

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

**Consolidated Financial Statements
and Independent Auditor's Report
(With Supplementary Information)**

December 31, 2016 and 2015

SeriousFun Children's Network, Inc. and Subsidiaries

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Independent Auditor's Report

To the Board of Directors
SeriousFun Children's Network, Inc. and Subsidiaries

We have audited the accompanying consolidated financial statements of SeriousFun Children's Network, Inc. and Subsidiaries, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of SeriousFun Children's Network, Inc. and Subsidiaries as of December 31, 2016 and 2015, and the changes in their net assets and their cash flows for the years the ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information on pages 19 and 20 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

CohnReznick LLP

Hartford, Connecticut
February 24, 2017

SeriousFun Children's Network, Inc. and Subsidiaries

**Consolidated Statements of Financial Position
December 31, 2016 and 2015**

	<u>Assets</u>	
	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents	\$ 6,067,170	\$ 4,810,074
Loan receivable	400,000	324,160
Pledges receivable	371,648	827,274
Prepaid expenses and other assets	213,793	182,818
Investments	5,999,003	5,494,780
Furniture and equipment (net of accumulated depreciation of \$247,538 and \$249,426, respectively)	<u>20,557</u>	<u>54,160</u>
 Total assets	 <u>\$ 13,072,171</u>	 <u>\$ 11,693,266</u>
	 <u>Liabilities and Net Assets</u>	
Liabilities		
Accounts payable and accrued expenses	\$ 272,712	\$ 289,406
Payables to camps	3,596,154	1,941,685
Deferred revenue	<u>1,000,000</u>	<u>1,000,000</u>
 Total liabilities	 <u>4,868,866</u>	 <u>3,231,091</u>
Commitments		
Net assets		
Unrestricted	2,771,410	1,740,265
Temporarily restricted	<u>5,431,895</u>	<u>6,721,910</u>
 Total net assets	 <u>8,203,305</u>	 <u>8,462,175</u>
 Total liabilities and net assets	 <u>\$ 13,072,171</u>	 <u>\$ 11,693,266</u>

See Notes to Consolidated Financial Statements.

SeriousFun Children's Network, Inc. and Subsidiaries

**Consolidated Statements of Activities
Years Ended December 31, 2016 and 2015**

	Unrestricted	Temporarily restricted	2016	Unrestricted	Temporarily restricted	2015
Support and revenue						
Contributions	\$ 4,867,284	\$ 7,059,402	\$ 11,926,686	\$ 5,310,591	\$ 4,384,293	\$ 9,694,884
Special events	2,124,420	533,085	2,657,505	2,083,162	2,227,614	4,310,776
Special events program expense	(1,131,138)	(2,567)	(1,133,705)	(2,320,040)	(155,274)	(2,475,314)
Contributions in-kind	2,693,554	1,417,835	4,111,389	5,146,868	1,130,668	6,277,536
Other income	(1,968)	-	(1,968)	29,570	-	29,570
Total support	<u>8,552,152</u>	<u>9,007,755</u>	<u>17,559,907</u>	<u>10,250,151</u>	<u>7,587,301</u>	<u>17,837,452</u>
Revenue						
Dividends, interest and other investment income	103,168	-	103,168	101,564	-	101,564
Realized and unrealized gain (loss) on investments	46,505	-	46,505	(80,693)	-	(80,693)
Net assets released from restrictions	10,297,770	(10,297,770)	-	10,536,727	(10,536,727)	-
Total revenue	<u>10,447,443</u>	<u>(10,297,770)</u>	<u>149,673</u>	<u>10,557,598</u>	<u>(10,536,727)</u>	<u>20,871</u>
Total support and revenue	<u>18,999,595</u>	<u>(1,290,015)</u>	<u>17,709,580</u>	<u>20,807,749</u>	<u>(2,949,426)</u>	<u>17,858,323</u>
Expenses						
Program services	<u>14,585,528</u>	<u>-</u>	<u>14,585,528</u>	<u>17,715,465</u>	<u>-</u>	<u>17,715,465</u>
Support services						
General and administrative	839,335	-	839,335	547,151	-	547,151
Development	2,427,193	-	2,427,193	2,367,203	-	2,367,203
Total support services	<u>3,266,528</u>	<u>-</u>	<u>3,266,528</u>	<u>2,914,354</u>	<u>-</u>	<u>2,914,354</u>
Total expenses	<u>17,852,056</u>	<u>-</u>	<u>17,852,056</u>	<u>20,629,819</u>	<u>-</u>	<u>20,629,819</u>
Changes in net assets	1,147,539	(1,290,015)	(142,476)	177,930	(2,949,426)	(2,771,496)
Loss on foreign currency	(116,394)	-	(116,394)	(103,151)	-	(103,151)
Total change in net assets	1,031,145	(1,290,015)	(258,870)	74,779	(2,949,426)	(2,874,647)
Net assets, beginning	1,740,265	6,721,910	8,462,175	1,665,486	9,671,336	11,336,822
Net assets, end	<u>\$ 2,771,410</u>	<u>\$ 5,431,895</u>	<u>\$ 8,203,305</u>	<u>\$ 1,740,265</u>	<u>\$ 6,721,910</u>	<u>\$ 8,462,175</u>

