

**enCOURAGE KIDS FOUNDATION
(FORMERLY KNOWN AS STARLIGHT CHILDREN'S
FOUNDATION NY*NJ*CT)**

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

AND

INDEPENDENT AUDITORS' REPORT

enCOURAGE KIDS FOUNDATION
(FORMERLY KNOWN AS STARLIGHT CHILDREN'S FOUNDATION NY*NJ*CT)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
enCourage Kids Foundation
(formerly known as Starlight Children's Foundation NY*NJ*CT)

We have audited the accompanying financial statements of enCourage Kids Foundation (the "Foundation," formerly known as Starlight Children's Foundation NY*NJ*CT), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses and cash flows for the year 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 audit. 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 from 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 auditor's 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 Foundation'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 Foundation'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.

(Continued)

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 2015 financial statements referred to above present fairly, in all material respects, the financial position of enCourage Kids Foundation as of December 31, 2015, and the results of its operations and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of enCourage Kids Foundation as of December 31, 2014, were audited by other auditors whose report dated December 22, 2015 expressed an unmodified opinion on those statements.

A handwritten signature in black ink that reads "Friedman LLP". The signature is written in a cursive, flowing style.

August 11, 2016

enCOURAGE KIDS FOUNDATION
(Formerly Known As Starlight Children's Foundation NY*NJ*CT)

STATEMENTS OF FINANCIAL POSITION

	December 31,	
	2015	2014
ASSETS		
Cash and cash equivalents	\$ 953,772	\$ 1,026,560
Investments	2,368,998	2,272,966
Accounts receivable	4,826	51,928
Contributions and pledges receivable, net	7,155	43,424
Prepaid expenses and other assets	23,738	21,488
Total assets	\$ 3,358,489	\$ 3,416,366
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued liabilities	\$ 145,904	\$ 102,213
Grants payable	302,836	3,570
Total liabilities	448,740	105,783
 Net assets		
Unrestricted	2,428,840	2,768,658
Temporarily restricted	480,909	541,925
Total net assets	2,909,749	3,310,583
Total liabilities and net assets	\$ 3,358,489	\$ 3,416,366

See notes to financial statements.

enCOURAGE KIDS FOUNDATION
(Formerly Known As Starlight Children's Foundation NY*NJ*CT)

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015

	Unrestricted	Temporarily Restricted	Total
Revenue and support			
Special events			
Gross receipts	\$ 2,124,556	\$ 39,225	\$ 2,163,781
Less - Direct benefit to donors	(428,397)	-	(428,397)
Net special events revenue	1,696,159	39,225	1,735,384
Contributed goods, services, and use of facilities	852,920	-	852,920
Contributions	300,577	265,718	566,295
Investment income, net	98,254	-	98,254
Miscellaneous	60,155	-	60,155
Net assets released from			
Purpose restrictions	325,535	(325,535)	-
Time restrictions	40,424	(40,424)	-
Total revenue and support	3,374,024	(61,016)	3,313,008
Expenses			
Program services	2,774,671	-	2,774,671
Management and general	433,521	-	433,521
Fundraising	505,650	-	505,650
Total expenses	3,713,842	-	3,713,842
Change in net assets	(339,818)	(61,016)	(400,834)
Net assets, beginning of year	2,768,658	541,925	3,310,583
Net assets, end of year	\$ 2,428,840	\$ 480,909	\$ 2,909,749

See notes to financial statements.

enCOURAGE KIDS FOUNDATION
(Formerly Known As Starlight Children's Foundation NY*NJ*CT)

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2014

	Unrestricted	Temporarily Restricted	Total
Revenue and support			
Special events			
Gross receipts	\$ 2,483,622	\$ 93,500	\$ 2,577,122
Less - Direct benefit to donors	(477,267)	-	(477,267)
Net special events revenue	2,006,355	93,500	2,099,855
Contributed goods, services, and use of facilities	1,453,449	-	1,453,449
Contributions	184,212	1,037,113	1,221,325
Investment income, net	127,188	-	127,188
Miscellaneous	44,772	-	44,772
Net assets released from			
Purpose restrictions	869,553	(869,553)	-
Time restrictions	13,500	(13,500)	-
Total revenue and support	4,699,029	247,560	4,946,589
Expenses			
Program services	3,798,968	-	3,798,968
Management and general	525,128	-	525,128
Fundraising	512,997	-	512,997
Total expenses	4,837,093	-	4,837,093
Change in net assets	(138,064)	247,560	109,496
Net assets, beginning of year	2,906,722	294,365	3,201,087
Net assets, end of year	\$ 2,768,658	\$ 541,925	\$ 3,310,583

