

The Periwinkle Foundation

Financial Statements
and Independent Auditors' Report
for the years ended December 31, 2017 and 2016

The Periwinkle Foundation

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Independent Auditors' Report

To the Board of Directors of
The Periwinkle Foundation:

We have audited the accompanying financial statements of The Periwinkle Foundation, which comprise the statements of financial position as of December 31, 2017 and 2016 and the related statements of activities, of functional expenses, and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements – Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility – Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our 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 auditors' 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 The Periwinkle Foundation as of December 31, 2017 and 2016 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Blazek & Vetterling

June 28, 2018

The Periwinkle Foundation

Statements of Financial Position as of December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 424,790	\$ 580,575
Pledges receivable	25,825	20,080
Prepaid expenses and other assets	43,771	46,623
Investments (<i>Note 2</i>)	<u>936,641</u>	<u>846,133</u>
TOTAL ASSETS	<u>\$ 1,431,027</u>	<u>\$ 1,493,411</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	\$ 23,235	\$ 40,686
Deferred revenue – special events	<u>131,099</u>	<u>7,780</u>
Total liabilities	<u>154,334</u>	<u>48,466</u>
Net assets:		
Unrestricted (<i>Note 3</i>)	1,255,868	1,429,865
Temporarily restricted for future operations	<u>20,825</u>	<u>15,080</u>
Total net assets	<u>1,276,693</u>	<u>1,444,945</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,431,027</u>	<u>\$ 1,493,411</u>

See accompanying notes to financial statements.

The Periwinkle Foundation

Statement of Activities for the year ended December 31, 2017

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions (Note 4)	\$ 589,624	\$ 312,807	\$ 902,431
Special events	554,852		554,852
Cost of direct donor benefit of special events	(102,362)		(102,362)
Investment return (Note 2)	84,508		84,508
Other income	<u>3,050</u>	<u> </u>	<u>3,050</u>
Total revenue	1,129,672	312,807	1,442,479
Net assets released from restrictions:			
Program expenditures	301,982	(301,982)	
Expiration of time restrictions	<u>5,080</u>	<u>(5,080)</u>	<u> </u>
Total	<u>1,436,734</u>	<u>5,745</u>	<u>1,442,479</u>
EXPENSES:			
Program expenses	1,183,638		1,183,638
Management and general	163,335		163,335
Fundraising	<u>263,758</u>	<u> </u>	<u>263,758</u>
Total expenses	<u>1,610,731</u>	<u> </u>	<u>1,610,731</u>
CHANGES IN NET ASSETS	(173,997)	5,745	(168,252)
Net assets, beginning of year	<u>1,429,865</u>	<u>15,080</u>	<u>1,444,945</u>
Net assets, end of year	<u>\$ 1,255,868</u>	<u>\$ 20,825</u>	<u>\$ 1,276,693</u>

See accompanying notes to financial statements.

The Periwinkle Foundation

Statement of Activities for year ended December 31, 2016

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
REVENUE:			
Contributions (<i>Note 4</i>)	\$ 613,495	\$ 283,694	\$ 897,189
Special events	1,070,795		1,070,795
Cost of direct donor benefit of special events	(212,069)		(212,069)
Investment return (<i>Note 2</i>)	72,993		72,993
Other income	<u>3,031</u>		<u>3,031</u>
Total revenue	1,548,245	283,694	1,831,939
Net assets released from restrictions:			
Program expenditures	303,614	(303,614)	
Expiration of time restrictions	<u>6,105</u>	<u>(6,105)</u>	
Total	<u>1,857,964</u>	<u>(26,025)</u>	<u>1,831,939</u>
EXPENSES:			
Program expenses	1,139,133		1,139,133
Management and general	164,830		164,830
Fundraising	<u>278,504</u>		<u>278,504</u>
Total expenses	<u>1,582,467</u>		<u>1,582,467</u>
CHANGES IN NET ASSETS	275,497	(26,025)	249,472
Net assets, beginning of year	<u>1,154,368</u>	<u>41,105</u>	<u>1,195,473</u>
Net assets, end of year	<u>\$ 1,429,865</u>	<u>\$ 15,080</u>	<u>\$ 1,444,945</u>

See accompanying notes to financial statements.

