Project Sunshine, Inc.

Financial Report
December 31, 2017

Contents

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Independent Auditor's Report

RSM US LLP

To the Board of Directors
Project Sunshine, Inc.

Report on the Financial Statements
We have audited the accompanying financial statements of Project Sunshine, Inc., 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.

Auditor's 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 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 Project Sunshine, Inc. 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.

RSM US LLP

New York, New York
August 21, 2018

Project Sunshine, Inc.

Statements of Financial Position
December 31, 2017 and 2016

		2017		2016
Assets				
Cash and cash equivalents	**$**	**2,635,595**	$	2,205,957
Contributions receivable		**93,061**		304,235
Prepaid expenses and other assets		**178,564**		180,669
Investment in certificate of deposit		**-**		200,926
Property and equipment, net		**270,290**		240,877
Total assets	**$**	**3,177,510**	$	3,132,664
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	**$**	**79,727**	$	53,553
Deferred rent obligation		**69,597**		58,220
Total liabilities		**149,324**		111,773
Commitments				
Net assets:				
Unrestricted		**2,274,189**		2,009,662
Temporarily restricted		**753,997**		1,011,229
Total net assets		**3,028,186**		3,020,891
Total liabilities and net assets	**$**	**3,177,510**	$	3,132,664

See notes to financial statements.

Project Sunshine, Inc.

Statements of Activities
Years Ended December 31, 2017 and 2016

	2017			2016		
	Unrestricted	**Temporarily Restricted**	**Total**	Unrestricted	Temporarily Restricted	Total
Support, revenue, gains and losses:						
Grants and contributions	**$ 1,018,653**	**$ 753,997**	**$ 1,772,650**	$ 813,805	$ 1,002,512	$ 1,816,317
Contributed services and materials	**226,625**	**-**	**226,625**	682,106	-	682,106
Special event revenue (net of direct expenses of $405,364 for 2017 and $451,338 for 2016 and donated goods and services of $10,400 for 2017 and $9,100 for 2016)	**1,329,023**	**-**	**1,329,023**	1,362,727	-	1,362,727
Interest and dividend income	**1,428**	**-**	**1,428**	1,677	-	1,677
Net assets released from restrictions - satisfaction of restrictions	**1,011,229**	**(1,011,229)**	**-**	1,288,835	(1,288,835)	-
Total support, revenue, gains and losses	**3,586,958**	**(257,232)**	**3,329,726**	4,149,150	(286,323)	3,862,827
Expenses:						
Program services	**2,632,473**	**-**	**2,632,473**	3,082,624	-	3,082,624
Supporting services:						
Management and general	**321,599**	**-**	**321,599**	290,101	-	290,101
Fund-raising	**368,359**	**-**	**368,359**	282,614	-	282,614
Total expenses	**3,322,431**	**-**	**3,322,431**	3,655,339	-	3,655,339
Change in net assets	**264,527**	**(257,232)**	**7,295**	493,811	(286,323)	207,488
Net assets:						
Beginning	**2,009,662**	**1,011,229**	**3,020,891**	1,515,851	1,297,552	2,813,403
Ending	**$ 2,274,189**	**$ 753,997**	**$ 3,028,186**	$ 2,009,662	$ 1,011,229	$ 3,020,891

See notes to financial statements.

Project Sunshine, Inc.

