

# **SERIOUSFUN CHILDREN'S NETWORK, INC.**

Consolidated Financial Report  
November 30, 2013 and 2012

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## Independent Auditor's Report

To the Board of Directors  
SeriousFun Children's Network, Inc. and Subsidiary  
Westport, Connecticut

### Report on the Financial Statements

We have audited the accompanying financial statements of SeriousFun Children's Network, Inc. and Subsidiary (the "Organization"), which comprise the consolidated statement of financial position as of November 30, 2013, and the related consolidated 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.

### Auditor's 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 controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SeriousFun Children's Network, Inc. and Subsidiary as of November 30, 2013, and the changes in its net assets and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

### Report on Summarized Comparative Information

We have previously audited the Organization's 2012 financial statements and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 8, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended November 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*McGladrey LLP*

New Haven, Connecticut  
February 18, 2014

**SeriousFun Children's Network, Inc. and Subsidiary**

**Consolidated Statement of Financial Position**

**November 30, 2013**

**(With Summarized Financial Information for 2012)**

	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 816,370	\$ 1,022,031
Loan receivable (Note 3)	350,000	500,000
Pledges receivable (Note 4)	162,880	1,321,670
Prepaid expenses and other assets	221,226	287,495
Investments at fair value (Note 5)	14,590,767	15,527,103
Furniture and equipment (net of accumulated depreciation of \$154,882 in 2013 and \$108,177 in 2012)	153,071	96,929
<b>Total assets</b>	<b>\$ 16,294,314</b>	<b>\$ 18,755,228</b>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 307,235	\$ 303,991
Payables to camps	2,975,876	-
<b>Total liabilities</b>	<b>3,283,111</b>	<b>303,991</b>
Commitments (Note 9)		
Net Assets (Note 2)		
Unrestricted	2,070,818	4,559,268
Temporarily restricted	10,940,385	13,891,969
<b>Total net assets</b>	<b>13,011,203</b>	<b>18,451,237</b>
<b>Total liabilities and net assets</b>	<b>\$ 16,294,314</b>	<b>\$ 18,755,228</b>

See Notes to Consolidated Financial Statements.

SeriousFun Children's Network, Inc. and Subsidiary

Consolidated Statement of Activities  
For the Year Ended November 30, 2013

(With Summarized Financial Information for 2012)

	Unrestricted	Temporarily Restricted	Total	
			2013	2012
<b>SUPPORT AND REVENUE</b>				
Support:				
Contributions (Note 6)	\$ 6,310,223	\$ 1,909,375	\$ 8,219,598	\$ 7,567,105
Special events	2,160,973	153,719	2,314,692	2,116,241
Special events expenses	(848,186)	-	(848,186)	(951,854)
Contributions-in-kind (Note 7)	11,084,754	-	11,084,754	4,983,946
<b>Total support</b>	<b>18,707,764</b>	<b>2,063,094</b>	<b>20,770,858</b>	<b>13,715,438</b>
Revenue:				
Dividend, interest, and other investment income	230,893	-	230,893	332,297
Realized and unrealized gains and losses on investments, net	(165,984)	-	(165,984)	300,436
Net assets released from restrictions (Note 2)	5,014,678	(5,014,678)	-	-
<b>Total revenue</b>	<b>5,079,587</b>	<b>(5,014,678)</b>	<b>64,909</b>	<b>632,733</b>
<b>Total support and revenue</b>	<b>23,787,351</b>	<b>(2,951,584)</b>	<b>20,835,767</b>	<b>14,348,171</b>
<b>EXPENSES</b>				
Program services:				
Global partnerships and new initiatives	1,842,878	-	1,842,878	1,518,663
Member camps (Note 7)	20,761,596	-	20,761,596	10,871,762
<b>Total program services</b>	<b>22,604,474</b>	<b>-</b>	<b>22,604,474</b>	<b>12,390,425</b>
Support services:				
General and administrative (Note 7)	429,121	-	429,121	1,138,547
Development (Note 7)	3,242,206	-	3,242,206	3,747,880
<b>Total support services</b>	<b>3,671,327</b>	<b>-</b>	<b>3,671,327</b>	<b>4,886,427</b>
<b>Total expenses</b>	<b>26,275,801</b>	<b>-</b>	<b>26,275,801</b>	<b>17,276,852</b>
<b>Change in net assets</b>	<b>(2,488,450)</b>	<b>(2,951,584)</b>	<b>(5,440,034)</b>	<b>(2,928,681)</b>
<b>NET ASSETS</b> , beginning of the year	<b>4,559,268</b>	<b>13,891,969</b>	<b>18,451,237</b>	<b>21,379,918</b>
<b>NET ASSETS</b> , end of year	<b>\$ 2,070,818</b>	<b>\$ 10,940,385</b>	<b>\$ 13,011,203</b>	<b>\$ 18,451,237</b>