The Periwinkle Foundation

Statements of Functional Expenses for the years ended December 31, 2017 and 2016

	<u>PROGRAM EXPENSES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2017 TOTAL</u>
Salaries and related expenses	\$ 366,430	\$ 52,579	\$ 141,705	\$ 560,714
Professional fees	356,486	62,722	38,016	457,224
Camp rental expenses	218,526			218,526
Supplies	127,039	10,924	40,176	178,139
Occupancy	48,193	11,474	19,102	78,769
Transportation	27,469	546	957	28,972
Printing	16,138	1,778	10,847	28,763
Insurance	14,260	3,395	4,980	22,635
Bank and credit card fees		19,225		19,225
Postage and delivery	5,651	692	7,975	14,318
Other	3,446			3,446
Total expenses	<u>\$ 1,183,638</u>	<u>\$ 163,335</u>	<u>\$ 263,758</u>	1,610,731
Cost of direct donor benefit of special events				<u>102,362</u>
Total				<u>\$ 1,713,093</u>
Percentage of total expenses	74%	10%	16%	100%

	<u>PROGRAM EXPENSES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>2016 TOTAL</u>
Salaries and related expenses	\$ 311,082	\$ 64,191	\$ 118,507	\$ 493,780
Professional fees	377,384	58,455	50,747	486,586
Camp rental expenses	201,767			201,767
Supplies	143,064	7,569	62,555	213,188
Occupancy	36,012	7,721	14,799	58,532
Transportation	31,103	195	789	32,087
Printing	16,589	1,088	9,203	26,880
Insurance	13,709	2,829	5,223	21,761
Bank and credit card fees	76	21,987	6,022	28,085
Postage and delivery	5,701	795	10,659	17,155
Other	2,646			2,646
Total expenses	<u>\$ 1,139,133</u>	<u>\$ 164,830</u>	<u>\$ 278,504</u>	1,582,467
Cost of direct donor benefit of special events				<u>212,069</u>
Total				<u>\$ 1,794,536</u>
Percentage of total expenses	72%	10%	18%	100%

See accompanying notes to financial statements.

The Periwinkle Foundation

Statements of Cash Flows for years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (168,252)	\$ 249,472
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Net realized and unrealized gain on investments	(46,211)	(43,163)
Changes in operating assets and liabilities:		
Pledges receivable	(5,745)	21,025
Prepaid expenses and other assets	2,852	1,701
Accounts payable and accrued expenses	(17,451)	7,290
Deferred revenue – special events	<u>123,319</u>	<u>(123,520)</u>
Net cash provided (used) by operating activities	<u>(111,488)</u>	<u>112,805</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(40,971)	(28,958)
Net change in money market funds	<u>(3,326)</u>	<u> </u>
Net cash used by investing activities	<u>(44,297)</u>	<u>(28,958)</u>
NET CHANGE IN CASH	(155,785)	83,847
Cash, beginning of year	<u>580,575</u>	<u>496,728</u>
Cash, end of year	<u>\$ 424,790</u>	<u>\$ 580,575</u>

See accompanying notes to financial statements.

The Periwinkle Foundation

Notes to Financial Statements for the years ended December 31, 2017 and 2016

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – The Periwinkle Foundation (Periwinkle), a Texas non-profit corporation founded in 1983, is dedicated to developing and providing programs that enrich the lives of children, young adults and families who are challenged by cancer and other life threatening illnesses and are cared for at Texas Children’s Hospital. Periwinkle Camps, Arts and Survivor Programs make a positive impact in the lives of approximately 14,000 children, teens and families each year.

Periwinkle Camps

Camp Periwinkle – Founded in 1983, a week-long summer camp for children ages 7 to 15 treated at Texas Children’s Cancer and Hematology Centers and their siblings. It is a safe, emotionally healing environment that gives patients and their siblings the opportunity to grow in independence and self-esteem and leave camp a stronger survivor.

Camp YOLO (You Only Live Once) – Founded in 1998, addresses the challenges faced by adolescents ages 13 to 18, treated in Texas Children’s Hospital’s Cancer, Hematology, Cardiology, Rheumatology, Retrovirology, Allergy and Immunology Clinics. For two weekends each year, these young people have the chance to rejuvenate with others who understand their struggles, anxieties and fears.

Family Camp – Founded in 2009, for families with children challenged by cancer. This camp provides opportunities for families to get away from the hospital routine, create cherished memories and bond with other families who understand the stresses associated with a child’s diagnosis.

Periwinkle Day Camp – Founded in 2016, a week-long summer day camp for approximately 65 children with cancer ages 7 to 12 and their siblings. The camp provides children the magic of Camp Periwinkle in Houston where they participate in activities including sports, arts and crafts, outdoors and team building.

Camp Periwinkle Days at Texas Children’s Hospital transforms the waiting room of the Texas Children’s Cancer and Hematology Centers into summer camp. The two-day camp is packed with games, prizes and activities to positively change and enrich the lives of children challenged by cancer under care at the hospital.

Periwinkle Arts In Medicine Program

The mission of the Periwinkle Arts In Medicine Program (PAIM) at Texas Children’s Cancer and Hematology Centers is to provide enjoyable and educational art activities that give children, young adults, families and caregivers affected by pediatric cancer and blood disorders the opportunity for self-expression, empowerment and healing through the arts.

