ 88,533	\$4,267,638
Student food and clothing	286,399	-0-	286,399	-0-	-0-	286,399
Occupancy	217,798	-0-	217,798	26,785	26,785	271,368
Depreciation	197,307	21,304	218,611	3,384	-0-	221,995
Professional fees	38,696	123,264	161,960	3,625	3,700	169,285
Cleaning	165,692	-0-	165,692	-0-	-0-	165,692
Medical care	113,920	-0-	113,920	-0-	-0-	113,920
Interest expense	71,415	23,805	95,220	13,810	-0-	109,030
Cultural Entertainment	103,594	-0-	103,594	-0-	-0-	103,594
Travel and transportation	100,906	1,064	101,970	-0-	463	102,433
Advertising and public relation	-0-	79,939	79,939	-0-	4,995	84,934
Security	78,898	-0-	78,898	-0-	-0-	78,898
Printing and publications	-0-	-0-	-0-	-0-	59,895	59,895
Employee benefits	5,800	-0-	5,800	20,989	20,989	47,778
Volunteers	40,008	-0-	40,008	-0-	-0-	40,008
Taxes	33,552	-0-	33,552	-0-	-0-	33,552
Telephone and communication	-0-	26,784	26,784	2,844	2,844	32,472
Insurance	16,124	-0-	16,124	15,936	-0-	32,060
Postage and shipping	-0-	-0-	-0-	6,521	21,233	27,754
Automobile expense	-0-	17,248	17,248	-0-	-0-	17,248
Supplies		10,216	10,216	1,912	1,911	14,039
Payroll taxes	-0-	-0-	-0-	6,777	6,778	13,555
Bank charges	-0-	-0-	-0-	10,288	-0-	10,288
Computer services	-0-	-0-	-0-	-0-	6,570	6,570
Office expenses and supplies	-0-	-0-	-0-	3,231	3,043	6,274
Professional development	3,214	-0-	3,214	-0-	-0-	3,214
List rentals	-0-	-0-	-0-	-0-	3,056	3,056
Dues and publications	-0-	-0-	-0-	2,047	-0-	2,047
Temporary help	-0-	-0-	-0-	-0-	1,792	1,792
Other expenses	-0-	394	394	-0-	-0-	394
Total Expenses	<u>\$5,226,066</u>	<u>\$641,847</u>	<u>\$5,867,913</u>	<u>\$206,682</u>	<u>\$252,587</u>	<u>\$6,327,182</u>

The accompanying notes are an integral part of the financial statements

KEREN OR, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009

Cash Flows From Operating Activities		
Increase in Net Assets		\$ 207,866
Adjustments to Reconcile Increase in Net Assets to Net Cash Provided from Operating Activities		
Depreciation and amortization	\$ 221,995	
Unrealized gains (net) on investments in marketable securities	(5,994)	
Decrease in accounts receivable-Israel	276,047	
Decrease in other receivables	1,363	
Decrease in prepaid expenses	1,685	
Decrease in promises to give	207,500	
Increase in accounts payable and accrued expenses	578,199	
Increase in reserve for severance pay	<u>10,971</u>	
Total Adjustments		<u>1,291,766</u>
Net Cash Provided from Operating Activities		1,499,632
Cash Flows From Investing Activities		
Acquisition of fixed assets	(2,078,052)	
Purchase of investments (net)	<u>(1,508)</u>	
Net Cash Used in Investing Activities		(2,079,560)
Cash Flows From Financing Activities		
Loan proceeds	925,000	
Repayment of bank loan	<u>(257,091)</u>	
Net Cash Provided from Financing Activities		<u>667,909</u>
Net Increase in Cash and Cash Equivalents		87,981
Cash and Cash Equivalents - January 1, 2009		<u>506,766</u>
Cash and Cash Equivalents - December 31, 2009		<u><u>\$ 594,747</u></u>

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

KEREN OR, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 1 - ORGANIZATION

Keren Or, Inc. is a not-for-profit organization and is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. It operates a center for multi handicapped children in Israel.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

Keren Or, Inc. reports income and expenses under the accrual method of accounting.

B. Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in the Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-For-Profit Organizations. Under SFAS No. 117, the Organization 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.

