

**THE SUNSHINE KIDS FOUNDATION**  
(a Texas Non-Profit Corporation)

FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015  
*(With Independent Auditor's Report Thereon)*

**Insight. Oversight. Foresight.™**

 **DoerenMayhew**  
CPAs AND ADVISORS

**THE SUNSHINE KIDS FOUNDATION**  
**(a Texas Non-Profit Corporation)**

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
of **The Sunshine Kids Foundation**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Sunshine Kids Foundation (the Foundation) which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, 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.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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.

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 the Foundation as of December 31, 2016 and 2015, 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 cursive script that reads "Doeren Mayhew".

Houston, Texas  
July 31, 2017

**THE SUNSHINE KIDS FOUNDATION**  
(a Texas Non-Profit Corporation)

**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2016 AND 2015**

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Cash and cash equivalents (Note 3)	\$ 1,492,726	\$ 1,856,657
Contributions receivable	556,807	155,973
Note receivable (Note 4)	109,294	-
Inventory	31,264	22,456
Prepaid expenses and other assets	26,714	14,950
Investments (Note 5)	2,915,693	2,293,141
Property and equipment, net (Note 7)	534,993	498,881
Total assets	<u>\$ 5,667,491</u>	<u>\$ 4,842,058</u>
<b><u>Liabilities and Net Assets</u></b>		
Liabilities - accounts payable	<u>\$ 79,154</u>	<u>\$ 13,162</u>
Net assets:		
Unrestricted	5,479,043	4,828,896
Temporarily restricted (Note 8)	109,294	-
Total net assets	<u>5,588,337</u>	<u>4,828,896</u>
Total liabilities and net assets	<u>\$ 5,667,491</u>	<u>\$ 4,842,058</u>

See accompanying notes to financial statements.

**THE SUNSHINE KIDS FOUNDATION**  
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**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<b>2016</b>			<b>2015</b>		
	Unrestricted	Temporarily		Unrestricted	Temporarily	
		Restricted	Total		Restricted	Total
Public support, revenue and other:						
Contributions (Notes 3 and 9)	\$ 4,406,847	\$ 109,294	\$ 4,516,141	\$ 3,980,158	\$ -	\$ 3,980,158
Investment (loss) income, net (Note 6)	(23,531)	-	(23,531)	44,536	-	44,536
Other income	6,044	-	6,044	-	-	-
Net assets released from restrictions (Note 8)	-	-	-	20,000	(20,000)	-
 Total public support, revenue and other	 4,389,360	 109,294	 4,498,654	 4,044,694	 (20,000)	 4,024,694
Expenses:						
Program services	3,287,859	-	3,287,859	2,847,893	-	2,847,893
Management and general	176,621	-	176,621	173,627	-	173,627
Fundraising	274,733	-	274,733	256,697	-	256,697
 Total expenses	 3,739,213	 -	 3,739,213	 3,278,217	 -	 3,278,217
 Change in net assets	 650,147	 109,294	 759,441	 766,477	 (20,000)	 746,477
 Net assets, beginning of year	 4,828,896	 -	 4,828,896	 4,062,419	 20,000	 4,082,419
 Net assets, end of year	 <u>\$ 5,479,043</u>	 <u>\$ 109,294</u>	 <u>\$ 5,588,337</u>	 <u>\$ 4,828,896</u>	 <u>\$ -</u>	 <u>\$ 4,828,896</u>

See accompanying notes to financial statements.

**THE SUNSHINE KIDS FOUNDATION**  
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**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2016**

	Program Services	Management and General	Fundraising	Total
Accommodations/meals	\$ 807,792	\$ 22,385	\$ 67,760	\$ 897,937
Activity supplies and support	793,095	465	26,910	820,470
Contract labor	353	-	-	353
Consulting fees	131,920	-	-	131,920
Depreciation and amortization	32,192	2,841	2,840	37,873
Dues and fees	37,207	3,426	5,979	46,612
Equipment rental	38,228	4,616	8,601	51,445
Insurance	121,365	22,670	22,670	166,705
Legal and professional	5,784	14,441	4,083	24,308
Office supplies and expenses	85,210	12,671	11,019	108,900
Payroll taxes	59,630	5,262	5,262	70,154
Photography and video production	4,067	-	-	4,067
Printing and duplicating	12,093	2,032	2,791	16,916
Public awareness/advertising	3,800	-	-	3,800
Rent	67,986	-	-	67,986
Repairs and maintenance	34,848	4,092	41	38,981
Salaries	747,406	66,025	65,917	879,348
Telephone	21,506	4,431	4,256	30,193
Travel	274,939	8,967	40,007	323,913
Utilities	6,291	2,297	2,453	11,041
Miscellaneous	2,147	-	4,144	6,291
<b>Total expenses</b>	<b>\$ 3,287,859</b>	<b>\$ 176,621</b>	<b>\$ 274,733</b>	<b>\$ 3,739,213</b>

See accompanying notes to financial statements.

