

**HUNTER'S HOPE
FOUNDATION, INC.**

Financial Statements
for the Years Ended
December 31, 2012 and 2011
with
Independent Auditors' Report

HUNTER'S HOPE FOUNDATION, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Hunter's Hope Foundation, Inc.
Orchard Park, New York

We have audited the accompanying financial statements of Hunter's Hope Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and changes in net assets, of functional expenses and of cash flows for the years 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 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 audits to obtain reasonable assurance about whether the financial statements are free of 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 entity'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 entity'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 Hunter's Hope Foundation, Inc. as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Chiangpou Travis Besaw & Kershner LLP

April 23, 2013

HUNTER'S HOPE FOUNDATION, INC.

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
Cash and cash equivalents	\$ 201,701	\$ 509,501
Grants receivable	-	1,357
Unconditional promises to give, net	111,004	-
Investments	682,650	335,092
Prepaid expenses	2,851	6,330
Fixed assets, net	<u>12,185</u>	<u>20,139</u>
TOTAL ASSETS	<u>\$ 1,010,391</u>	<u>\$ 872,419</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 86,626	\$ 14,121
Grants payable	<u>170,390</u>	<u>211,129</u>
Total liabilities	<u>257,016</u>	<u>225,250</u>
NET ASSETS:		
Unrestricted	555,471	637,169
Temporarily restricted	<u>197,904</u>	<u>10,000</u>
Total net assets	<u>753,375</u>	<u>647,169</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,010,391</u>	<u>\$ 872,419</u>

See notes to financial statements.

HUNTER'S HOPE FOUNDATION, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012		2011		
	Unrestricted	Temporarily Restricted	Total	Temporarily Restricted	Total
REVENUES AND OTHER SUPPORT:					
Contributions and donations	\$ 738,431	\$ 193,404	\$ 931,835	\$ -	\$ 687,979
Fundraising revenue, net of expenses that benefited the donor of \$1,750 and \$5,000	11,766	-	11,766	-	93,948
Grant revenue	-	-	-	10,000	15,499
Investment income (loss)	25,613	-	25,613	(938)	(938)
	<u>775,810</u>	<u>193,404</u>	<u>969,214</u>	<u>10,000</u>	<u>796,488</u>
NET ASSETS RELEASED FROM RESTRICTIONS:					
Satisfaction of donor restrictions	5,500	(5,500)	-	(36,408)	-
Total support and revenue	<u>781,310</u>	<u>187,904</u>	<u>969,214</u>	<u>(26,408)</u>	<u>796,488</u>
EXPENSES:					
Program services:					
Education and awareness	227,594	-	227,594	-	232,015
Family assistance	262,634	-	262,634	-	308,182
Research	190,026	-	190,026	-	229,701
Total program services	<u>680,254</u>	<u>-</u>	<u>680,254</u>	<u>-</u>	<u>769,898</u>
Supporting services:					
Fundraising	81,162	-	81,162	-	91,991
General and administrative	101,592	-	101,592	-	119,372
Total expenses	<u>863,008</u>	<u>-</u>	<u>863,008</u>	<u>-</u>	<u>981,261</u>
CHANGES IN NET ASSETS	(81,698)	187,904	106,206	(26,408)	(184,773)
NET ASSETS, beginning of year	637,169	10,000	647,169	36,408	831,942
NET ASSETS, end of year	<u>\$ 555,471</u>	<u>\$ 197,904</u>	<u>\$ 753,375</u>	<u>\$ 637,169</u>	<u>\$ 647,169</u>

See notes to financial statements.

HUNTER'S HOPE FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012 (WITH COMPARATIVE TOTALS FOR 2011)