See notes to financial statements.

enCOURAGE KIDS FOUNDATION
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STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2015

	Program Services									
	Pediatric Hospital Support Program	Starlight Fun Center Mobile Entertainment Units	Hospital Happenings	Hospital Room Renovations	Escapes Program	Tablet Program	Total Program Services	Management and General	Fundraising	Total
Advertising (in-kind)	\$ 49,259	\$ 9,732	\$ 50,651	\$ 38	\$ 29,521	\$ 4,127	\$ 143,328	\$ -	\$ -	\$ 143,328
Advertising and recruitment	-	-	-	-	-	-	-	210	-	210
Bank, payroll, and other processing fees	3,317	656	3,412	3	1,989	278	9,655	35,238	2,405	47,298
Donated goods	-	-	-	-	343,402	-	343,402	-	-	343,402
Equipment rental and repair	2,546	503	2,617	2	1,525	213	7,406	1,670	1,845	10,921
Equipment - programs	-	85,000	259	-	-	28,864	114,123	-	-	114,123
Events (including in-kind)	-	-	-	-	-	-	-	-	191,614	191,614
Family outings and activities	-	-	4,220	-	227,758	-	231,978	-	-	231,978
Fiscal sponsorship	-	-	-	-	-	-	-	22,879	-	22,879
Grants to other organizations	430,199	-	-	-	-	-	430,199	-	-	430,199
Insurance	1,641	324	1,687	1	983	138	4,774	1,076	1,189	7,039
Materials and supplies	-	-	49,914	307	13,807	800	64,828	-	-	64,828
Meetings and conferences	2,070	409	2,458	2	2,218	173	7,330	949	2,832	11,111
Membership dues and staff development	302	60	311	-	181	25	879	125	727	1,731
Miscellaneous	1,005	199	1,128	1	41,650	84	44,067	2,323	4,255	50,645
Occupancy	51,404	10,156	69,598	40	31,994	4,307	167,499	33,724	37,262	238,485
Office supplies	3,868	764	3,996	3	2,470	324	11,425	2,914	3,457	17,796
Outside computer expenses	3,167	626	3,257	2	1,898	265	9,215	2,078	2,296	13,589
Postage and delivery	1,958	384	5,182	1	4,536	316	12,377	1,249	7,600	21,226
Printing and publications (including in-kind)	659	125	652	1	493	128	2,058	416	58,768	61,242
Professional services (including in-kind)	-	1,781	-	-	-	-	1,781	153,665	250	155,696
Program entertainers	-	-	384,346	-	2,430	6,156	392,932	-	-	392,932
Registration dues and fees	-	-	-	-	-	-	-	5,292	-	5,292
Salaries and employee benefits	261,932	51,749	269,338	204	156,976	21,946	762,145	168,564	189,872	1,120,581
Telephone and communications	1,341	265	1,379	1	2,279	112	5,377	880	971	7,228
Travel and automobile	439	87	490	27	6,813	37	7,893	269	307	8,469
Total functional expenses	\$ 815,107	\$ 162,820	\$ 854,895	\$ 633	\$ 872,923	\$ 68,293	\$ 2,774,671	\$ 433,521	\$ 505,650	\$ 3,713,842

See notes to financial statements.

enCOURAGE KIDS FOUNDATION
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STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2014

