

**enCOURAGE KIDS FOUNDATION**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2017 AND 2016**  
**AND**  
**INDEPENDENT AUDITORS' REPORT**

**FRIEDMAN LLP<sup>®</sup>**  
ACCOUNTANTS AND ADVISORS

# enCOURAGE KIDS FOUNDATION

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## 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 statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses and 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 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, 2017 and 2016, 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.

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

July 24, 2018

**enCOURAGE KIDS FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**

|   | December 31, |              |
|---|--------------|--------------|
|   | 2017         | 2016         |
| <b>ASSETS</b>                             |              |              |
| Cash and cash equivalents                 | \$ 580,896   | \$ 576,457   |
| Investments                               | 2,690,600    | 2,429,859    |
| Accounts receivable                       | 5,536        | 4,655        |
| Contributions and pledges receivable, net | 5,797        | 5,740        |
| Prepaid expenses and other assets         | 34,655       | 24,341       |
| Total assets                              | \$ 3,317,484 | \$ 3,041,052 |
| <br><b>LIABILITIES AND NET ASSETS</b>     |              |              |
| <b>Liabilities</b>                        |              |              |
| Accounts payable and accrued liabilities  | \$ 143,859   | \$ 139,763   |
| Grants payable                            | 272,345      | 367,183      |
| Total liabilities                         | 416,204      | 506,946      |
| <br><b>Net assets</b>                     |              |              |
| Unrestricted                              | 2,530,715    | 1,962,234    |
| Temporarily restricted                    | 370,565      | 571,872      |
| Total net assets                          | 2,901,280    | 2,534,106    |
| Total liabilities and net assets          | \$ 3,317,484 | \$ 3,041,052 |

See notes to financial statements.

**enCOURAGE KIDS FOUNDATION**

**STATEMENT OF ACTIVITIES**

**YEAR ENDED DECEMBER 31, 2017**

|  | Unrestricted        | Temporarily<br>Restricted | Total               |
|--|---------------------|---------------------------|---------------------|
| Revenue and support                                |                     |                           |                     |
| Special events                                     |                     |                           |                     |
| Gross receipts                                     | \$ 2,354,408        | \$ 68,125                 | \$ 2,422,533        |
| Less - Direct benefit to donors                    | (561,852)           | -                         | (561,852)           |
| Net special events revenue                         | 1,792,556           | 68,125                    | 1,860,681           |
| Contributed goods, services, and use of facilities | 1,344,644           | -                         | 1,344,644           |
| Contributions                                      | 637,749             | 176,915                   | 814,664             |
| Investment income, net                             | 261,905             | -                         | 261,905             |
| Miscellaneous                                      | 69,408              | -                         | 69,408              |
| Net assets released from                           |                     |                           |                     |
| Purpose restrictions                               | 430,597             | (430,597)                 | -                   |
| Time restrictions                                  | 15,750              | (15,750)                  | -                   |
| Total revenue and support                          | 4,552,609           | (201,307)                 | 4,351,302           |
| Expenses   |                     |                           |                     |
| Program services                                   | 3,397,667           | -                         | 3,397,667           |
| Management and general                             | 208,069             | -                         | 208,069             |
| Fundraising  | 378,392             | -                         | 378,392             |
| Total expenses                                     | 3,984,128           | -                         | 3,984,128           |
| <b>Change in net assets</b>                        | 568,481             | (201,307)                 | 367,174             |
| Net assets, beginning of year                      | 1,962,234           | 571,872                   | 2,534,106           |
| <b>Net assets, end of year</b>                     | <b>\$ 2,530,715</b> | <b>\$ 370,565</b>         | <b>\$ 2,901,280</b> |

See notes to financial statements.

**enCOURAGE KIDS FOUNDATION**

**STATEMENT OF ACTIVITIES**

**YEAR ENDED DECEMBER 31, 2016**

|  | Unrestricted        | Temporarily<br>Restricted | Total               |
|--|---------------------|---------------------------|---------------------|
| <b>Revenue and support</b>                         |                     |                           |                     |
| 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           |
| <b>Expenses</b>                                    |                     |                           |                     |
| Program services                                   | 3,926,958           | -                         | 3,926,958           |
| Management and general                             | 176,381             | -                         | 176,381             |
| Fundraising  | 433,689             | -                         | 433,689             |
| Total expenses                                     | 4,537,028           | -                         | 4,537,028           |
| <b>Change in net assets</b>                        | (466,606)           | 90,963                    | (375,643)           |
| Net assets, beginning of year                      | 2,428,840           | 480,909                   | 2,909,749           |
| <b>Net assets, end of year</b>                     | <b>\$ 1,962,234</b> | <b>\$ 571,872</b>         | <b>\$ 2,534,106</b> |