See Notes to Consolidated Financial Statements.

**SeriousFun Children's Network, Inc. and Subsidiary**

**Consolidated Statement of Functional Expenses**

**For the Year Ended November 30, 2013**

**(With Summarized Financial Information for 2012)**

	Global Partnerships and New Initiatives	Member Camps	General and Administrative	Development	Total	
					2013	2012
<b>EXPENSES</b>						
Grants and financial support to camps	\$ 199,158	\$ 8,889,739	\$ -	\$ -	\$ 9,088,897	\$ 5,407,389
Salaries and benefits (Note 8)	801,694	545,167	298,540	1,391,023	3,036,424	2,692,676
Outside services	266,756	192,071	21,610	620,597	1,101,034	790,770
Travel and conferences	326,128	182,135	20,133	133,696	662,092	500,784
Office expenses and other	83,632	71,484	30,033	279,675	464,824	453,346
Marketing and communications (Note 7)	53,816	10,783,935	-	604,752	11,442,503	6,376,381
Rent and utilities (Note 9)	65,791	54,647	16,244	126,785	263,467	182,675
Insurance and professional fees	32,943	32,763	38,899	64,203	168,808	159,427
Uncollectible pledges	-	-	850	-	850	677,047
Depreciation	12,960	9,655	2,812	21,475	46,902	36,357
<b>Total expenses</b>	<b>\$ 1,842,878</b>	<b>\$ 20,761,596</b>	<b>\$ 429,121</b>	<b>\$ 3,242,206</b>	<b>\$ 26,275,801</b>	<b>\$ 17,276,852</b>

See Notes to Consolidated Financial Statements.

**SeriousFun Children's Network, Inc. and Subsidiary**

**Consolidated Statement of Cash Flows  
For the Year Ended November 30, 2013  
(With Summarized Financial Information for 2012)**

	<u>2013</u>	<u>2012</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (5,440,034)	\$ (2,928,681)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized and unrealized losses (gains) on investments, net	165,984	(300,436)
Provision for uncollected pledges	850	677,047
Depreciation	46,902	36,357
Changes in assets and liabilities:		
Decrease in pledges receivable	1,157,940	1,605,913
Decrease (increase) in prepaid expenses and other assets	66,269	(29,132)
(Decrease) increase in accounts payable and accrued expenses	3,244	(185,460)
Increase (decrease) in payable to camps	2,975,876	(71,599)
<b>Net cash used in operating activities</b>	<u>(1,022,969)</u>	<u>(1,195,991)</u>
Cash Flows From Investing Activities		
Proceeds from sales of investments	1,000,000	-
Purchase of investments	(229,648)	(326,181)
Disbursements of loans receivable	(350,000)	(500,000)
Repayments of loans receivable	500,000	-
Purchase of furniture and equipment	(103,044)	(22,000)
<b>Net cash provided by (used in) investing activities</b>	<u>817,308</u>	<u>(848,181)</u>
<b>Decrease in cash and cash equivalents</b>	<b>(205,661)</b>	<b>(2,044,172)</b>
Cash and Cash Equivalents, beginning of year	<u>1,022,031</u>	<u>3,066,203</u>
Cash and Cash Equivalents, end of year	<u>\$ 816,370</u>	<u>\$ 1,022,031</u>

See Notes to Consolidated Financial Statements.