See Notes to Consolidated Financial Statements.

SeriousFun Children's Network, Inc. and Subsidiaries

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2016
(With Comparative Totals for 2015)**

	Program	General and administrative	Development	2016 Total	2015 Total
Grants and financial support to camps	\$ 10,052,323	\$ -	\$ -	\$ 10,052,323	\$ 9,843,757
Salaries and benefits	1,428,679	469,254	975,708	2,873,641	3,348,786
Outside services	207,354	19,618	202,961	429,933	774,599
Travel and conferences	245,518	15,694	65,748	326,960	459,526
Office expenses and other	123,551	37,712	159,799	321,062	360,612
Marketing and communications	2,324,462	225,253	894,683	3,444,398	5,392,742
Rent and utilities	126,818	23,901	77,299	228,018	285,135
Insurance	60,645	45,231	42,353	148,229	122,810
Uncollectible pledges	2,000	-	-	2,000	1,160
Depreciation	14,178	2,672	8,642	25,492	40,692
Total	\$ 14,585,528	\$ 839,335	\$ 2,427,193	\$ 17,852,056	\$ 20,629,819

See Notes to Consolidated Financial Statements.

SeriousFun Children's Network, Inc. and Subsidiaries

**Consolidated Statement of Functional Expenses
Year Ended December 31, 2015**

	Program	General and administrative	Development	2015 Total
Grants and financial support to camps	\$ 9,843,757	\$ -	\$ -	\$ 9,843,757
Salaries and benefits	1,795,171	419,667	1,133,948	3,348,786
Outside services	367,403	29,510	377,686	774,599
Travel and conferences	397,805	12,531	49,190	459,526
Office expenses and other	169,210	25,759	165,643	360,612
Marketing and communications	4,895,271	-	497,471	5,392,742
Rent and utilities	162,629	24,720	97,786	285,135
Insurance	60,119	31,300	31,391	122,810
Uncollectible pledges	-	-	1,160	1,160
Depreciation	24,100	3,664	12,928	40,692
Total	\$ 17,715,465	\$ 547,151	\$ 2,367,203	\$ 20,629,819

See Notes to Consolidated Financial Statements.