	Program Services							Management and General	Fundraising	Total
	Pediatric Hospital Support Program	Starlight Fun Center Mobile Entertainment Units	Hospital Happenings	Hospital Room Renovations	Escapes Program	Tablet Program	Total Program Services			
Advertising (in-kind)	\$ 361,971	\$ 28,577	\$ 238,139	\$ 104,781	\$ 180,985	\$ 38,102	\$ 952,555	\$ -	\$ -	\$ 952,555
Advertising and recruitment	-	-	-	-	-	-	-	35,721	25	35,746
Bank, payroll, and other processing fees	1,740	137	1,145	504	870	183	4,579	28,536	1,190	34,305
Donated goods	-	-	250	-	156,056	-	156,306	-	-	156,306
Equipment rental and repair	2,478	188	1,624	729	1,266	275	6,560	2,874	1,704	11,138
Equipment - programs	-	45,000	-	5,942	-	55,928	106,870	-	-	106,870
Events (including in-kind)	-	-	-	-	-	-	-	-	156,728	156,728
Family outings and activities	-	-	5,289	-	215,669	-	220,958	-	-	220,958
Grants to other organizations	724,897	-	-	-	-	-	724,897	-	-	724,897
Insurance	1,787	136	1,171	526	913	198	4,731	2,072	1,229	8,032
Materials and supplies	-	-	34,581	160,021	12,567	7,592	214,761	-	-	214,761
Meetings and conferences	393	30	1,080	116	1,294	44	2,957	6,497	238	9,692
Membership dues and staff development	363	28	915	107	185	40	1,638	232	138	2,008
Miscellaneous	306	18	196	123	239	44	926	482	217	1,625
Occupancy	43,989	3,337	37,192	12,947	23,370	4,884	125,719	51,011	30,250	206,980
Office supplies	3,363	255	2,204	990	2,297	373	9,482	4,767	2,857	17,106
Outside computer expenses	3,685	280	2,414	1,084	1,883	409	9,755	4,273	2,884	16,912
Postage and delivery	1,269	93	4,248	500	3,898	483	10,491	1,377	8,547	20,415
Printing and publications (including in-kind)	369	19	164	73	128	277	1,030	340	116,242	117,612
Professional services (including in-kind)	-	9,995	-	-	-	-	9,995	56,828	-	66,823
Program entertainers	-	-	421,900	47,250	6,705	16,361	492,216	-	-	492,216
Registration dues and fees	-	-	-	-	-	-	-	5,916	-	5,916
Salaries and employee benefits	274,562	20,831	179,908	80,807	140,282	30,481	726,871	320,801	188,814	1,236,486
Telephone and communications	1,353	103	887	398	2,918	150	5,809	1,569	930	8,308
Travel and automobile	1,468	125	1,223	448	6,419	179	9,862	1,832	1,004	12,698
Total functional expenses	\$ 1,423,993	\$ 109,152	\$ 934,530	\$ 417,346	\$ 757,944	\$ 156,003	\$ 3,798,968	\$ 525,128	\$ 512,997	\$ 4,837,093

See notes to financial statements.

enCOURAGE KIDS FOUNDATION
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STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2015	2014
Cash flows from operating activities		
Change in net assets	\$ (400,834)	\$ 109,496
Adjustments to reconcile change in net assets to net cash used in operating activities		
Realized and unrealized gain on investments	(77,074)	(112,559)
Bad debt expense	1,010	-
Changes in assets and liabilities		
Accounts receivable	47,102	9,901
Contributions and pledges receivable	35,259	(28,424)
Prepaid expenses and other assets	(2,250)	23,346
Accounts payable and accrued liabilities	43,691	(99,806)
Grants payable	299,266	3,570
Net cash used in operating activities	(53,830)	(94,476)
Cash flows from investing activities		
Proceeds from investment redemption	-	301,507
Purchases of investments	(18,958)	(11,570)
Net cash provided by (used in) investing activities	(18,958)	289,937
Net increase (decrease) in cash and cash equivalents	(72,788)	195,461
Cash and cash equivalents, beginning of year	1,026,560	831,099
Cash and cash equivalents, end of year	\$ 953,772	\$ 1,026,560

See notes to financial statements.

**enCOURAGE KIDS FOUNDATION
(FORMERLY KNOWN AS STARLIGHT CHILDREN'S
FOUNDATION NY*NJ*CT)**

NOTES TO FINANCIAL STATEMENTS

1 - ORGANIZATION

enCourage Kids Foundation (the “Foundation”) was formed in 1985 as the New York Chapter of Starlight Children’s Foundation. It has partnered with experts to improve the life and health of kids and families. The Foundation is an independently governed chapter of Starlight Children’s Foundation, a global organization with one chapter in North America and three international affiliates in Australia, Canada, and the United Kingdom.