## SeriousFun Children's Network, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies

Nature of Activities: SeriousFun Children's Network, Inc. (the "Organization") was formed in 2000 as an association of affiliated camps and other facilities that serve children and families coping with serious illnesses and life threatening conditions. It was created to support the shared interests and activities of the existing camps, and to foster the responsible development of new camps and new programs. Member camps and programs are located in North America, South America, Europe, Africa, and Asia.

For member camps, the activities include:

- Providing a forum for sharing information and best practices among the camps.
- Collecting and maintaining information on programs and management of the camps, to improve the delivery of camp programs and healthcare to children with serious illnesses and life threatening conditions.
- Raising public awareness and engaging in common fund-raising to benefit all camps.

For global partnerships and new initiatives, the activities include:

- Providing consulting services in all aspects of new camp development using both in-house resources and the expertise of individuals loaned from existing camps.
- Providing due diligence teams for start-up efforts.
- Engaging in fund-raising to assist the development of new camps and programs through grants, loans, and guarantees.

A summary of the Organization's significant accounting policies follows:

Principles of Consolidation and Basis of Presentation: The accompanying consolidated financial statements include the accounts of SeriousFun Children's Network, Inc. and a related not-for-profit entity that is controlled by SeriousFun Children's Network, Inc., Stichting SeriousFun Children's Network, Europe. The Stichting Organization was established in 2010 to organize and manage fund-raising for the affiliated camps located in Europe.

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), and are presented in accordance with guidance as issued by the Financial Accounting Standards Board ("FASB") relating to financial statements of not-for-profit organizations. All significant intercompany balances and transactions have been eliminated. As such, the financial statements are presented on the basis of unrestricted, temporarily restricted and permanently restricted net assets.

Descriptions of the net assets of the Organization are reported as follows:

Unrestricted Net Assets: Unrestricted net assets include the net assets that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations. These net assets also include those funds that are designated by the Organization's board of directors in achieving any of its corporate purposes.

Temporarily Restricted Net Assets: Temporarily restricted net assets include gifts of cash and other assets received with donor stipulations that limit the use of the donated assets or are time restricted. When a time restriction expires, or when a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. Temporarily restricted contributions received are reflected as unrestricted if the restriction is met in the same period.



## SeriousFun Children's Network, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Permanently Restricted Net Assets: Permanently restricted net assets include funds that have been designated by the donor to be held and invested in perpetuity. There were no permanently restricted net assets at November 30, 2013 and 2012.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Allocation of Functional Expenses: The Organization allocates expenses based upon the purpose of the expense. Generally, an expense relates to a specific functional expense. In some instances, an expense might relate to multiple functional expenses. Management determines the percent of the expense used by each functional expense and allocates accordingly.

Cash and Cash Equivalents: The Organization considers all highly liquid investments with original maturities of three months or less to be cash equivalents. At times, cash held in banks significantly exceeds federally insured limits; however, the Organization has not incurred any losses from such concentrations.

Investments: Investments are reported at fair value. Gains and losses arising from the sale or disposition of investments are reflected in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily or permanently restricted by donor stipulation. Certain of the Organization's investments are subject to volatility in market conditions. Accordingly, it is at least reasonably possible that the value of such investments could substantially change in the near term.

The Organization determines the fair values of its investments based on a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs within the hierarchy that may be used to measure fair value are as follows:

- Level 1** Quoted prices in active markets for identical assets or liabilities. Level 1 investments include equity securities and mutual funds that are traded in an active exchange market. All of the Organization's investments are classified as Level 1.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets.

Furniture and Equipment: Furniture and equipment is recorded at cost at the date of acquisition or, if received by gift, at fair value at the date of donation. The Organization capitalizes such costs provided their cost is \$2,000 or more and they have useful lives greater than one year. Depreciation is provided on a straight-line basis over the estimated useful lives of five years.