SeriousFun Children's Network, Inc. and Subsidiaries

**Consolidated Statements of Cash Flows
Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ (258,870)	\$ (2,874,647)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Realized and unrealized gain on investments	(46,505)	(80,693)
Depreciation	25,492	40,692
Provisions for change in foreign currency - loan receivable	(25,840)	18,290
(Gain) loss on disposal of property and equipment	8,111	(2,427)
Changes in operating assets and liabilities		
Pledges receivable	455,626	(564,300)
Prepaid expenses and other assets	(5,543)	108,454
Accounts payable and accrued expenses	244,344	(45,014)
Payable to camps	1,367,999	267,127
Deferred revenue	<u>-</u>	<u>1,000,000</u>
Net cash provided by (used in) operating activities	<u>1,764,814</u>	<u>(2,132,518)</u>
Cash flows from investing activities		
Proceeds from sale of investments	5,485	4,400,000
Purchase of investments	(463,203)	(180,296)
Disbursements of loan receivable	(400,000)	305,870
Repayment of loan receivable	350,000	-
Proceeds from sale of property and equipment	<u>-</u>	<u>2,500</u>
Net cash (used in) provided by investing activities	<u>(507,718)</u>	<u>4,222,204</u>
Net increase in cash and cash equivalents	1,257,096	2,089,686
Cash and cash equivalents, beginning	<u>4,810,074</u>	<u>2,720,388</u>
Cash and cash equivalents, end	<u>\$ 6,067,170</u>	<u>\$ 4,810,074</u>

See Notes to Financial Statements.

SeriousFun Children's Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Note 1 - Nature of activities and summary of significant accounting policies

Nature of activities

SeriousFun Children's Network, Inc. (the "Organization") was formed in 2000 to support 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, the Caribbean, Europe, Africa and Asia.

For member camps and programs, 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 fundraising to benefit all camps.

For global partnerships and new initiatives, the activities include:

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

Principles of consolidation

The consolidated financial statements include the accounts of the Organization and two related not-for-profit entities that are controlled by the Organization. Stichting SeriousFun Children's Network, Europe ("Stichting") was established in 2010 to organize and manage fundraising for the affiliated camps located in Europe. SeriousFun Children's Network International, United Kingdom ("UK") was established in 2014 to organize and manage fundraising for the affiliated camps from donors based in the United Kingdom. All material inter-organization transactions and balances have been eliminated in consolidation.

Basis of presentation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The consolidated financial statements report information regarding financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. They are described as follows:

Unrestricted - Net assets that are not subject to explicit donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

SeriousFun Children's Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Temporarily restricted - Net assets that are subject to explicit donor-imposed stipulations or by operation of law that can be fulfilled by actions of the Organization or that expire by the passage of time.

Permanently restricted - Net assets subject to explicit donor-imposed stipulations that they be maintained permanently by the Organization and stipulate the use of income and/or appreciation as either unrestricted or temporarily restricted based on donor-imposed stipulations or by operation of law. There were no permanently restricted net assets at December 31, 2016 or 2015.

Revenue recognition

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restrictions expire in the reporting period in which the support is recognized. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to the unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

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. Conditional promises to give are not recognized as contributions until such time the conditions upon which they depend are substantially met.

Contributions in-kind

Non-cash contributions - The Organization records the estimated fair value of the donated materials, equipment and usage of assets (i.e., rent) as both contribution in-kind revenue and expenses in the accompanying financial statements at their estimated fair values at the date of receipt. Non-cash contributions were \$1,417,835 and \$1,130,668 for donated tee-shirts and other merchandise for the years ended December 31, 2016 and 2015, respectively.

Donated services - The Organization recognizes donated services if they create or enhance non-financial assets or require specialized skills and would typically be purchased if not provided by donation. The Organization values these volunteer services based upon current rates provided to the Organization by the donor. Contributed media services were \$2,693,554 and \$5,146,868 for the years ended December 31, 2016 and 2015, respectively. In addition, a substantial number of volunteers have donated significant amounts of their time toward the Organization's program services and its fundraising campaigns; however, such services are not recognized in the financial statements because such services do not meet the recognition criteria under accounting principles generally accepted in the United States of America.

Income taxes

SeriousFun Children's Network, Inc. was organized as a nonprofit corporation under Section 501 (c)(3) of the internal Revenue Code (the "Code") and, as such, is not subject to federal and state corporate income taxes.

