

enCOURAGE KIDS FOUNDATION
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
AND
INDEPENDENT AUDITORS' REPORT

enCOURAGE KIDS FOUNDATION

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
enCourage Kids Foundation

We have audited the accompanying financial statements of enCourage Kids Foundation (the "Foundation"), which comprise the statement of financial position as of December 31, 2016, 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 financial statements referred to above present fairly, in all material respects, the financial position of enCourage Kids Foundation as of December 31, 2016, 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.

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

July 13, 2017

enCOURAGE KIDS FOUNDATION
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016

ASSETS	
Cash and cash equivalents	\$ 576,457
Investments	2,429,859
Accounts receivable	4,655
Contributions and pledges receivable, net	5,740
Prepaid expenses and other assets	24,341
Total assets	\$ 3,041,052
 LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable and accrued liabilities	\$ 139,763
Grants payable	367,183
Total liabilities	506,946
 Net assets	
Unrestricted	1,962,234
Temporarily restricted	571,872
Total net assets	2,534,106
Total liabilities and net assets	\$ 3,041,052

See notes to financial statements.

enCOURAGE KIDS FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue and support			
Special events			
Gross receipts	\$ 1,794,048	\$ 78,540	\$ 1,872,588
Less - Direct benefit to donors	(466,540)	-	(466,540)
Net special events revenue	1,327,508	78,540	1,406,048
Contributed goods, services, and use of facilities	1,830,843	-	1,830,843
Contributions	138,455	656,335	794,790
Investment income, net	61,913	-	61,913
Miscellaneous	67,791	-	67,791
Net assets released from			
Purpose restrictions	631,912	(631,912)	-
Time restrictions	12,000	(12,000)	-
Total revenue and support	4,070,422	90,963	4,161,385
Expenses			
Program services	3,632,526	-	3,632,526
Management and general	342,540	-	342,540
Fundraising	561,962	-	561,962
Total expenses	4,537,028	-	4,537,028
Change in net assets	(466,606)	90,963	(375,643)
Net assets, beginning of year	2,428,840	480,909	2,909,749
Net assets, end of year	\$ 1,962,234	\$ 571,872	\$ 2,534,106

See notes to financial statements.

enCOURAGE KIDS FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2016

	Program Services									
	Pediatric Hospital Support Program	Tablet Program	Hospital Happenings	Hospital Room Renovations	Escapes Program	Fun Centers	Total Program Services	Management and General	Fundraising	Total
Advertising (in-kind)	\$ 278,311	\$ 21,408	\$ 310,424	\$ 42,817	\$ 396,058	\$ 21,408	\$ 1,070,426	\$ -	\$ -	\$ 1,070,426
Advertising and recruitment	10,760	828	12,001	1,655	15,312	828	41,384	240	153	41,777
Bank, payroll, and other processing fees	2,113	163	2,357	324	3,008	163	8,128	24,219	2,804	35,151
Donated goods	-	-	-	-	354,101	-	354,101	-	-	354,101
Equipment rental and repair	2,140	165	2,387	329	3,045	165	8,231	1,960	2,875	13,066
Equipment - programs	-	20,297	-	-	-	25,000	45,297	-	-	45,297
Events (including in-kind)	-	-	-	-	-	-	-	-	110,582	110,582
Family outings and activities	-	-	3,492	-	229,671	-	233,163	-	-	233,163
Grants to other organizations	438,166	-	-	-	-	-	438,166	-	-	438,166
Insurance	1,190	92	1,327	183	1,693	92	4,577	1,090	1,598	7,265
Materials and supplies	-	-	49,903	67,650	14,262	-	131,815	-	-	131,815
Meetings and conferences	2,095	261	5,844	323	3,904	161	12,588	1,393	4,653	18,634
Membership dues and staff development	153	12	292	23	218	12	710	122	179	1,011
Miscellaneous	360	28	402	55	512	28	1,385	969	3,079	5,433
Occupancy	36,653	2,819	63,456	5,640	53,240	2,819	164,627	33,565	49,229	247,421
Office supplies	2,212	170	2,583	340	11,462	170	16,937	2,792	3,783	23,512
Outside computer expenses	4,287	330	4,781	660	6,101	330	16,489	3,925	5,758	26,172
Postage and delivery	1,064	594	5,675	126	4,080	59	11,598	682	13,758	26,038
Printing and publications (including in-kind)	1,752	175	1,739	201	1,932	100	5,899	1,195	138,656	145,750
Professional services	2,990	230	3,585	460	4,255	230	11,750	93,084	-	104,834
Program entertainers	-	3,505	395,798	-	1,995	-	401,298	-	-	401,298
Registration dues and fees	-	-	-	-	-	-	-	20,751	-	20,751
Salaries and employee benefits	166,320	12,794	185,511	25,588	236,686	12,794	639,693	155,612	223,385	1,018,690
Telephone and communications	957	74	1,068	147	2,686	74	5,006	877	1,286	7,169
Travel and automobile	438	71	1,020	97	7,605	27	9,258	64	184	9,506
Total functional expenses	\$ 951,961	\$ 64,016	\$ 1,053,645	\$ 146,618	\$ 1,351,826	\$ 64,460	\$ 3,632,526	\$ 342,540	\$ 561,962	\$ 4,537,028