## SeriousFun Children's Network, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Contributions: Unconditional promises to give are recorded as support when the promise is received.

The Organization records multi-year pledges at their discounted present value using a risk free rate of return. Such pledges are considered temporarily restricted until the passage of time. The unamortized discount to present value is amortized and recognized as a component of contribution income using an effective yield over the duration of the pledges.

Contributions-In-Kind: Donated material, equipment, property and services are reflected as both contributions-in-kind revenue and expenses (or capitalized, as necessary) in the accompanying financial statements at their estimated fair values at the date of receipt. In addition, a substantial number of volunteers have donated significant amounts of their time toward the Organization's program services and its fund-raising campaigns; however, such services are not recognized in the financial statements because such services do not meet the recognition criteria under GAAP.

Grants: The Organization makes grants to member and provisional camps to aid in the development of those camps. These grants are generally not payable until certain conditions have been met, and therefore the expenses are not recorded until such conditions have been met.

Income Taxes: The Organization is a not-for-profit Organization under the Nonstock Corporation Act of the State of Connecticut and is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code"). Contributions to the Organization are tax deductible within the limitations prescribed by the Code. The Organization has been classified as an Organization that is not a private foundation and has been designated as a "publicly supported" Organization under the applicable sections of the Code. Income which is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income statements. The Organization had no unrelated business income for the years ended November 30, 2013 and 2012.

The Organization may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Based on the Organization's evaluation of its tax positions at November 30, 2013 and 2012, the Organization had no liabilities for uncertain tax positions.

Prior Year Summarized Totals: The financial statements include certain prior year summarized, comparative information in total, but not by net asset class or by functional program. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements for the year ended November 30, 2012, from which the summarized information was derived.

Recent Accounting Pronouncements: In October 2012, the FASB issued guidance which requires a not-for-profit entity to classify cash receipts from the sale of donated financial assets consistently with cash donations received in the statement of cash flows if those cash receipts were from the sale of donated financial assets that upon receipt were directed without any not-for-profit entity-imposed limitations for sale and were converted nearly immediately into cash. Accordingly, the cash receipts from the sale of those financial assets should be classified as cash inflows from operating activities, unless the donor restricted the use of the contributed resources to long-term purposes, in which case those cash receipts should be classified as cash flows from financing activities. Otherwise, cash receipts from the sale of donated financial assets should be classified as cash flows from investing activities. This guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after June 15, 2013. The Fund does not anticipate the adoption of this amendment will have a material impact on the financial statements.

## SeriousFun Children's Network, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Activities and Significant Accounting Policies (Continued)

In April 2013, the FASB issued guidance which requires a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring such services will significantly overstate or understate the value, the recipient may elect to recognize the service at either the cost recognized by the affiliate, or the fair value of the service. This guidance is effective prospectively for fiscal years beginning after June 14, 2014, and interim and annual periods thereafter. The Fund does not anticipate the adoption of this amendment will have a material impact on the financial statements.

#### Note 2. Net Assets

Temporarily restricted net assets consisted of the following as of November 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Time restrictions	\$ -	\$ 135,818
Purpose restrictions	<u>10,940,385</u>	<u>13,756,151</u>
	<u>\$ 10,940,385</u>	<u>\$ 13,891,969</u>

The purpose restrictions relate primarily to amounts to be expended on new camp development, grants to member camps, and other future events and operations.

Net assets were released from donor restrictions in 2013 and 2012 as follows:

	<u>2013</u>	<u>2012</u>
Incurring expenses satisfying purpose restrictions	\$ 4,878,860	\$ 6,168,408
Passage of time	<u>135,818</u>	<u>1,524,048</u>
	<u>\$ 5,014,678</u>	<u>\$ 7,692,456</u>

#### Note 3. Loan Receivable

At November 30, 2013, the Organization's loan receivable represents the amount receivable from the Over the Wall Camp in the United Kingdom under a \$350,000 unsecured line of credit. The line of credit bears interest at a rate of 2% per annum and will be repaid at a rate and time to be determined by both parties, but no later than December 31, 2016.