SeriousFun Children's Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016 and 2015

The Organization has no unrecognized tax benefits for the years ended December 31, 2016 and 2015. The Organization's federal information returns prior to fiscal year 2013 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If the Organization has unrelated business income taxes, they will recognize interest and penalties associated with uncertain positions as part of the income tax provision and include accrued interest and penalties with the related tax liability in the consolidated statements of financial position.

Statements of cash flows

For the purpose of the statements of cash flows, the Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. There was \$3,005,177 and \$1,902,679 of cash equivalents as of December 31, 2016 and 2015, respectively.

Investments

Investments are reported at fair value with gains and losses included in the consolidated statements of activities. Gains and losses are considered unrestricted unless restricted by donor stipulation or law. Nonmonetary investments received as gifts are immediately sold and recorded at the realized value.

Furniture and equipment

The Organization capitalizes all furniture and equipment purchased in excess of \$2,000 and with a useful life greater than one year. Purchased furniture and equipment are carried at cost. Donated furniture and equipment is carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of five years.

Expenses for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in change in net assets for the period.

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.

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.

Use of estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

SeriousFun Children's Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Liquidity information

In order to provide information about liquidity, assets have been sequenced according to their nearness of conversion to cash. Liabilities have been sequenced according to the nearness of their resulting use of cash.

Foreign currency

The Organization's wholly owned not-for-profit subsidiaries are located in the Netherlands and the United Kingdom. The functional currencies of these foreign operations are the local currencies. The financial statements of the Organization's foreign subsidiaries have been translated into U.S. dollars. All statement of financial position accounts have been translated using the exchange rate in effect at the statement of financial position dates. Statements of activities amounts have been translated using the average exchange rate for the year. Foreign currency translation adjustments resulted in losses of \$116,394 and \$103,151 for the years ended December 31, 2016 and 2015, respectively, and have been reported separately in the consolidated statements of activities. Accumulated net translation adjustments have been reported in unrestricted net assets in the consolidated statements of financial position.

As of February 24, 2017, there was an increase in both the value of the Euro and the value of the British Pound relative to the U.S. dollar. As a result of these changes in foreign currency, the Organization expects to record a gain of approximately \$10,000 in 2017.

Concentrations of credit risk

The Organization maintains its United States-based cash and cash equivalent balances in several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation. From time to time, the Organization's balances may exceed these limits. At December 31, 2016 and 2015, the Organization's uninsured domestic bank balances totaled approximately \$4,924,000 and \$3,564,000, respectively. Cash held in foreign accounts are not covered by any government insurance. At December 31, 2016 and 2015, the Organization's uninsured foreign bank balances totaled approximately \$875,000 and \$1,019,000, respectively. The Organization limits its credit risk by selecting financial institutions considered to be highly creditworthy.

The Organization invests in various equity securities. These investment securities are recorded at fair value. Accordingly, the investment securities can fluctuate because of interest rates, reinvestment, credit and other risk depending on the nature of the specific investment. Therefore, it is at least reasonably possible that these factors could result in changes in the value of the Organization's investments which could materially affect amounts reported in the consolidated financial statements.

The Organization has operations outside the United States with foreign currency denominated assets and liabilities, primarily denominated in the Euro and the British pound. Because the Organization has foreign currency denominated assets and liabilities, financial exposure may result, primarily from the timing of transactions and the movement of exchange rates. The foreign currency balance sheet exposures as of the end of 2016 are not expected to result in a significant impact on future earnings or cash flows.

Reclassification

Certain prior year information has been reclassified to conform with the current year financial statement presentation.

SeriousFun Children's Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Subsequent events

The Organization has evaluated subsequent events through February 24, 2017, which is the date the financial statements were available to be issued.

Note 2 - Loans receivable

The Organization's loan receivable in 2016 represents the amount receivable from Flying Horse Farms under a \$400,000 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 January 31, 2017. The \$400,000 due from Flying Horse Farms at December 31, 2016 was subsequently collected on January 27, 2017.