**THE SUNSHINE KIDS FOUNDATION**  
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**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2015**

	Program Services	Management and General	Fundraising	Total
Accommodations/meals	\$ 719,031	\$ 17,687	\$ 56,832	\$ 793,550
Activity supplies and support	650,475	261	17,258	667,994
Contract labor	3,745	-	-	3,745
Consulting fees	122,505	-	-	122,505
Depreciation and amortization	28,757	2,344	2,344	33,445
Dues and fees	19,536	2,114	6,544	28,194
Equipment rental	39,224	5,306	4,801	49,331
Insurance	119,779	22,345	22,345	164,469
Legal and professional	5,773	13,812	4,323	23,908
Office supplies and expenses	64,264	16,688	10,308	91,260
Payroll taxes	53,163	4,784	4,781	62,728
Photography and video production	3,002	-	-	3,002
Printing and duplicating	7,086	4,078	4,710	15,874
Public awareness/advertising	12,450	-	-	12,450
Rent	33,474	-	-	33,474
Repairs and maintenance	29,110	1,850	250	31,210
Salaries	665,434	58,715	58,712	782,861
Telephone	18,642	4,234	3,960	26,836
Travel	244,478	17,123	53,313	314,914
Utilities	5,856	2,286	2,286	10,428
Miscellaneous	2,109	-	3,930	6,039
<b>Total expenses</b>	<b>\$ 2,847,893</b>	<b>\$ 173,627</b>	<b>\$ 256,697</b>	<b>\$ 3,278,217</b>

See accompanying notes to financial statements.



**THE SUNSHINE KIDS FOUNDATION**  
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**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
Cash flows from operating activities:		
Change in net assets	\$ 759,441	\$ 746,477
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	37,873	33,445
Unrealized and realized (loss) gain on investments	68,875	(11,835)
Donation of property and equipment	(70,900)	(18,812)
Changes in operating assets and liabilities:		
Contributions receivable	(400,834)	25,539
Note receivable	(109,294)	-
Inventory	(8,808)	(9,913)
Prepaid expenses and other assets	(11,764)	7,614
Accounts payable	65,992	(22,240)
	<u>330,581</u>	<u>750,275</u>
Net cash provided by operating activities		
Cash flows from investing activities:		
Purchases of investments	(3,547,647)	(2,000,000)
Sales of investments	2,856,220	2,200,000
Purchases of property and equipment	(3,085)	(15,121)
	<u>(694,512)</u>	<u>184,879</u>
Net cash (used) provided by investing activities		
Net (decrease) increase in cash and cash equivalents	(363,931)	935,154
Cash and cash equivalents, beginning of year	<u>1,856,657</u>	<u>921,503</u>
Cash and cash equivalents, end of year	<u>\$ 1,492,726</u>	<u>\$ 1,856,657</u>
Non-cash investing activity -		
Donation of property and equipment	<u>\$ 70,900</u>	<u>\$ 18,812</u>

See accompanying notes to financial statements.

**THE SUNSHINE KIDS FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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**Note 1 - Organization**

The Sunshine Kids Foundation (the Foundation) was incorporated on March 1, 1982 under the provisions of the Texas Nonprofit Corporation Act. The Foundation provides group activity programs for children confronted with cancer, from hospitals across the country. The Foundation is funded by contributions from individuals, corporations and foundations. All of the Foundation's activities are completely free of charge to the children's families and hospitals.

**Note 2 - Summary of Significant Accounting Policies**

Basis of Presentation

The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The Foundation is required to report information regarding its financial position and activities according to three classes of net assets, based on the existence or absence of donor imposed restrictions. The three classes of net assets are unrestricted, temporarily restricted and permanently restricted.