At November 30, 2012, the Organization's \$500,000 loan receivable was an unsecured interest free loan to The Painted Turtle Camp in California which was repaid in full on January 13, 2013.

## SeriousFun Children's Network, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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#### Note 4. Pledges Receivable

Pledges receivable consisted of the following as of November 30, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Gross amounts due in:		
One year	\$ 162,971	\$ 1,330,000
Less unamortized discount to present value (0.45% to 0.75%)	(91)	(8,330)
	<u>\$ 162,880</u>	<u>\$ 1,321,670</u>

#### Note 5. Investments

Investments consisted of the following as of November 30, 2013 and 2012:

	<u>2013</u>	
	<u>Cost</u>	<u>Fair Value</u>
Fixed income portfolio mutual funds	\$ 14,526,969	\$ 14,580,647
Common stock	37,026	10,120
	<u>\$ 14,563,995</u>	<u>\$ 14,590,767</u>
	<u>2012</u>	
	<u>Cost</u>	<u>Fair Value</u>
Fixed income portfolio mutual funds	\$ 15,175,202	\$ 15,527,070
Common stock	27,000	33
	<u>\$ 15,202,202</u>	<u>\$ 15,527,103</u>

#### Note 6. Related Party Transactions

During the year ended November 30, 2013 and 2012, the Organization received approximately \$7,099,000 and \$6,870,000, respectively, of cash contributions from members of the Organization's boards of directors and their affiliates.

## SeriousFun Children's Network, Inc. and Subsidiary

### Notes to Consolidated Financial Statements

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#### Note 7. In-Kind Contributions and Expenses

Contributions-in-kind and related expenses totaling \$11,084,754 and \$4,983,946 for the years ended November 30, 2013 and 2012, respectively, have been reflected in the Organization's financial statements. For the year ended November 30, 2013, the amounts are comprised of \$11,083,730 of donated media and \$1,024 of computer equipment. For the year ended November 30, 2012, the amounts are comprised of \$4,961,275 of donated media and \$22,671 of pro bono legal advice. The expenses are reflected in the statement of activities for the year ended November 30, 2013 and 2012, as follows:

	<u>2013</u>	<u>2012</u>
Member camps	\$ 10,658,364	\$ 3,894,444
General and administrative	1,024	22,671
Development	425,366	976,531
	<u>\$ 11,084,754</u>	<u>\$ 4,893,646</u>

#### Note 8. Retirement Plans

The Organization sponsors a qualified defined contribution retirement plan (the "Plan") for all eligible employees. Employees are eligible to participate in the Plan after completing one year of service and attaining 21 years of age. The Organization contributes 9% of eligible salaries to the Plan annually, and employees become fully vested in Organization's contributions after three years of service. Retirement expense related to this Plan was approximately \$117,300 and \$102,500 for the years ended November 30, 2013 and 2012, respectively.

In addition, the Organization sponsors a qualified tax-deferred annuity plan whereby substantially all employees are eligible to contribute a portion of their salaries to this Plan, subject to federal limitations. The Organization does not make contributions to this Plan.

#### Note 9. Commitments

The Organization entered into an operating lease for its Westport, Connecticut office beginning January 1, 2011 that expires in 2016. The Organization also entered into an operating lease for its New York office beginning January 1, 2013 that expires December 31, 2015. Rental commitments for years subsequent to November 30, 2013 are as follows:

<u>Year Ended November 30th</u>	
2014	\$ 257,175
2015	271,134
2016	22,698
	<u>\$ 551,007</u>

Rent expense recognized in the statement of activities under its operating leases was approximately \$235,000 and \$151,000 for the years ended November 30, 2013 and 2012, respectively.

As of November 30, 2013, the Organization's board of directors has authorized conditional grants to member camps aggregating approximately \$3,309,000.

#### Note 10. Subsequent Events

Subsequent events have been evaluated through February 18, 2014, the date the financial statements were available to be issued.