The Organization's loan receivable in 2015 represented the Over the Wall Camp in the United Kingdom under a \$350,000 unsecured line of credit. The line of credit bore interest at a rate of 2% per annum and was repaid during 2016. The Organization was responsible for any changes in currency fluctuation at the time the loan was repaid.

Total loan receivable balance as of December 31, 2016 and 2015 was \$400,000 and \$324,160, respectively.

Note 3 - Investments and fair value measurement

The Organization's investments at December 31, 2016 are presented at market value and consist of the following:

	<u>Cost</u>	<u>Fair value</u>	<u>Unrealized loss</u>
Mutual funds	<u>\$ 6,116,998</u>	<u>\$ 5,999,003</u>	<u>\$ (117,995)</u>
Total	<u>\$ 6,116,998</u>	<u>\$ 5,999,003</u>	<u>\$ (117,995)</u>

The Organization's investments at December 31, 2015 are presented at market value and consist of the following:

	<u>Cost</u>	<u>Fair value</u>	<u>Unrealized gain (loss)</u>
Mutual funds	<u>\$ 5,653,796</u>	<u>\$ 5,489,236</u>	<u>\$ (164,560)</u>
Common stock	<u>5,511</u>	<u>5,544</u>	<u>33</u>
Total	<u>\$ 5,659,307</u>	<u>\$ 5,494,780</u>	<u>\$ (164,527)</u>

The Organization values its financial assets and liabilities that are recognized or disclosed at fair value on a recurring or non-recurring basis. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

SeriousFun Children's Network, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

The fair value hierarchy distinguishes three levels of inputs that may be utilized when measuring fair value. The three levels of the fair value hierarchy are described below:

- Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to level 1 inputs. 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 or liabilities; quoted prices in inactive markets or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.
- Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to level 3 inputs.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. 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). Valuation techniques used need to maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2016:

	Assets at fair value as of December 31, 2016			
Fair value	Quoted prices in active market for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	
Mutual funds	\$ 5,999,003	\$ 5,999,003	\$ -	\$ -
	<u>\$ 5,999,003</u>	<u>\$ 5,999,003</u>	<u>\$ -</u>	<u>\$ -</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2015:

SeriousFun Children's Network, Inc. and Subsidiaries

**Notes to Consolidated Financial Statements
December 31, 2016 and 2015**

	Assets at fair value as of December 31, 2015			
	Fair value	Quoted prices in active market for identical assets (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)
Fixed income portfolio mutual funds	\$ 5,489,236	\$ 5,489,236	\$ -	\$ -
Common stock	5,544	5,544	-	-
	<u>\$ 5,494,780</u>	<u>\$ 5,494,780</u>	<u>\$ -</u>	<u>\$ -</u>

Investments in mutual funds are valued at the daily closing price as reported by the fund (level 1). Mutual funds are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (“NAV”) and to transact at that price. The funds held by the Organization are deemed to be actively traded. Common stock is valued using market prices on active markets (level 1). Level 1 instrument valuations are obtained from real time quotes for transactions in active exchange markets involving identical assets.

The preceding method may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization 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. There were no changes in valuation methods from 2015 to 2016.

Note 4 - Pledges receivable

Unconditional pledges receivable were \$371,648 and \$827,274 at December 31, 2016 and 2015, respectively. The pledges are all expected to be collected within one year and, therefore, no discount or allowance has been recorded.

The Organization received restricted contributions totaling \$6,000,000 that contained donor conditions (primarily matching funds requirements). At December 31, 2016, the final \$2,000,000 match was received of the \$6,000,000 from donors as stipulated in the grant agreement. The remaining \$2,000,000 of these contributions were recorded as contribution revenue when the donor conditions are met.