	Program Services				Supporting Services			2011 Total Foundation
	Education and Awareness	Family Assistance	Research	Total Program Services	Fundraising	General and Administrative	2012 Total Foundation	
Salaries and wages	\$ 148,967	\$ 76,369	\$ 12,875	\$ 238,211	\$ 45,119	\$ 40,391	\$ 323,721	\$ 375,126
Research	8,608	11,904	164,327	184,839	5,593	-	190,432	192,820
Specific assistance and special events	-	56,058	-	56,058	-	-	56,058	61,537
Conferences and medical symposium	2,841	49,493	1,000	53,334	-	-	53,334	96,551
Outside services	15,719	27,772	5,654	49,145	3,868	148	53,161	48,476
Payroll taxes and fringe benefits	14,654	8,099	1,032	23,765	5,389	3,441	32,595	41,108
Rent	6,213	8,576	3,797	18,586	4,155	3,945	26,686	27,722
Supplies	18,411	900	74	19,385	3,919	1,582	24,886	52,045
Professional fees	-	-	-	-	-	22,890	22,890	22,017
Travel and training	568	17,639	25	18,232	322	-	18,554	5,926
Insurance	-	33	-	33	-	12,936	12,969	10,767
Telephone and telecommunications	4,449	1,594	636	6,679	1,849	1,524	10,052	8,133
Postage, shipping and delivery	2,220	1,566	74	3,860	4,066	279	8,205	16,273
Printing and copying	1,639	-	-	1,639	4,080	-	5,719	2,498
Equipment rental and maintenance	447	447	442	1,336	442	437	2,215	2,880
Miscellaneous expenses	2,878	2,184	90	5,152	2,360	6,065	13,577	4,041
Total expenses before non-cash items	227,594	262,634	190,026	680,254	81,162	93,638	855,054	967,920
Loss on disposal of fixed assets	-	-	-	-	-	-	-	1,972
Depreciation	-	-	-	-	-	7,954	7,954	11,369
	-	-	-	-	-	7,954	7,954	13,341
Total expenses	\$ 227,594	\$ 262,634	\$ 190,026	\$ 680,254	\$ 81,162	\$ 101,592	\$ 863,008	\$ 981,261

See notes to financial statements.

HUNTER'S HOPE FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Program Services				Supporting Services			Total Foundation
	Education and Awareness	Family Assistance	Research	Total Program Services	Fundraising	General and Administrative		
Salaries and wages	\$ 139,604	\$ 120,660	\$ 20,502	\$ 280,766	\$ 39,738	\$ 54,622	\$	\$ 375,126
Research	8,955	8,955	165,955	183,865	8,955	-	-	192,820
Specific assistance and special events	-	61,537	-	61,537	-	-	-	61,537
Conferences and medical symposium	7,904	55,978	32,659	96,541	10	-	-	96,551
Outside services	11,930	25,550	2,499	39,979	7,600	897	897	48,476
Payroll taxes and fringe benefits	14,165	15,080	1,554	30,799	5,537	4,772	4,772	41,108
Rent	4,423	9,840	4,422	18,685	4,423	4,614	4,614	27,722
Supplies	31,742	1,810	-	33,552	14,538	3,955	3,955	52,045
Professional fees	-	-	500	500	26	21,491	21,491	22,017
Travel and training	805	3,330	59	4,194	1,726	6	6	5,926
Insurance	86	-	-	86	-	10,681	10,681	10,767
Telephone and telecommunications	1,507	1,051	900	3,458	2,266	2,409	2,409	8,133
Postage, shipping and delivery	7,759	3,170	40	10,969	4,918	386	386	16,273
Printing and copying	1,070	-	-	1,070	1,428	-	-	2,498
Equipment rental and maintenance	576	576	576	1,728	576	576	576	2,880
Miscellaneous expenses	1,489	645	35	2,169	250	1,622	1,622	4,041
Total expenses before non-cash items	232,015	308,182	229,701	769,898	91,991	106,031		967,920
Loss on disposal of fixed assets	-	-	-	-	-	1,972	1,972	1,972
Depreciation	-	-	-	-	-	11,369	11,369	11,369
	-	-	-	-	-	13,341	13,341	13,341
Total expenses	\$ 232,015	\$ 308,182	\$ 229,701	\$ 769,898	\$ 91,991	\$ 119,372	\$	\$ 981,261

See notes to financial statements.

HUNTER'S HOPE FOUNDATION, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 106,206	\$ (184,773)
Adjustments to reconcile changes in net assets to net cash flows used in operating activities:		
Depreciation	7,954	11,369
Contributions restricted for long-term use	(193,404)	-
Net realized and unrealized (gain) loss on investments	(12,115)	16,101
Loss on disposal of fixed assets	-	1,972
Changes in operating assets and liabilities:		
Grants receivable	1,357	(1,357)
Prepaid expenses	3,479	3,504
Accounts payable	72,505	(5,611)
Grants payable	(40,739)	(5,921)
Net cash used in operating activities	<u>(54,757)</u>	<u>(164,716)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of fixed assets	-	(4,344)
Proceeds from sale of fixed assets	-	400
Proceeds from sale of investments	367,126	-
Purchases of investments	(702,569)	(18,724)
Net cash used in investing activities	<u>(335,443)</u>	<u>(22,668)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for long-term use	<u>82,400</u>	<u>-</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	(307,800)	(187,384)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>509,501</u>	<u>696,885</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 201,701</u>	<u>\$ 509,501</u>

See notes to financial statements.