See notes to financial statements.

enCOURAGE KIDS FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

|   | Program Services                            |                        |                     |                              |                   |                           |                           |                   |                     |
|---|---|------------------------|---------------------|------------------------------|-------------------|---------------------------|---------------------------|-------------------|---------------------|
|   | Pediatric<br>Hospital<br>Support<br>Program | Hospital<br>Happenings | Escapes<br>Program  | Hospital Room<br>Renovations | Tablet<br>Program | Total Program<br>Services | Management<br>and General | Fundraising       | Total               |
| Advertising (in-kind)                         | \$ 54,341                                   | \$ 66,306              | \$ 104,249          | \$ 10                        | \$ 16,190         | \$ 241,096                | \$ -                      | \$ -              | \$ 241,096          |
| Advertising and recruitment                   | 4,842                                       | 5,908                  | 9,289               | 1                            | 1,443             | 21,483                    | 72                        | 145               | 21,700              |
| Donated goods                                 | -   | 25,989                 | 434,866             | -                            | -                 | 460,855                   | -                         | -                 | 460,855             |
| Equipment rental and repair                   | 1,676                                       | 2,045                  | 3,215               | -                            | 499               | 7,435                     | 1,377                     | 1,024             | 9,836               |
| Equipment - programs                          | -   | -                      | -                   | -                            | 105,662           | 105,662                   | -                         | -                 | 105,662             |
| Events (including in-kind)                    | -   | -                      | -                   | -                            | -                 | -                         | -                         | 112,429           | 112,429             |
| Family outings and activities                 | 74  | 362                    | 222,456             | -                            | 22                | 222,914                   | -                         | -                 | 222,914             |
| Grants to other organizations                 | 358,686                                     | 5,000                  | -                   | -                            | -                 | 363,686                   | -                         | -                 | 363,686             |
| Insurance                                     | 1,268                                       | 1,547                  | 2,433               | -                            | 378               | 5,626                     | 1,042                     | 775               | 7,443               |
| Materials and supplies                        | 160   | 50,296                 | 10,125              | -                            | 48                | 60,629                    | -                         | -                 | 60,629              |
| Meetings and conferences                      | 7,452                                       | 13,438                 | 14,335              | 35                           | 2,185             | 37,445                    | 776                       | 3,987             | 42,208              |
| Membership dues and staff development         | 657   | 802                    | 1,260               | -                            | 196               | 2,915                     | 499                       | 1,870             | 5,284               |
| Occupancy (including in-kind)                 | 38,310                                      | 70,289                 | 74,600              | 7                            | 11,414            | 194,620                   | 31,476                    | 23,421            | 249,517             |
| Office supplies                               | 7,738                                       | 9,478                  | 18,002              | 1                            | 2,305             | 37,524                    | 2,432                     | 2,450             | 42,406              |
| Outside computer expenses                     | 3,333                                       | 4,067                  | 6,394               | -                            | 993               | 14,787                    | 2,698                     | 2,904             | 20,389              |
| Postage and delivery                          | 2,549                                       | 7,592                  | 7,624               | -                            | 2,102             | 19,867                    | 470                       | 4,668             | 25,005              |
| Printing and publications (including in-kind) | 30,616                                      | 37,700                 | 59,186              | 294                          | 9,121             | 136,917                   | 120                       | 94,255            | 231,292             |
| Processing fees and miscellaneous             | 5,450                                       | 6,651                  | 10,455              | 1                            | 1,624             | 24,181                    | 7,571                     | 10,061            | 41,813              |
| Professional services (including in-kind)     | 62,308                                      | 76,026                 | 119,735             | 11                           | 18,563            | 276,643                   | 7,613                     | 5,665             | 289,921             |
| Program entertainers                          | -   | 327,627                | 3,205               | -                            | -                 | 330,832                   | -                         | -                 | 330,832             |
| Registration dues and fees                    | 1,059                                       | 1,291                  | 2,031               | -                            | 315               | 4,696                     | 870                       | 647               | 6,213               |
| Salaries and employee benefits                | 182,862                                     | 223,124                | 350,803             | 34                           | 54,479            | 811,302                   | 150,238                   | 111,794           | 1,073,334           |
| Telephone and communications                  | 1,023                                       | 1,256                  | 3,262               | -                            | 305               | 5,846                     | 749                       | 2,186             | 8,781               |
| Travel and automobile                         | 656   | 2,116                  | 7,726               | 33                           | 175               | 10,706                    | 66                        | 111               | 10,883              |
| <b>Total functional expenses</b>              | <b>\$ 765,060</b>                           | <b>\$ 938,910</b>      | <b>\$ 1,465,251</b> | <b>\$ 427</b>                | <b>\$ 228,019</b> | <b>\$ 3,397,667</b>       | <b>\$ 208,069</b>         | <b>\$ 378,392</b> | <b>\$ 3,984,128</b> |