Statements of Functional Expenses
Years Ended December 31, 2017 and 2016

	2017				2016			
		Supporting Services				Supporting Services		
	Program Services	**Management and General**	**Fund-raising**	**Total Expenses**	Program Services	Management and General	Fund-raising	Total Expenses
Employee compensation:								
Salaries	**$ 1,080,345**	**$ 119,883**	**$ 207,825**	**$ 1,408,053**	$ 1,003,261	$ 113,006	$ 160,402	$ 1,276,669
Employee benefits	**86,561**	**6,441**	**9,635**	**102,637**	106,286	7,359	10,971	124,616
Payroll taxes	**98,800**	**7,344**	**10,986**	**117,130**	84,548	5,848	8,718	99,114
Total employee compensation	**1,265,706**	**133,668**	**228,446**	**1,627,820**	1,194,095	126,213	180,091	1,500,399
Other expenses:								
Computer	**24,157**	**912**	**7,045**	**32,114**	23,076	808	6,659	30,543
Food	**15,280**	**-**	**2,697**	**17,977**	27,828	-	2,985	30,813
Insurance	**20,509**	**1,509**	**2,257**	**24,275**	20,685	1,423	2,121	24,229
Miscellaneous expenses	**29,404**	**1,666**	**4,150**	**35,220**	28,266	1,331	2,503	32,100
Occupancy	**211,592**	**15,744**	**23,551**	**250,887**	206,487	14,297	21,314	242,098
Office supplies and materials	**33,328**	**1,889**	**14,309**	**49,526**	48,371	2,604	13,585	64,560
Printing and postage	**67,922**	**4,778**	**28,185**	**100,885**	58,446	3,957	27,406	89,809
Materials and other support	**631,742**	-	-	**631,742**	1,139,971	-	-	1,139,971
Professional fees	**130,316**	**114,620**	**15,169**	**260,105**	106,398	121,999	11,172	239,569
Consulting fees	**109,380**	**40,520**	**31,174**	**181,074**	115,668	12,832	6,465	134,965
Telephone	**12,224**	**890**	**1,332**	**14,446**	13,230	876	1,796	15,902
Travel	**29,821**	**1,602**	**4,357**	**35,780**	60,837	1,042	2,464	64,343
Depreciation and amortization	**51,092**	**3,801**	**5,687**	**60,580**	39,266	2,719	4,053	46,038
Total other expenses	**1,366,767**	**187,931**	**139,913**	**1,694,611**	1,888,529	163,888	102,523	2,154,940
Total expenses	**$ 2,632,473**	**$ 321,599**	**$ 368,359**	**$ 3,322,431**	$ 3,082,624	$ 290,101	$ 282,614	$ 3,655,339

See notes to financial statements.

Project Sunshine, Inc.

Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	**$ 7,295**	$ 207,488
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**60,580**	46,038
Amortization of deferred rent obligation	**11,377**	20,315
Changes in operating assets and liabilities:		
Decrease in contributions receivable	**211,174**	254,590
Decrease (increase) in prepaid expenses and other assets	**2,105**	(12,682)
Increase (decrease) in accounts payable and accrued expenses	**26,174**	(30,242)
Net cash provided by operating activities	**318,705**	485,507
Cash flows from investing activities:		
Net proceeds from sales/maturity of investments in certificates of deposit	**200,926**	401,400
Purchases of investments in certificates of deposit	**-**	(401,701)
Purchase of property and equipment	**(89,993)**	(74,568)
Net cash provided by (used in) investing activities	**110,933**	(74,869)
Net increase in cash and cash equivalents	**429,638**	410,638
Cash and cash equivalents:		
Beginning	**2,205,957**	1,795,319
Ending	**$ 2,635,595**	$ 2,205,957

See notes to financial statements.

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Organization and principal business activity: Project Sunshine, Inc. (Project Sunshine) is a corporation organized under the state of New Jersey not-for-profit corporation law. The organization addresses the psychosocial and developmental needs of pediatric patients and their families through play-based models of engagement and recreation. As of December 31, 2017, Project Sunshine coordinates the services of over 18,000 trained volunteers who deliver programs that provide opportunities for creative expression, intellectual stimulation, socialization and sensory integration — ensuring childhood remains a place of wonder. Project Sunshine partners with over 325 medical facilities across the U.S. and in China, Israel and Kenya, serving more than 150,000 pediatric patients and families. Project Sunshine Canada, whose financial statements are not included in these financial statements, operates programs in Canada.

Basis of accounting and financial statement presentation: All financial activities of the chapters originate at the Project Sunshine level. Accordingly, the accompanying financial statements include the financial activities of the chapters. These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The financial statement presentation follows the requirements of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, Financial Statements of Not-for-Profit Organizations.