See notes to financial statements.

enCOURAGE KIDS FOUNDATION
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2016

Cash flows from operating activities	
Change in net assets	\$ (375,643)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Realized and unrealized gain on investments	(51,454)
Changes in assets and liabilities	
Accounts receivable	171
Contributions and pledges receivable	1,415
Prepaid expenses and other assets	(603)
Accounts payable and accrued liabilities	(6,141)
Grants payable	64,347
Net cash used in operating activities	(367,908)
Cash flows from investing activities	
Purchases of investments	(9,407)
Net decrease in cash and cash equivalents	(377,315)
Cash and cash equivalents, beginning of year	953,772
Cash and cash equivalents, end of year	\$ 576,457

See notes to financial statements.

enCOURAGE KIDS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

1 - ORGANIZATION

The enCourage Kids Foundation (the “Foundation”) was founded in 1985. Since its founding, the Foundation has enhanced the quality of life for kids with health challenges and chronic illnesses and has brought laughter, comfort and countless smiles to more than 275,000 children and family members annually. The Foundation’s mission is to encourage all kids facing health challenges to be carefree kids by creating environments and experiences that help them through each step of their medical journey. With their needs in mind, the Foundation has developed initiatives that use entertainment and technology to make hospital stays a little less frightening, and have created exciting family outings that make everyday life more enjoyable.

The Foundation serves children and families facing a variety of health issues – from those receiving chemo treatments in a clinic, to those who live with a chronic illness that may not be visible. While other children’s organizations focus on finding cures, there are few organizations that provide children with programs and services that enable them to cope with the challenging daily demands of illness, injury, or disability. While others treat the illness, the Foundation treats the child.

A vast amount of research has been conducted that documents the significance and positive role that distractions can have on children, by helping to relieve their pain, discomfort and distress. The Foundation understands that when a child’s discomfort is not well treated, he or she can develop feelings of helplessness, frustration, physical and emotional stress, fear, anxiety, depression and low self-esteem.

The Foundation’s uplifting and impactful programs have been shown to have significant psychological benefits. These include:

- Reduced anxiety and depression
- Decreased need for pain medication
- Increased knowledge about their disease
- Greater willingness to return for treatment
- Improved sense of peer support
- Alleviation of stress, loneliness and isolation

The focus of the Foundation is to ensure that kids can still be kids while dealing with chronic illnesses. The Foundation’s programs are designed with the child in mind but are sanctioned and approved by Child Life and the medical community. As a result of these relationships, the Foundation is better able to assess the needs that sick children have, hence they can support projects and programs that alleviate anxiety and fear and promote a sense of hope and well-being.