See notes to financial statements.



enCOURAGE KIDS FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016

|   | Program Services                            |                        |                    |                              |                   |                |                           |                           |             |              |
|---|---|------------------------|--------------------|------------------------------|-------------------|----------------|---------------------------|---------------------------|-------------|--------------|
|   | Pediatric<br>Hospital<br>Support<br>Program | Hospital<br>Happenings | Escapes<br>Program | Hospital Room<br>Renovations | Tablet<br>Program | Fun<br>Centers | Total Program<br>Services | Management<br>and General | Fundraising | Total        |
| Advertising (in-kind)                         | \$ 278,311                                  | \$ 310,424             | \$ 396,058         | \$ 42,817                    | \$ 21,408         | \$ 21,408      | \$ 1,070,426              | \$ -                      | \$ -        | \$ 1,070,426 |
| Advertising and recruitment                   | 10,807                                      | 12,054                 | 15,379             | 1,664                        | 831               | 831            | 41,566                    | 30                        | 181         | 41,777       |
| Donated goods                                 | -   | -                      | 354,101            | -                            | -                 | -              | 354,101                   | -                         | -           | 354,101      |
| Equipment rental and repair                   | 2,586                                       | 2,884                  | 3,680              | 397                          | 199               | 199            | 9,945                     | 1,605                     | 1,516       | 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                                     | 1,438                                       | 1,603                  | 2,046              | 220                          | 111               | 111            | 5,529                     | 893                       | 843         | 7,265        |
| Materials and supplies                        | -   | 49,903                 | 14,262             | 67,650                       | -                 | -              | 131,815                   | -                         | -           | 131,815      |
| Meetings and conferences                      | 2,412                                       | 6,196                  | 4,354              | 371                          | 286               | 186            | 13,805                    | 1,141                     | 3,688       | 18,634       |
| Membership dues and staff development         | 180   | 323                    | 257                | 28                           | 14                | 14             | 816                       | 100                       | 95          | 1,011        |
| Occupancy (including in-kind)                 | 44,279                                      | 71,962                 | 64,093             | 6,813                        | 3,406             | 3,406          | 193,959                   | 27,494                    | 25,968      | 247,421      |
| Office supplies                               | 2,812                                       | 3,252                  | 12,317             | 433                          | 216               | 216            | 19,246                    | 1,473                     | 2,793       | 23,512       |
| Outside computer expenses                     | 5,179                                       | 5,778                  | 7,370              | 797                          | 398               | 398            | 19,920                    | 3,215                     | 3,037       | 26,172       |
| Postage and delivery                          | 1,219                                       | 5,848                  | 4,301              | 152                          | 605               | 69             | 12,194                    | 559                       | 13,285      | 26,038       |
| Printing and publications (including in-kind) | 2,023                                       | 2,042                  | 2,318              | 242                          | 196               | 121            | 6,942                     | 979                       | 137,829     | 145,750      |
| Processing fees and miscellaneous             | 7,523                                       | 8,392                  | 10,706             | 1,157                        | 579               | 579            | 28,936                    | 4,655                     | 6,993       | 40,584       |
| Professional services (including in-kind)     | 24,283                                      | 27,335                 | 34,556             | 3,735                        | 1,868             | 1,868          | 93,645                    | 5,754                     | 5,435       | 104,834      |
| Program entertainers                          | -   | 395,798                | 1,995              | -                            | 3,505             | -              | 401,298                   | -                         | -           | 401,298      |
| Registration dues and fees                    | 4,106                                       | 4,580                  | 5,843              | 632                          | 316               | 316            | 15,793                    | 2,550                     | 2,408       | 20,751       |
| Salaries and employee benefits                | 201,580                                     | 224,840                | 286,864            | 31,013                       | 15,506            | 15,506         | 775,309                   | 125,163                   | 118,218     | 1,018,690    |
| Telephone and communications                  | 1,157                                       | 1,290                  | 2,970              | 178                          | 89                | 89             | 5,773                     | 718                       | 678         | 7,169        |
| Travel and automobile                         | 453   | 1,037                  | 7,626              | 98                           | 72                | 28             | 9,314                     | 52                        | 140         | 9,506        |
| Total functional expenses                     | \$ 1,028,514                                | \$ 1,139,033           | \$ 1,460,767       | \$ 158,397                   | \$ 69,902         | \$ 70,345      | \$ 3,926,958              | \$ 176,381                | \$ 433,689  | \$ 4,537,028 |