Net assets: Under ASC 958, Project Sunshine is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets; temporarily restricted net assets; and permanently restricted net assets.

Permanently restricted net assets contain donor-imposed restrictions that stipulate that the resources are to be maintained permanently, but permit the organization to use or expend part or all of the income derived from the donated assets for specified or unspecified purposes. Project Sunshine does not have any permanently restricted net assets as of December 31, 2017 and 2016.

Temporarily restricted net assets contain donor-imposed restrictions that permit the organization to use or expend the assets as specified. The restrictions are satisfied either by the passage of time or by the action of the organization.

Unrestricted net assets represent resources over which the Board of Directors has discretionary control to use for operations, or which have been designated by Project Sunshine's Board of Directors to function as an endowment. Such amounts are not subject to donor-imposed restrictions.

Revenue recognition: Project Sunshine's revenue consists of grants, contributions, fund-raising and special event revenue. Grants, contributions and fund-raising revenue are recorded as temporarily restricted support and net assets if they are received with donor stipulations that limit the use of the contributed assets. When a donor or sponsor restriction expires, restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. However, when a donor or sponsor restriction is met in the same period, the temporarily restricted support is recorded as unrestricted support.

Project Sunshine records various types of contributed support, including services and materials in support of the various aspects of its programs and operations. Contributed support is recognized in accordance with ASC 958-605*, Contributions Received.* Accordingly, contributed services are recognized as revenue if those services (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by people possessing those skills, and would typically be purchased by Project Sunshine if not provided by contribution.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Unpaid volunteers have made a contribution of approximately 75,000 hours during 2017 (89,000 hours during 2016) to assist in Project Sunshine's programs. The value of this contributed time is not reflected in these financial statements because such services do not meet the recognition requirements of GAAP.

Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind support are offset by like amounts included in expenses or assets.

Contributions receivable: Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Contributions receivable that are expected to be collected in one year or more are recorded at the present value of their estimated future cash flows, using risk adjusted interest rates at the time the promise is received. Amortization of the discount is offset against contributions revenue. An allowance for doubtful contributions received is provided by management based on Project Sunshine's experience with the donors and their ability to pay.

Cash and cash equivalents: Cash and cash equivalents include primarily checking and money market accounts held in four financial institutions. One financial institution held approximately 78% and 85% of the total cash and cash equivalents at December 31, 2017 and 2016, respectively.

Project Sunshine maintains cash in deposit accounts which, at times, may exceed federally insured limits and which potentially subject Project Sunshine to a concentration of credit risk. Project Sunshine manages this risk by placing its monies in high-quality financial institutions. Project Sunshine has not experienced any losses in such accounts.

Investment in certificate of deposit: Investments in certificate of deposit are purchased with an original maturity of greater than three months and are recorded at cost, which approximates fair value.

Return on investments is reported as increases in unrestricted net assets unless the donor has explicitly stipulated that income earned is to be used for a specific purpose, in which case, investment income is reported as increases in temporarily restricted net assets.

Property and equipment: Property and equipment is recorded at cost. Project Sunshine capitalizes all purchases of property and equipment with a cost in excess of $500, and having an estimated life greater than one year. Depreciation is provided using the straight-line method based on the estimated useful lives of the assets. Leasehold improvements are amortized over the remaining life of the lease.

Functional classification 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 program and supporting services benefited based on time spent by employees on the services. Project Sunshine receives contributed services and materials, which are reflected in the accompanying statements of functional expenses. Contributed services received amounted to $88,091 and $76,459 for 2017 and 2016, respectively. Contributed materials amounted to $148,934 and $605,647 for 2017 and 2016, respectively. Total contributed services and material amounts of $237,025 and $682,106 were recorded in the statements of activities for 2017 and 2016, respectively.

Use of estimates: The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions by management that could affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Income taxes: Project Sunshine was incorporated in 1998 and is exempt from federal income taxes under Internal Revenue Code (IRC) Section 501(a) as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the IRC. Additionally, Project Sunshine as a nonprofit entity is subject to unrelated business income tax (UBIT), if applicable. For the tax years ended December 31, 2017 and 2016, Project Sunshine did not owe any UBIT.