C. Fixed Assets

The building is being depreciated over its estimated useful life of fifty years. Other assets have been depreciated over their estimated useful lives of seven to ten years.

Leasehold improvements have been amortized over the term of the lease and are fully amortized.

D. Cash and Cash Equivalents

Short-term investments purchased with a maturity of three months or less are considered to be cash equivalents.

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period pledged, and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized as restricted revenue when the promise is made, and transferred to unrestricted assets when the conditions on which they depend are substantially met.

KEREN OR, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Concentration of Credit Risk

The Institution's cash balances are maintained in various financial institutions. Balances in non interest bearing accounts are fully insured by the Federal Deposit Insurance Corporation ("FDIC") under the Transaction Account Guarantee Program. This program extends through December 31, 2010. Amounts held in interest bearing accounts are insured by the FDIC up to \$250,000 per financial institution through December 31, 2013. As of December 31, 2009 no account balance exceeded this amount.

H. Subsequent Events

Management has evaluated subsequent events through October 20, 2010, the date the financial statements were available to be issued

NOTE 3 - MARKETABLE SECURITIES

The Organization carries investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the accompanying statement of activities.

NOTE 4 - FIXED ASSETS

Fixed assets consist of the following:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Israel			
Building and improvements - Ramot	\$5,429,823	\$2,330,922	\$3,098,901
Furniture and equipment	850,860	517,817	333,043
Vehicles	<u>51,834</u>	<u>51,834</u>	<u>-0-</u>
Total Israel	<u>6,332,517</u>	<u>2,900,573</u>	<u>3,431,944</u>
New York			
Furniture and fixtures	47,107	41,274	5,833
Computer hardware and software	<u>111,289</u>	<u>102,975</u>	<u>8,314</u>
Total New York	<u>158,396</u>	<u>144,249</u>	<u>14,147</u>
Total Fixed Assets	<u>\$6,490,913</u>	<u>\$3,044,822</u>	<u>\$3,446,091</u>

The Organizations is in the process of constructing a major addition to its facility in Ramot, Israel, Expenditures through December 31, 2009 totalled \$4,336,863.

KEREN OR, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 5 - COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Organization rents its office space in New York City. The lease expires January 31, 2012.

A summary of the minimum annual rental commitments are as follows:

December 31, 2010	\$ 49,598
December 31, 2011	51,086
December 31, 2012	<u>4,268</u>
Total	<u>\$104,952</u>

The Organization's total rent expense for the year ended December 31, 2009 was \$51,028.

NOTE 6 - CASH CONCENTRATION

The Organization's cash balances are maintained in various financial institutions. The balances in each institution are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$100,000. As of December 31, 2009 balances exceeded these amounts.

NOTE 7 - TEMPORARILY RESTRICTED ASSETS

This amount represents the accumulated value of assets donated to the Organization that have been restricted by the donors. A \$25,000 contribution was received with the stipulation that it be invested and \$1,000 a year released until the amount is depleted. The remaining balance cannot be used for twenty years from the date of the contribution at which time both principal and accumulated earnings will be available for unrestricted use.

Also included are amounts raised to be used for the expansion of the facility. As expenditures for the project have been incurred, these amounts have been released from restrictions.

NOTE 8 - PERMANENTLY RESTRICTED ASSETS

This amount represents assets which have been contributed with the stipulation that the principal remain intact and earnings be available for unrestricted use by the Organization.

KEREN OR, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE 9 - OTHER RECEIVABLES

As noted in the Israel Centre financial statement, this amount includes a net receivable of \$293,364 to represent the amount the Organization hopes to collect from its previous manager as return of funds the Organization claims he embezzled in prior years. A claim has been filed in Jerusalem District Court. This amount is net of a reserve of \$396,765, which represents an estimate of amounts not expected to be recovered. A lawsuit has been filed in Israel to recover losses incurred by the Organization due to negligence by the Israeli auditors at the time the embezzlement occurred.

NOTE 10 - NOTES TO FINANCIAL STATEMENT

Notes pertaining to the Israel Centre operations are contained in a separate audited financial statement prepared in Israel.