Note 5 - Conditional promise to give

The Organization received a conditional promise to give through an agreement covering the period January 2016 through December 2020 where the Company agrees to contribute no less than \$7.5 million based upon fundraising efforts, merchandise sales and on-line promotions. The Company will provide the following on an annual basis:

- \$1million cash contribution, minimum
- \$1.5 million in non-cash donations, minimum
- 20,000 volunteer service hours
- Ad-hoc gifts

SeriousFun Children's Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016 and 2015

Note 6 - Net assets

Temporarily restricted net assets consisted of the following for the years ended December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Purpose restrictions	<u>\$ 5,431,895</u>	<u>\$ 6,721,910</u>

The purpose restrictions relate primarily to amounts to be expended grants to member camps and other future events and operations.

In the years ended December 31, 2016 and 2015, net assets of \$10,297,770 and \$10,536,727, respectively, were released from donor restrictions due to the satisfaction of purpose restrictions.

Note 7 - Related party transactions

During the years ended December 31, 2016 and 2015, the Organization received approximately \$7,399,985 and \$7,325,711, respectively, of cash contributions from members of the Organization's board of directors and their affiliates.

One related party contributed approximately \$5,936,000 in year ended December 31, 2016 and \$5,475,000 in year ended December 31, 2015, which is approximately 33% and 30% of total revenue, respectively.

Note 8 - In-kind contributions and expenses

Contributions in-kind and related expenses totaling \$4,111,389 and \$6,277,536 for the years ended December 31, 2016 and 2015, respectively, for donated media and supplies, have been reflected in the Organization's consolidated financial statements. The expenses are reflected in the statement of activities:

	<u>2016</u>	<u>2015</u>
Member camps	\$ 3,517,044	\$ 5,903,000
Development	<u>594,345</u>	<u>374,536</u>
	<u>\$ 4,111,389</u>	<u>\$ 6,277,536</u>

Note 9 - 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 the Organization's contribution after three years of service. Retirement expense related to this Plan was \$128,804 and \$173,867 for the years ended December 31, 2016 and 2015, respectively.

SeriousFun Children's Network, Inc. and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2016 and 2015

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 10 - Commitments

As of December 31, 2015, the Organization's board of directors has authorized conditional grants to member camps aggregating approximately \$586,000. There were no conditional grants authorized to member camps as of December 31, 2016.

The Organization entered into an operating lease for its Westport, Connecticut office beginning January 1, 2011 that expired in 2016. The Organization renewed the Westport, Connecticut lease in 2015 extending the lease term to 2020.

The Organization entered into various operating leases for office equipment that expire at various dates through December 31, 2018.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2016, for each of the next four years and in the aggregate are as follows:

	<u>Real estate</u>	<u>Equipment</u>
2017	\$ 183,000	\$ 2,101
2018	195,204	1,647
2019	195,204	-
2020	207,396	-
	<u>\$ 780,804</u>	<u>\$ 3,748</u>

Rent expense recognized in the statements of activities under its operating leases was \$199,777 and \$268,921, respectively, for the years ended December 31, 2016 and 2015.

Note 11 - Deferred revenue

The Organization received a conditional gift of \$1,000,000 from an unrelated organization during 2016 and 2015 to be used for specific expenses during calendar years 2017 and 2016, respectively.

Supplementary Information

SeriousFun Children's Network, Inc. and Subsidiaries

**Consolidating Statement of Financial Position
December 31, 2016**

	<u>Assets</u>			
	SeriousFun Children's Network, Inc.	SeriousFun Children's Network International, United Kingdom	Eliminating entries	2016
Assets				
Cash and cash equivalents	\$ 5,432,783	\$ 634,387	\$ -	\$ 6,067,170
Loan receivable	400,000	-	-	400,000
Pledges receivable	553,912	23,255	(205,519)	371,648
Prepaid expenses and other assets	474,831	-	(261,038)	213,793
Investments	5,999,003	-	-	5,999,003
Furniture and equipment (net of accumulated depreciation of \$247,538)	20,557	-	-	20,557
Total assets	\$ 12,881,086	\$ 657,642	\$ (466,557)	\$ 13,072,171
	<u>Liabilities and Net Assets</u>			
Liabilities				
Accounts payable and accrued expenses	\$ 275,179	\$ 464,090	\$ (466,557)	\$ 272,712
Payables to camps	3,315,781	280,373	-	3,596,154
Deferred revenue	1,000,000	-	-	1,000,000
Total liabilities	4,590,960	744,463	(466,557)	4,868,866
Commitments				
Net assets				
Unrestricted	2,858,231	(86,821)	-	2,771,410
Temporarily restricted	5,431,895	-	-	5,431,895
Total net assets	8,290,126	(86,821)	-	8,203,305
Total liabilities and net assets	\$ 12,881,086	\$ 657,642	\$ (466,557)	\$ 13,072,171