Use of Estimates

Management must make estimates and assumptions to prepare financial statements in accordance with GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenues and expenses, and the allocation of expenses among various functions. Accordingly, actual results could vary from the estimates that were used.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Foundation considers all highly liquid investments with a maturity of three months or less at date of purchase to be cash equivalents.

Contributions Receivable

Contributions are recorded as revenue in the year they are received unless they contain a conditional promise to give. Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Any amounts that are expected to be collected in more than one year are discounted to estimate the present value of future cash flows, if material. Management of the Foundation considers contributions receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when the determination is made.

**THE SUNSHINE KIDS FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

Note receivable

Note receivable represents a promissory note received by the Foundation in connection with a bequest.

Inventory

Inventory consists of T-shirts, hats, bandanas, visors and other supplies for the program participants. Inventory is valued using the first-in first-out method and is stated at the lower of cost or market.

Investments and Investment Income

Investments are stated at fair value as described in Note 5. Investment income, including unrealized gains and losses, is included as a change to unrestricted net assets unless otherwise specified by donor restrictions. Marketable securities donated to the Foundation are recorded at fair value on the date of donation.

Property and Equipment

Property and equipment are stated at cost. Donated property and equipment are recorded at fair value at the date of the gift. Expenditures greater than \$1,000 that materially increase values or extend useful lives are capitalized. Routine maintenance and replacement costs are charged against operations in the year incurred. Depreciation is computed using the straight-line method over the estimated useful lives of 15 to 30 years for building and building improvements and 3 to 10 years for equipment and vehicles.

Contributions

Contributions received are recorded as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are recorded as restricted revenue. Contributions whose restrictions are met in the same reporting period as they are received are reported as unrestricted revenue. Conditional contributions are recognized in the same manner when the conditions are substantially met.

Gifts of property and equipment are recognized as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support and absent explicit donor stipulations about how long those long-lived assets must be maintained, are released from restrictions when the donated or acquired long-lived assets are placed in service.

**THE SUNSHINE KIDS FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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**Note 2 - Summary of Significant Accounting Policies (Continued)**

Advertising Costs

Advertising costs are charged to operations when incurred. Advertising costs expensed in 2016 and 2015 were \$3,800 and \$12,450, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based upon estimated use.

Income Taxes

The Foundation is exempt from Federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §170(b)(1)(A)(vi) and §509(a)(1) and §509(a)(1). The Foundation files annual Federal information returns. In accordance with FASB ASC 740, the Foundation records charges for uncertain tax positions when they are considered probable. Based on its evaluation, the Foundation has concluded that there are no significant uncertain tax positions requiring recognition or disclosure in the financial statements. The Foundation is subject to routine examinations of its returns; however, there are no examinations for any tax periods currently in progress. The Foundation is no longer subject to income tax examinations by taxing authorities for the years before 2013.

**Note 3 - Concentrations**

Credit Risk

The Foundation is subject to concentration of credit risk relating primarily to cash and investments. The Foundation's cash deposits are maintained in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation up to \$250,000 per depositor. As of December 31, 2016 and 2015, amounts in excess of the insured limits were \$1,016,286 and \$1,425,192, respectively. Management believes the Foundation's credit risk has been mitigated by the financial strength of the financial institution in which the funds are held.

Source of Revenue

The Foundation is subject to concentration of revenue through its relationship with Berkshire Hathaway HomeServices, which adopted the Foundation as their network-wide charity in 1991. During the years ended December 31, 2016 and 2015, contributions from Berkshire Hathaway HomeServices represented approximately 47% and 50%, respectively, of total contributions.

**THE SUNSHINE KIDS FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**Note 4 - Note Receivable**

During 2016, in connection with a bequest, the Foundation received a promissory note in the original amount of \$123,750 and bearing interest at 6%. Under the terms of the note, the first installment of \$5,000 was due in March 2016 and payments of \$1,250 are due monthly until March 2021, whereupon the remaining principal balance is due. As of December 31, 2016, the principal balance due on the promissory note is \$109,294.

**Note 5 - Fair Value Measurements**

GAAP requires that certain assets and liabilities be reported at fair value and establishes a hierarchy that prioritizes inputs used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date. The Foundation's investments are measured at fair value on a recurring basis. The three levels of the fair value hierarchy are as follows:

Level 1 - Quoted prices in active markets for identical securities as of the reporting date.