Starlight Children’s Foundation and the Foundation entered into a Separation Agreement, dated September 18, 2015, providing for a separation effective October 30, 2015 (the effective date). Upon the effective date, the Foundation’s Charter, License and Foundation Agreement from Starlight Children’s Foundation were terminated. From and after the effective date, the Foundation operates under a new corporate name, and on the effective date changed its name from Starlight Children’s Foundation NY*NJ*CT to enCourage Kids Foundation. The Foundation has agreed to do the following, among other things, as of the effective date, subject to the provisions of the Separation Agreement:

- Cease holding itself out to be a chapter or in any manner associated with Starlight Children’s Foundation (similarly, Starlight Children’s Foundation has agreed to cease holding itself as associated in any way with the Foundation); and
- Cease using the Starlight Trademarks, except in specifically agreed-upon situations generally limited to notifying others of the separation and of the continuance of the Foundation under a new name.

The Foundation will continue to use all net liquid assets held by the Foundation as of the effective date for program activities within the geographic area or for normal operating expenses within the geographic area, consistent with the mission, which is to improve the life and health of children and their families. The Foundation is to disburse any donations, grants, or bequests made out to the entity containing the name “Starlight” after the effective date in the same manner and subject to the same restrictions as apply to the donations as of the effective date. The Foundation is allowed to solicit donors and foundations or other entities to fulfill any unpaid pledges and disburse any undisbursed grants in the Foundation’s new name as long as the fact of the disassociation is clearly conveyed in accordance with the Separation Agreement, and the Foundation uses such funds in furtherance of the mission. The Foundation may use any information, including its donor lists and any of its current or past processes or practices, relating to current or past fundraising, donors, hospitals, children and their families, programming or other activities of the Foundation but (except in limited specified situations) without the Starlight Trademarks. Management believes that it will be able to sustain its efforts through continued donor contributions and revenues from fund-raising events.

**enCOURAGE KIDS FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

1 - ORGANIZATION (Continued)

The Foundation's programs serve hospitalized kids and families. Programs include:

- **Pediatric Hospital Support Program:** This unique hospital program, now in its 18th year, supports music and dance therapy, karate classes for kids fighting cancer, adapted yoga sessions for profoundly disabled children, sensory therapy, a wheelchair accessible van, recreational rooms, horticulture therapy, a video artist-in-residence project, and many other creative projects that enhance the lives of hospitalized children. During the years ended December 31, 2015 and 2014, the Foundation provided \$430,199 and \$724,897, respectively, in support to area hospitals.
- **Starlight Fun Center®:** Mobile entertainment units equipped with the latest gaming system that provides bedside entertainment and brings the healing power of play to pediatric patients. For children facing surgery, enduring long outpatient treatments, or fighting loneliness after hospital visiting hours have ended, Starlight Fun Center units provide a comforting break and fun distraction.
- **Hospital Happenings:** Working in concert with hospital staff, the Foundation offers a unique hospital program that provides psychosocial support for patients in area hospitals. Hospital Happenings help ease the loneliness, fear, and boredom that accompany hospital stays. Specialized Hospital Happenings include:
 - **Clown Program** - Children suffering from a wide range of illnesses have come to rely on weekly visits from clowns for large doses of happiness. For many years, medical professionals have recognized that those patients who maintained a positive mental attitude and shared laughter responded better to treatment.
 - **Music Program** - Children benefit from the power of music as a result of sessions with music therapists who not only encourage their creativity and personal expression but also help them develop coping skills and techniques for pain management.
 - **Starworks** - Graduate writing students teach creative expression to pediatric patients in several area hospitals. As a result, these children have composed pictures of their hopes, dreams, and lives in poems, stories, and essays. Creativity has a powerful impact - it heightens spirits, generates pride, and builds self-esteem.