Management evaluated Project Sunshine's tax positions for all open tax years and has concluded that Project Sunshine had taken no uncertain tax positions that require adjustment or disclosure to these financial statements. Generally, Project Sunshine is no longer subject to income tax examinations by U.S. federal, state or local tax authorities for years before 2014, which is the standard statute of limitations look-back period.

Recently issued accounting pronouncement: In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958)*, *Presentation of Financial Statements for Not-for-Profit Entitie*s, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, net assets with donor restrictions and net assets without donor restrictions and expands disclosure about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017, and therefore, is expected to be adopted by Project Sunshine for the year ending December 31, 2018. Early adoption is permitted. Management is evaluating the impact of this standard on Project Sunshine's financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)*, *Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. ASU 2016-15 is effective for annual periods beginning after December 15, 2017, and therefore, is expected to be adopted by Project Sunshine for the year ending December 31, 2018. Early adoption is permitted. Management is evaluating the impact of this standard on Project Sunshine's financial statements of cash flows.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires lessees to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases. The ASU is effective for Project Sunshine for the year ending December 31, 2019. The adoption of this standard is expected to result in Project Sunshine recognizing right-of-use assets and lease liabilities for some leases currently accounted for as operating leases under the legacy lease accounting guidance. Management is evaluating the impact of this standard on Project Sunshine's financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for recognizing revenue and supersedes most existing revenue recognition guidance, including guidance specific to the health care industry. Companies across all industries will use a new five-step model to recognize revenue from customer contracts. The new standard, which replaces nearly all existing GAAP revenue recognition guidance, will require significant management judgment in addition to changing the way many companies recognize revenue in their financial statements. In August 2015, the FASB issued ASU 2015-14, which delays the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2017. Management is evaluating the impact of this standard on Project Sunshine's financial statements.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Subsequent events: Project Sunshine evaluated events occurring after the date of the financial statements to consider whether or not the effect of such events needs to be reflected and/or disclosed in the financial statements. Such evaluation was performed through August 21, 2018, the date that these financial statements were available to be issued.

Note 2. Property and Equipment, Net

Property and equipment, net, at December 31, 2017 and 2016, consists of the following:

	2017	2016
Website and database	$ 197,918	$ 161,490
Leasehold improvements	22,282	22,282
Office furniture and equipment	194,238	203,554
	414,438	387,326
Less accumulated depreciation and amortization	(144,148)	(146,449)
Property and equipment, net	$ 270,290	$ 240,877

Note 3. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following periods or purposes/programs at December 31, 2017 and 2016:

	2017	2016
Time restrictions	$ -	$ 50,000
Purpose restrictions:		
International programs	75,000	290,000
Domestic programs	678,997	671,229
	$ 753,997	$ 1,011,229

Note 4. Commitments

Project Sunshine entered into a lease for a new facility, which was available for occupancy in August of 2014. This lease agreement expires on February 14, 2022, and is subject to rent escalations. Below is the future aggregate minimum commitment under the lease.

Years ending December 31:	
2018	$ 231,137
2019	242,540
2020	249,816
2021	257,310
2022	32,760
Total minimum future payments required	$ 1,013,563

Note 4. Commitments (Continued)

The deferred rent obligation of $69,597 and $58,220 is the difference between the cumulative amounts recorded for rent expense on a straight-line basis over the term of the lease, as compared to the cumulative required amounts paid under the lease as of December 31, 2017 and 2016, respectively.

Rent expense for the years ended December 31, 2017 and 2016, amounted to $247,742 and $238,996, respectively.

Note 5. Employee Benefits

Project Sunshine participates in a defined contribution retirement 401(k) plan (the Plan) for all employees meeting certain eligibility requirements. The amount contributed to the Plan is determined by resolution of the Board of Directors. There was no employer pension contribution for the years ended December 31, 2017 and 2016.