HUNTER'S HOPE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – Hunter's Hope Foundation, Inc. (the "Foundation") is a New York State non-profit corporation formed in June 1998. The purpose of the Foundation is to increase public awareness and to support and fund research efforts to find a cure for Krabbe Disease and other Leukodystrophies.

Basis of Accounting – The financial statements of the Foundation have been prepared on the accrual basis of accounting, which requires that all nonprofit organizations provide a statement of financial position, a statement of activities, and a statement of cash flows. Accordingly, revenues are recognized when earned, and expenses are recognized when incurred. Classification of net assets and revenues, expenses, gains, and losses are based on the existence or absence of donor-imposed restrictions. Accounting principles generally accepted in the United States of America require the Foundation 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. At December 31, 2012 and 2011, management has determined that the Foundation has no permanently restricted net assets.

Cash and Cash Equivalents – For purposes of reporting the statements of cash flows, the Foundation considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

Investments – The Foundation has investments in marketable equity securities, which consist of mutual funds. Investments in marketable equity securities with readily determinable fair values are measured at fair value in the statements of financial position. All investments included within the statements of financial position are considered Level 1 investments, as the fair value of the investments has been determined by quoted market prices in active markets. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the statements of activities and changes in net assets as an increase or decrease in unrestricted net assets unless the income or loss is restricted by the donor or law.

Grants Receivable – The carrying amounts reported in the statements of financial position for grants receivable approximate their fair value. Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts using the allowance method. The allowance is based on experience and other circumstances, which may affect the ability of the obligations to be met. It is the Foundation's policy to write off uncollectible receivables when management determines the receivable will not be collected.

Fixed Assets – Fixed assets are stated at cost. Depreciation is provided using the straight-line method over estimated useful lives of the respective assets (3 - 5 years).

Grants and Grants Payable – Grants are recorded as program expenses upon approval of a research contract by management of the Foundation. Total research grant expenses for the years ended December 31, 2012 and 2011 were \$190,432 and \$192,820, respectively.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions – Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted net assets depending on the existence and nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. For the year ended December 31, 2012, 20% of the Foundation's contributions related to two donors.

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using a risk-adjusted interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contributions revenue. An allowance for uncollectible promises is considered based on management's evaluation of potential uncollectible promises receivable at year-end.

The Foundation reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash for other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Donor restricted contributions, whose restrictions are met in the same reporting period, are reported as unrestricted support in the statements of activities and changes in net assets.

Contributed Services – A substantial number of volunteers have contributed significant amounts of their time to the activities of the Foundation without compensation. No accounting recognition is made for the fair market value of services provided by volunteer personnel as no objective basis is available to measure the value of such services.

Functional Allocation of Expenses – The costs of providing various program and supporting services have been presented on a functional basis in the accompanying statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes – The Foundation is an organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

Subsequent Events – Management of the Foundation has evaluated the effects of all subsequent events through April 23, 2013, the date which the financial statements were available to be issued, to determine if events or transactions occurring through that date require potential adjustment or disclosure in the financial statements.

2. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give consisted of promises to give to the campaign to support funding for the Hunter James Kelly Research Institute as follows as of December 31 2012:

Contributions receivable	\$ 119,100
Less unamortized discount (4%)	<u>(8,096)</u>
Unconditional promises to give, net	<u>\$ 111,004</u>
Amounts due in:	
Less than one year	\$ 50,900
One to five years	<u>68,200</u>
	<u>\$ 119,100</u>

As of December 31, 2012, 99% of contributions receivable were due from two donors.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

Marketable securities subject to measurement at fair value on a recurring basis, and the basis for determining fair value, as of December 31, 2012 and 2011, are as follows:

	Fair Value as Determined By Quoted Prices in Active Markets (Level 1)	
	2012	2011
Marketable equity securities	<u>\$ 682,650</u>	<u>\$ 335,092</u>