See Independent Auditor's Report.

SeriousFun Children's Network, Inc. and Subsidiaries

Consolidating Statement of Activities Year Ended December 31, 2016

	SeriousFun Children's Network, Inc.		SeriousFun Children's Network International, United Kingdom		Total	Eliminating entries	2016
	Unrestricted	Temporarily restricted	Unrestricted	Temporarily restricted			
Support and revenue							
Contributions	\$ 4,856,691	\$ 7,036,978	\$ 10,593	\$ 22,424	\$ 11,926,686	\$ -	\$ 11,926,686
Special events	1,905,605	216,979	218,815	316,106	2,657,505	-	2,657,505
Special events program expense	(825,190)	(2,567)	(305,948)	-	(1,133,705)	-	(1,133,705)
Contributions in-kind	2,693,554	1,417,835	-	-	4,111,389	-	4,111,389
Other income	(8,111)	-	6,143	-	(1,968)	-	(1,968)
Total support	<u>8,622,549</u>	<u>8,669,225</u>	<u>(70,397)</u>	<u>338,530</u>	<u>17,559,907</u>	<u>-</u>	<u>17,559,907</u>
Revenue							
Dividends, interest and other investment income	103,126	-	42	-	103,168	-	103,168
Realized and unrealized gain on investments	46,505	-	-	-	46,505	-	46,505
Net assets released from restrictions	9,959,240	(9,959,240)	338,530	(338,530)	-	-	-
Total revenue	<u>10,108,871</u>	<u>(9,959,240)</u>	<u>338,572</u>	<u>(338,530)</u>	<u>149,673</u>	<u>-</u>	<u>149,673</u>
Total support and revenue	<u>18,731,420</u>	<u>(1,290,015)</u>	<u>268,175</u>	<u>-</u>	<u>17,709,580</u>	<u>-</u>	<u>17,709,580</u>
Expenses							
Program services	<u>14,240,830</u>	<u>-</u>	<u>344,698</u>	<u>-</u>	<u>14,585,528</u>	<u>-</u>	<u>14,585,528</u>
Support services							
General and administrative	828,879	-	10,456	-	839,335	-	839,335
Development	2,427,193	-	-	-	2,427,193	-	2,427,193
Total support services	<u>3,256,072</u>	<u>-</u>	<u>10,456</u>	<u>-</u>	<u>3,266,528</u>	<u>-</u>	<u>3,266,528</u>
Total expenses	<u>17,496,902</u>	<u>-</u>	<u>355,154</u>	<u>-</u>	<u>17,852,056</u>	<u>-</u>	<u>17,852,056</u>
Changes in net assets	1,234,518	(1,290,015)	(86,979)	-	(142,476)	-	(142,476)
Loss on foreign currency	(116,394)	-	-	-	(116,394)	-	(116,394)
Total change in net assets	1,118,124	(1,290,015)	(86,979)	-	(258,870)	-	(258,870)
Net assets, beginning	<u>1,740,107</u>	<u>6,721,910</u>	<u>158</u>	<u>-</u>	<u>8,462,175</u>	<u>-</u>	<u>8,462,175</u>
Net assets, end	<u>\$ 2,858,231</u>	<u>\$ 5,431,895</u>	<u>\$ (86,821)</u>	<u>\$ -</u>	<u>\$ 8,203,305</u>	<u>\$ -</u>	<u>\$ 8,203,305</u>

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