The Foundation derives the majority of its revenues from contributions from the general public.

enCOURAGE KIDS FOUNDATION

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 19th 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 year ended December 31, 2016, the Foundation provided \$438,166 in support to area hospitals.
- **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

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.
- **Fun Centers:** 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, Fun Center units provide a comforting break and fun distraction. This program is longer being offered.

enCOURAGE KIDS FOUNDATION
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, 2016.

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

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, 2016, all receivables are deemed fully collectible; therefore, no allowance for doubtful accounts has been established at the end of the 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, 2016, the Foundation established an allowance for uncollectible pledges in the amount of \$13,482. All contributions and pledges receivable are expected to be collected within one year.

enCOURAGE KIDS FOUNDATION
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, 2016:

The fair value of the holdings in The Investment Fund for the Foundation ("TIFF") Multi-Asset Fund is determined 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.

enCOURAGE KIDS FOUNDATION

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 year ended December 31, 2016, the Foundation received \$1,830,843 of contributed goods, services, and use of facilities (see Note 4).

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 \$1,070,426 for the year ended December 31, 2016.

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.

Subsequent Events

These financial statements were approved by management and available for issuance on July 13, 2017. Management has evaluated subsequent events through this date.

enCOURAGE KIDS FOUNDATION

NOTES TO FINANCIAL STATEMENTS

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, 2016, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

	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	\$ 1,429,859	\$ -	\$ 1,429,859	\$ -
Interest in a limited liability company	1,000,000	-	-	1,000,000
Total investments	\$ 2,429,859	\$ -0-	\$ 1,429,859	\$ 1,000,000

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

	Interest in a Limited Liability Company
Beginning balance	\$ 1,000,000
Unrealized gain	-
Ending balance	\$ 1,000,000

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

Interest and dividend income	\$ 10,459
Realized and unrealized gains, net	51,454
Investment income, net	\$ 61,913

enCOURAGE KIDS FOUNDATION
NOTES TO FINANCIAL STATEMENTS

4 - CONTRIBUTED GOODS, SERVICES AND USE OF FACILITIES

Contributed goods, services and use of facilities during the year ended December 31, 2016 were reported as follows:

Advertising (in-kind)	\$ 1,070,426
Contributed goods	354,101
Office and storage spaces	152,274
Printing and publication	134,830
Events	119,212
Total	\$ 1,830,843

5 - TEMPORARILY RESTRICTED NET ASSETS

The following summarizes the changes in temporarily restricted net assets:

Program	Balance, January 1, 2016	Contributions	Released from Restrictions	Balance, December 31, 2016
Care Rooms	\$ 229,563	\$ -	\$ (67,705)	\$ 161,858
Tablet Program	107,365	185,500	(24,557)	268,308
Hospital Happenings	50,407	169,775	(150,800)	69,382
Escapes Program	-	113,850	(113,850)	-
Pediatric Hospital Support	-	250,000	(250,000)	-
Fun Centers	81,574	-	(25,000)	56,574
Time Restrictions	12,000	15,750	(12,000)	15,750
	\$ 480,909	\$ 734,875	\$ (643,912)	\$ 571,872

6 - DEFINED CONTRIBUTION PENSION PLAN

The Foundation maintains a 401(k) defined-contribution pension plan with matching contributions of 3% of participant salaries. Matching contributions totaled \$22,493 for the year ended December 31, 2016.

enCOURAGE KIDS FOUNDATION
NOTES TO FINANCIAL STATEMENTS

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 for the year ended December 31, 2016. The Foundation paid the company \$93,358 for rent during the year ended December 31, 2016. The Foundation received contributions from its board of directors of \$162,928 for the year ended December 31, 2016.

8 - COMMITMENTS

The Foundation had a lease agreement for its office space with a related party which expired on December 31, 2016. Starting January 1, 2017, the lease agreement continues on a month-to-month basis at a rate of \$4,643 per month.

9 - CONCENTRATIONS OF RISK

During the year ended December 31, 2016, the annual Gala event accounted for 23% of the Foundation's unrestricted revenue and support.