The fair value of the marketable securities was determined by reference to quoted market prices and other relevant information generated by market transactions. Information related to marketable securities is as follows at December 31:

	<u>2012</u>		<u>2011</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Marketable equity securities	<u>\$ 689,685</u>	<u>\$ 682,650</u>	<u>\$ 375,422</u>	<u>\$ 335,092</u>

3. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

A summary of investment income (loss) from the above investments included in the accompanying statements of activities and changes in net assets is as follows for the years ended December 31:

	2012	2011
Interest earned and dividend income	\$ 20,905	\$ 23,536
Realized loss on equity securities	(21,180)	-
Change in unrealized loss on equity securities	33,295	(16,101)
Administrative fees	<u>(7,407)</u>	<u>(8,373)</u>
	<u>\$ 25,613</u>	<u>\$ (938)</u>

4. FIXED ASSETS

Fixed assets consisted of the following as of December 31:

	2012	2011
Computer equipment	\$ 35,539	\$ 35,539
Furniture, fixtures and office equipment	<u>24,724</u>	<u>24,724</u>
	60,263	60,263
Less accumulated depreciation	<u>48,078</u>	<u>40,124</u>
	<u>\$ 12,185</u>	<u>\$ 20,139</u>

5. GRANTS PAYABLE

In May 2008, the Foundation entered into an agreement with the State University of New York at Buffalo (SUNY) to establish the Hunter James Kelly Research Institute (the Institute), a partnership between SUNY and the Foundation. All of the Foundation's research is coordinated through the Institute. The original agreement provided for funding from the Foundation of \$750,000 payable to University at Buffalo Foundation, Inc. in equal quarterly installments of \$37,500 through March 2013, restricted in use to solely support research conducted by SUNY faculty in the Institute. The agreement was extended during the current year through March 31, 2014.

The agreement, as amended in 2009, confirmed that funding is conditional upon satisfactory completion of results as described in the agreement. Future payments are to be reviewed and authorized thirty days before the end of each agreement year for payment of the subsequent agreement year. If such results are not achieved, then no future payment shall be made. The grant payable to SUNY was \$150,000 and \$187,500 as of December 31, 2012 and 2011, respectively.

The Foundation also agreed to use its best efforts to engage in fund raising activities to raise \$3,000,000, which will be restricted in use solely to support the Institute. It was agreed that this amount would be sufficient to generate a Foundation gift of at least \$150,000 each fiscal year to fund the operations of the Institute. The Foundation commenced a capital campaign in 2012 which raised \$193,404, net of a present value discount of \$8,096, during the year ended December 31, 2012.

As of December 31, 2012 and 2011, the Foundation had other research grants payable in the amount of \$20,390 and \$23,629, respectively.

6. TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2012, temporarily restricted net assets of \$197,904 consisted of capital campaign pledges to support funding for the Hunter James Kelly Research Institute (\$193,404 - see Note 5) and the Blood Spot project (\$4,500).

At December 31, 2011, temporarily restricted net assets of \$10,000 consisted of a grant from the Buffalo Sabres to be used for the Blood Spot project.

7. LEASES

The Foundation leases its office space under an operating lease that provides for monthly lease payments of \$1,600 through January 2013. This lease is in the process of being formally extended through January 2014. Additionally, the Foundation leases office equipment and accounting software under operating leases that provide for monthly lease payments of \$240 through October 2015, and quarterly lease payments of \$5,243 through March 2014, respectively. Future minimum lease payments required under these operating leases are as follows:

2013	\$	25,452
2014		8,123
2015		2,400

The Foundation had been leasing apartments under operating leases at varying amounts that expired during 2012, which were used for housing provided to families affected by Krabbe Disease.

Total rent expense under these operating leases charged to operations was \$76,858 and \$80,626 for the years ended December 31, 2012 and 2011, respectively.

8. RELATED PARTY TRANSACTIONS

The Foundation's investments are managed by an individual who is related to certain Board members. Fees paid to the company for which the related party works amounted to \$7,407 and \$8,373 for the years ended December 31, 2012 and 2011, respectively.

9. RETIREMENT PLAN

The Foundation has a Simplified Employment Pension Plan (SEP). Eligible employees are allowed to contribute to the plan on a pre-tax basis. The Foundation does not make any contributions to the SEP.

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