See notes to financial statements.

**enCOURAGE KIDS FOUNDATION**

**STATEMENTS OF CASH FLOWS**

|  | Year Ended<br>December 31, |              |
|--|----------------------------|--------------|
|  | 2017                       | 2016         |
| <b>Cash flows from operating activities</b>  |                            |              |
| Change in net assets   | \$ 367,174                 | \$ (375,643) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities |                            |              |
| Realized and unrealized gain on investments  | (184,843)                  | (51,454)     |
| Changes in assets and liabilities  |                            |              |
| Accounts receivable  | (881)                      | 171          |
| Contributions and pledges receivable   | (57)                       | 1,415        |
| Prepaid expenses and other assets  | (10,314)                   | (603)        |
| Accounts payable and accrued liabilities   | 4,096                      | (6,141)      |
| Grants payable   | (94,838)                   | 64,347       |
| Net cash provided by (used in) operating activities  | 80,337                     | (367,908)    |
| <b>Cash flows from investing activities</b>  |                            |              |
| Purchases of investments   | (75,898)                   | (9,407)      |
| <b>Net increase (decrease) in cash and cash equivalents</b>  | 4,439                      | (377,315)    |
| Cash and cash equivalents, beginning of year   | 576,457                    | 953,772      |
| <b>Cash and cash equivalents, end of year</b>  | \$ 580,896                 | \$ 576,457   |

See notes to financial statements.

## **enCOURAGE KIDS FOUNDATION**

### **NOTES TO FINANCIAL STATEMENTS**

#### **1 - ORGANIZATION**

The enCourage Kids Foundation (the “Foundation”) enhances 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 significant 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 Specialists 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 20th 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.
- **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.
- **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.
- **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.
- **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. At December 31, 2017, all funds previously donated have been utilized and the program is no 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.

**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, 2017 and 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**

Accounts receivable are recorded when billed or accrued and represent claims against third parties that will be settled in cash. The carrying value of accounts receivable, 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 accounts receivable, and existing economic conditions. If events or changes in circumstances indicate that specific accounts receivable balances may be impaired, further consideration is given to the collectability of those balances and the allowance is adjusted accordingly. Past-due accounts receivable balances are written off when internal collection efforts have been unsuccessful in collecting the amount due. At December 31, 2017 and 2016, all accounts receivable 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, 2017 and 2016, the Foundation established an allowance for uncollectible pledges in the amount of \$-0- and \$13,482, respectively. 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, 2017 and 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 years ended December 31, 2017 and 2016, the Foundation received \$1,344,644 and \$1,830,843, respectively, 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 \$241,096 and \$1,070,426 for the years ended December 31, 2017 and 2016, 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 reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications have no effect on total assets, total liabilities, or net assets.

**Subsequent Events**

These financial statements were approved by management and available for issuance on July 24, 2018. 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, 2017 and 2016, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value:

|  | December 31,<br>2017 | Fair Value Measurements Using   |  |  |
|--|----------------------|---|--|--|
|  |                      | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level II) | Significant<br>Unobservable<br>Inputs<br>(Level III) |
| TIFF Multi-Asset Fund                      | \$ 1,690,600         | \$ -  | \$ 1,690,600   | \$ -   |
| Interest in a limited liability<br>company | 1,000,000            | -   | -  | 1,000,000  |
| <b>Total investments</b>                   | <b>\$ 2,690,600</b>  | <b>\$ -0-</b>   | <b>\$ 1,690,600</b>  | <b>\$ 1,000,000</b>                                  |