**enCOURAGE KIDS FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

1 - ORGANIZATION (Continued)

- **Hospital Happenings** (Continued)
 - **Send A Smile, Send A Bear** - Teddy bears are given to hospitalized children throughout the year. A teddy bear can provide the support and comfort a child needs during a scary medical procedure, and ease his or her nervousness before a surgery.
- **Hospital Room Renovations** - A Hospital Room Renovation is a beautifully designed, inviting hospital environment created to support the healing of pediatric patients during their hospital stay.

The Foundation transforms designated areas of sterile hospital environments into colorful, entertaining oases that can be enjoyed by young patients and their families. These playrooms, teen lounges, and playgrounds offer a variety of diversions, including video games, computers, toys, crafts, music, and best of all, the company of other children. These renovations help ease young patients' stress by stimulating the senses, providing an antidote to loneliness and an escape from the isolation of a hospital room. Every unique room offers respite from the tedious routine most pediatric patients face. For young patients confined to a hospital, the opportunity to have fun in a well-equipped, welcoming atmosphere assists in the healing process.

- **Escapes Program:** Escapes are family activities and outings that are offered regularly to give children and their families a chance to have fun together away from the hospital so they can relax, regroup, and return home with a renewed sense of strength and hope. These events also forge important connections between families struggling with similar issues, helping them combat feelings of isolation and build a community of support.
- **Tablet Program:** Tablets are a critical resource for healthcare professionals to support the ongoing needs of kids while in the hospital. Tablets are iPads with six award-winning online educational programs preloaded on the devices. Feedback from child life specialists and other healthcare experts indicates that having a tablet allows them to deliver superior patient care.

**enCOURAGE KIDS FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting.

Net Assets

The Foundation's net assets and changes therein are classified and reported as follows:

Unrestricted

Net assets that are not subject to donor-imposed restrictions or law.

Temporarily Restricted Net Assets

The Foundation reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from purpose or time restrictions. The Foundation reports restricted contributions whose restrictions are met in the same reporting period as unrestricted contributions.

Permanently Restricted Net Assets

Permanently restricted net assets are received from donors who stipulate that resources are to be maintained permanently, but permit the Foundation to expend all of the income derived from the donated assets. The Foundation has no permanently restricted net assets at December 31, 2015 and 2014.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses as of the date and for the period presented. Accordingly, actual results could differ from those estimates.

Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and corresponding state provisions.

**enCOURAGE KIDS FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash balances in banks are insured by the Federal Deposit Insurance Corporation (“FDIC”) subject to certain limitations. For purposes of the statements of cash flows, the Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Accounts Receivable

Receivables are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of receivables, net of the allowance for doubtful accounts, if any, represents their estimated net realizable value. The allowance for doubtful accounts, if any, is estimated based on historical collection experience, type of customer, the age of outstanding receivables, and existing economic conditions. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past-due receivable balances are written off when internal collection efforts have been unsuccessful in collecting the amount due. At December 31, 2015 and 2014, all receivables are deemed fully collectible; therefore, no allowance for doubtful accounts has been established at the end of each year.

Contributions and Pledges Receivable

Contributions and pledges receivable are recorded at net realizable value if expected to be collected in one year and, if material, multiyear receivables are recorded at the present value of their estimated future cash flow. Amortization of the discount is included in contribution revenue. The Foundation’s allowance for uncollectible pledges is based on management’s estimates of the creditworthiness of its contributors, current economic conditions and historical information. At December 31, 2015 and 2014, the Foundation established an allowance for uncollectible pledges in the amount of \$13,482 and \$12,472, respectively. All contributions and pledges receivable are expected to be collected within one year.

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NOTES TO FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value

GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). Under GAAP, the three levels of the fair value hierarchy are described as follows:

- Level 1: Observable inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect management's own assumptions.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2015 and 2014:

The fair value of the holdings in The Investment Fund for the Foundation ("TIFF") Multi-Asset Fund is valued based upon Level 2 inputs using the Net Asset Value of the fund as determined by TIFF Advisory Services, Inc. A redemption notice must be received by the close of business on any business day. Payment, less any applicable exit fee, generally will be made on the business day following receipt of the notice, up to seven days. The open-ended balanced mutual fund invests, either directly or indirectly through its investments in acquired funds, in common and preferred stocks, real estate investment trusts, high-yield bonds, securities issued or guaranteed by the U.S. government, corporate bonds, and short-term investments, such as high-quality, short-term money market instruments.