Level 2 - Pricing inputs other than quoted priced included in Level 1, which are either directly observable or that can be derived or supported from observable data as of the reporting date.

Level 3 - Pricing inputs include those that are significant to the fair value and are generally unobservable.

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. There have been no changes in the methodologies used at December 31, 2016 and 2015.

Financial instruments measured at fair value on a recurring basis at December 31, 2016 and 2015 are as follows:

	Level 1	Level 2	Level 3	Total
<u>December 31, 2016</u>				
Fixed income securities - Government Sponsored Enterprise Securities	<u>\$ 2,915,693</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,915,693</u>
<u>December 31, 2015</u>				
Fixed income securities - Government Sponsored Enterprise Securities	<u>\$ 2,293,141</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,293,141</u>

**THE SUNSHINE KIDS FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

**Note 5 - Fair Value Measurements (Continued)**

Fixed income securities are valued at the closing price reported in the active market in which the individual securities are traded. Other financial instruments that are not valued on a recurring or nonrecurring basis are contributions receivable and accounts payable. Management believes the carrying amounts of these financial instruments approximate their fair values.

The valuation methods used may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values and the inputs or methodology used to measure investments are not necessarily indicative of the risk of investing in a particular security. Furthermore, although management of the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**Note 6 - Investment Income**

Investment income is net of related investment fees and is as follows for the years ended December 31, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Interest	\$ 53,564	\$ 31,552
Net realized and unrealized (loss) gain, net of fees	(77,095)	12,984
Total investment (loss) income, net	\$ (23,531)	\$ 44,536

**Note 7 - Property and Equipment**

Following is a summary of property and equipment at December 31:

	<b>2016</b>	<b>2015</b>
Land	\$ 100,000	\$ 100,000
Building and improvements	904,667	881,667
Office equipment	225,693	217,793
Computer equipment	239,690	236,604
Vehicles	133,742	93,742
Total property and equipment	1,603,792	1,529,806
Less: accumulated depreciation	(1,068,799)	(1,030,925)
Property and equipment, net	\$ 534,993	\$ 498,881

Depreciation expense for the years ended December 31, 2016 and 2015 is \$37,873 and \$33,445, respectively.

**THE SUNSHINE KIDS FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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**Note 8 - Temporarily Restricted Net Assets**

As of December 31, 2016, there was \$109,294 of temporarily restricted net assets related to timing restrictions. Temporarily restricted net assets of \$20,000 were released from donor restrictions during December 31, 2016 by incurring expenses satisfying the purpose restrictions specified by the donor.

**Note 9 - Donated Materials and Services**

Donated lodging, meals, materials and property are recorded at fair value as contributions when an unconditional commitment is received from the donor. Included in public support is approximately \$1,063,000 and \$827,000 of contributed goods and services in 2016 and 2015, respectively.

A substantial number of volunteers have donated significant amounts of their time to the Foundation's programs. No value for these volunteer hours has been recorded in the statements of activities because they do not meet the criteria for recognition under GAAP.

**Note 10 - Defined Contribution Plan**

The Foundation has a 401(k) defined contribution plan (the Plan) which covers substantially all employees. The Foundation makes a matching contribution equal to 50% of a participant's elective deferrals provided, however, that the matching contribution shall be made only with respect to the first 6% of the participant's compensation for each payroll period. The Foundation's contribution to the Plan for the years ended December 31, 2016 and 2015 approximated \$16,900 and \$20,100, respectively.

**Note 11 - Operating Leases**

The Foundation has various operating leases for office space and equipment expiring through fiscal year 2021. The minimum rental commitments under the noncancelable operating leases as of December 31, 2016 are as follows:

<u>Years Ending</u> <u>December 31,</u>	<u>Amount</u>
2017	\$ 19,170
2018	9,697
2019	6,831
2020	3,840
2021	<u>1,920</u>
Total	<u>\$ 41,458</u>

Rental expense related to operating leases approximated \$51,000 and \$52,000 for the years ended December 31, 2016 and 2015, respectively.

**THE SUNSHINE KIDS FOUNDATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2016 AND 2015**

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**Note 12 - Subsequent Events**

Management has evaluated subsequent events through July 31, 2017, the date which the financial statements were available to be issued. Management has determined that no subsequent events require recognition or disclosure in these financial statements.

**\* \* \* End of Notes \* \* \***