|  | December 31,<br>2016 | Fair Value Measurements Using   |  |  |
|--|----------------------|---|--|--|
|  |                      | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level II) | Significant<br>Unobservable<br>Inputs<br>(Level III) |
| TIFF Multi-Asset Fund                      | \$ 1,429,859         | \$ -  | \$ 1,429,859   | \$ -   |
| Interest in a limited liability<br>company | 1,000,000            | -   | -  | 1,000,000  |
| <b>Total investments</b>                   | <b>\$ 2,429,859</b>  | <b>\$ -0-</b>   | <b>\$ 1,429,859</b>  | <b>\$ 1,000,000</b>                                  |

**enCOURAGE KIDS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**

**3 - INVESTMENTS (Continued)**

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

|                   | Interest in<br>a Limited Liability<br>Company |              |
|-------------------|---|--------------|
|                   | 2017  | 2016         |
| Beginning balance | \$ 1,000,000                                  | \$ 1,000,000 |
| Unrealized gain   | -   | -            |
| Ending balance    | \$ 1,000,000                                  | \$ 1,000,000 |

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

|                                    | Year Ended December 31, |           |
|------------------------------------|-------------------------|-----------|
|                                    | 2017                    | 2016      |
| Interest and dividend income       | \$ 77,062               | \$ 10,459 |
| Realized and unrealized gains, net | 184,843                 | 51,454    |
| Investment income, net             | \$ 261,905              | \$ 61,913 |

**4 - CONTRIBUTED GOODS, SERVICES AND USE OF FACILITIES**

Contributed goods, services and use of facilities during the years ended December 31, 2017 and 2016 were reported as follows:

|                           | Year Ended December 31, |              |
|---------------------------|-------------------------|--------------|
|                           | 2017                    | 2016         |
| Advertising (in-kind)     | \$ 241,096              | \$ 1,070,426 |
| Donated goods             | 460,855                 | 354,101      |
| Office and storage spaces | 151,044                 | 152,274      |
| Printing and publication  | 217,679                 | 134,830      |
| Professional services     | 151,200                 | -            |
| Events                    | 122,770                 | 119,212      |
| Total                     | \$ 1,344,644            | \$ 1,830,843 |

**enCOURAGE KIDS FOUNDATION**  
**NOTES TO FINANCIAL STATEMENTS**

**5 - TEMPORARILY RESTRICTED NET ASSETS**

The following summarizes the changes in temporarily restricted net assets:

| 2017                |                                |               |                                  |                                  |
|---------------------|--------------------------------|---------------|----------------------------------|----------------------------------|
| Program             | Balance,<br>January 1,<br>2017 | Contributions | Released<br>from<br>Restrictions | Balance,<br>December 31,<br>2017 |
| Care Rooms          | \$ 161,858                     | \$ -          | \$ (66)                          | \$ 161,792                       |
| Tablet Program      | 268,308                        | 41,793        | (107,125)                        | 202,976                          |
| Hospital Happenings | 69,382                         | 105,100       | (174,482)                        | -                                |
| Escapes Program     | -                              | 92,350        | (92,350)                         | -                                |
| Fun Centers         | 56,574                         | -             | (56,574)                         | -                                |
| Time Restrictions   | 15,750                         | 5,797         | (15,750)                         | 5,797                            |
|                     | \$ 571,872                     | \$ 245,040    | \$ (446,347)                     | \$ 370,565                       |

| 2016                       |                                |               |                                  |                                  |
|----------------------------|--------------------------------|---------------|----------------------------------|----------------------------------|
| Program                    | Balance,<br>January 1,<br>2016 | Contributions | Released<br>from<br>Restrictions | Balance,<br>December 31,<br>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                       |

**enCOURAGE KIDS FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS**

**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 \$26,373 and \$22,493, respectively, for the years ended December 31, 2017 and 2016.

**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 \$151,044 and \$152,274 for the years ended December 31, 2017 and 2016, respectively. The Foundation paid the company \$96,291 and \$93,358 for rent and related expenses during the years ended December 31, 2017 and 2016, respectively. The Foundation received contributions from its board of directors of \$135,901 and \$162,928, respectively, for the years ended December 31, 2017 and 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 years ended December 31, 2017 and 2016, the annual Gala event accounted for 32% and 23%, respectively, of the Foundation's unrestricted revenue and support.