The fair value of a minority interest in a closely-held limited liability company ("LLC") within Level 3 was estimated by determining the market value, then applying valuation adjustments. The LLC owns and operates 40 residential apartments and 5 commercial units in New York, the LLC's principal income-producing asset. The market value of the real property was based on an appraisal prepared by a certified General Real Estate Appraiser using the income and market approaches. Inputs used for the income and market approaches included the evaluation of certain observable market data such as capitalization rates on similar property types and sales of comparable properties. Valuation adjustments of 40% to 47% were applied by management to the market value in the appraisal report to account for discounts for lack of marketability and minority interest.

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NOTES TO FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributed Goods, Services, and Use of Facilities

Contributions of donated noncash assets are recorded at fair value in the period received. Contributions of donated services that create or enhance nonfinancial assets, or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at fair value in the period received. Contributed goods generally consist of toys, videos, DVDs, airline tickets, hotel accommodations, theme park admissions, and other tangible goods. For the years ended December 31, 2015 and 2014, the Foundation received \$852,920 and \$1,453,449, respectively, of contributed goods, services, and use of facilities (see Note 4). Included in the \$852,920 of contributed goods, services and use of facilities in 2015 is \$30,000 of pro bono legal services. Such services met the aforementioned GAAP definition in order for them to be recorded as legal expense offset by contribution revenue in the amount of \$30,000.

Advertising

The Foundation received in-kind contributions of advertising, which are included as revenue and expenses. This contribution has helped the Foundation to continue to be featured in a visibility campaign, and the Foundation received invaluable exposure through the donated advertising space. The campaign reached millions of people in the tri-state area through outdoor coverage on billboards in NYC, buses, subways, transit shelters, phone kiosks, mall kiosks, and billboards along the interstate in New Jersey. Because of this exposure, the Foundation has been able to generate substantial brand awareness both with the general public and with seriously ill children and their families in need of the Foundation's programs and services. Total advertising (in-kind) expense was \$143,328 and \$952,555 for the years ended December 31, 2015 and 2014, respectively.

Functional Allocation of Expenses

The costs of providing the Foundation's programs and other activities have been presented in the statements of functional expenses. Such costs are segregated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit. The Foundation allocates indirect costs by full-time equivalents under each activity.

Reclassifications

Certain items relating to the prior year financial statements have been reclassified to conform with the current year's presentation.

**enCOURAGE KIDS FOUNDATION
(FORMERLY KNOWN AS STARLIGHT CHILDREN'S
FOUNDATION NY*NJ*CT)**

NOTES TO FINANCIAL STATEMENTS

2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

These financial statements were approved by management and available for issuance on August 11, 2016. Management has evaluated subsequent events through this date.

3 - INVESTMENTS

The following table presents information about the Foundation's assets that are measured at fair value on a recurring basis at December 31, 2015 and 2014, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	December 31, 2015	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
TIFF Multi-Asset Fund	\$ 1,368,998	\$ -	\$ 1,368,998	\$ -
Interest in a limited liability company	1,000,000	-	-	1,000,000
Total investments	\$ 2,368,998	\$ -0-	\$ 1,368,998	\$ 1,000,000

	December 31, 2014	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
TIFF Multi-Asset Fund	\$ 1,392,966	\$ -	\$ 1,392,966	\$ -
Interest in a limited liability company	880,000	-	-	880,000
Total investments	\$ 2,272,966	\$ -0-	\$ 1,392,966	\$ 880,000

**enCOURAGE KIDS FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

3 - INVESTMENTS (Continued)

The fair value measurements using significant unobservable inputs (Level III) are as follows:

	Interest in a Limited Liability Company	
	2015	2014
Beginning balance	\$ 880,000	\$ 770,000
Unrealized gain	120,000	110,000
Ending balance	\$ 1,000,000	\$ 880,000

Total investment income, gains, and losses consist of the following:

	Year Ended December 31,	
	2015	2014
Interest and dividend income	\$ 21,180	\$ 14,629
Realized and unrealized gains, net	77,074	112,559
Investment income, net	\$ 98,254	\$ 127,188

4 - CONTRIBUTED GOODS, SERVICES, AND USE OF FACILITIES

Contributed goods, services, and use of facilities during the years ended December 31, 2015 and 2014 were reported as follows:

	Year Ended December 31,	
	2015	2014
Advertising (in-kind)	\$ 143,328	\$ 952,555
Contributed goods	343,402	150,206
Office and storage spaces	146,440	121,070
Printing and publication	48,476	106,136
Events	125,243	93,487
Professional services	46,031	29,995
Total	\$ 852,920	\$ 1,453,449

**enCOURAGE KIDS FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

5 - TEMPORARILY RESTRICTED NET ASSETS

The following summarizes the changes in temporarily restricted net assets:

Program	2015			
	Balance, January 1, 2015	Contributions	Released from Restrictions	Balance, December 31, 2015
Care Rooms	\$ 229,898	\$ -	\$ (335)	\$ 229,563
Tablet Program	112,916	30,500	(36,051)	107,365
Hospital Happenings	47,105	90,887	(87,585)	50,407
Escapes Program	-	116,256	(116,256)	-
Pediatric Hospital Support	-	300	(300)	-
Fun Centers	111,582	55,000	(85,008)	81,574
Time Restrictions	40,424	12,000	(40,424)	12,000
	\$ 541,925	\$ 304,943	\$ (365,959)	\$ 480,909

Program	2014			
	Balance, January 1, 2014	Contributions	Released from Restrictions	Balance, December 31, 2014
Care Rooms	\$ 133,291	\$ 310,000	\$ (213,393)	\$ 229,898
Tablet Program	32,411	161,000	(80,495)	112,916
Hospital Happenings	14,822	176,618	(144,335)	47,105
Escapes Program	-	129,414	(129,414)	-
Pediatric Hospital Support	-	246,907	(246,907)	-
Fun Centers	100,341	66,250	(55,009)	111,582
Time Restrictions	13,500	40,424	(13,500)	40,424
	\$ 294,365	\$ 1,130,613	\$ (883,053)	\$ 541,925

**enCOURAGE KIDS FOUNDATION
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NOTES TO FINANCIAL STATEMENTS

6 - DEFINED CONTRIBUTION PENSION PLANS

The Foundation maintains a 401(k) defined-contribution pension plan with matching contributions of 3% of participant salaries. Matching contributions totaled \$27,527 and \$28,580, respectively, for the years ended December 31, 2015 and 2014.

7 - RELATED PARTY TRANSACTIONS

The Foundation receives donated use of facilities and storage space from a company whose president is a board member of the Foundation. The portion of the facilities and storage space donated by the company amounted to \$129,700 and \$112,700 for the years ended December 31, 2015 and 2014, respectively. The Foundation paid the company \$90,315 and \$84,484 for rent during the years ended December 31, 2015 and 2014, respectively. The Foundation received contributions from its board of directors of \$133,879 and \$150,177, respectively, for the years ended December 31, 2015 and 2014.

As discussed in Note 1, the Foundation was a chartered chapter of Starlight Children's Foundation. During the years ended December 31, 2015 and 2014, the Foundation received allocated funds from Starlight Children's Foundation totaling \$145,501 and \$58,257, of which \$139,145 and \$46,000 was from special events revenue, respectively. Receivables from Starlight Children's Foundation were \$2,313 at December 31, 2014, resulting from revenue collected on behalf of the Foundation. There were no payables due to Starlight Children's Foundation at December 31, 2015 and 2014.

8 - COMMITMENTS

Subsequent to year-end, the Foundation entered into a lease extension agreement with the related party beginning January 1, 2016 for its office space which expires on December 31, 2016. The future minimum rental payment, exclusive of real estate taxes and utilities, for the year ending December 31, 2016 is \$55,722.

9 - CONCENTRATIONS OF RISK

During the years ended December 31, 2015 and 2014, the annual Gala event accounted for approximately 30% of the Foundation's unrestricted revenue and support.