Artistic activities by and for children create opportunities for self-expression, empowerment and development of coping skills. Making music, singing songs, performing dance, producing plays, writing and telling stories, and decorating spaces with visual art enhances the healing environment and treatment experience. PAIM provides art exposure in a variety of settings including outpatient and inpatient care areas.

Periwinkle Long Term Survivor Program

The Long Term Survivor Program began in 2008 and is designed to reach older teens and young adult cancer survivors. This program has grown to include retreats, social gatherings and educational programs geared at providing opportunities for survivors to share experiences, gain knowledge and life skills, and give back to the cancer community.

Federal income tax status – Periwinkle is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi).

Cash concentration – Bank deposits exceed the federally insured limit per depositor per institution.

Pledges receivable due within one year are reported at net realizable value. Amounts due in more than one year are discounted, if material, to estimate the present value of future cash flows. At December 31, 2017, all pledges receivable are due within one year.

Investments are reported at fair value. Investment return is reported as an increase in unrestricted net assets unless the use of the income is limited by donor-imposed restrictions. Investment return whose use is restricted by the donor is reported as an increase in temporarily restricted net assets.

Net asset classification – Contributions and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation.
- *Temporarily restricted net assets* include contributions restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support.

Non-cash contributions – Donated assets, materials, and use of facilities are recognized at fair value as unrestricted contributions when an unconditional commitment is received from the donor. The related expense is recognized as the item is used. Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

Special events revenue is recognized when the event occurs. Amounts received in advance of the event represent conditional contributions and are reported in the statement of financial position as deferred revenue. Direct donor benefit costs represent the cost of goods and services provided to attendees of special events.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncements – 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 of Not-for-Profit Entities*. The amendments in this ASU are aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments will be grouped with *net assets with donor restrictions*. New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. Periwinkle is required to adopt this ASU for fiscal year 2018. Adoption of this ASU will impact the presentation and disclosures of the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Qualitative and quantitative disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The ASU is effective for fiscal periods beginning after December 15, 2019. Periwinkle plans to adopt this ASU for its fiscal year ending December 31, 2020. Periwinkle has not yet determined the impact adoption of this ASU will have on the financial statements.

NOTE 2 – INVESTMENTS AND FAIR VALUE MEASUREMENTS

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish 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 measurement date. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity’s assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at December 31, 2017 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Mutual funds:				
Vanguard Wellesley Income Fund	\$ 468,459			\$ 468,459
PIMCO All Asset All Authority Fund	364,359			364,359
Fixed-income mutual funds	93,003			93,003
Money market mutual funds	7,550			7,550
Equity securities	<u>3,270</u>			<u>3,270</u>
Total assets measured at fair value	<u>\$ 936,641</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 936,641</u>

Assets measured at fair value at December 31, 2016 are as follows:

	<u>LEVEL 1</u>	<u>LEVEL 2</u>	<u>LEVEL 3</u>	<u>TOTAL</u>
Mutual funds:				
Vanguard Wellesley Income Fund	\$ 425,266			\$ 425,266
PIMCO All Asset All Authority Fund	325,129			325,129
Fixed-income mutual funds	91,514			91,514
Money market mutual funds	<u>4,224</u>			<u>4,224</u>
Total assets measured at fair value	<u>\$ 846,133</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 846,133</u>

Valuation methods used for assets measured at fair value are as follows:

- *Mutual funds* are valued at the reported net asset value of shares held.
- *Equity securities* are valued at the closing price reported on the active market on which the individual securities are traded.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Periwinkle believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position and statement of activities.

Investment return includes earnings on cash and consists of the following:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 38,297	\$ 29,830
Net realized and unrealized gain on investments	<u>46,211</u>	<u>43,163</u>
Total investment return	<u>\$ 84,508</u>	<u>\$ 72,993</u>

NOTE 3 – UNRESTRICTED NET ASSETS

Unrestricted net assets consist of the following:

	<u>2017</u>	<u>2016</u>
Undesignated	\$ 319,227	\$ 583,732
Board-designated reserve	<u>936,641</u>	<u>846,133</u>
Total unrestricted net assets	<u>\$ 1,255,868</u>	<u>\$ 1,429,865</u>

NOTE 4 – NON-CASH CONTRIBUTIONS

The fair value of non-cash items recognized as contributions and the related expenses is as follows:

	<u>2017</u>	<u>2016</u>
Program expenses:		
Camp faculty	\$ 149,179	\$ 169,389
Equipment, food and supplies	5,405	794
Professional services		6,800
Leasehold improvements		<u>20,362</u>
Total non-cash contributions	<u>\$ 154,584</u>	<u>\$ 197,345</u>

NOTE 5 – OPERATING LEASE

Periwinkle leases office space under a non-cancelable lease. Future minimum lease commitments are as follows:

2018	\$ 65,004
2019	66,533
2020	69,587
2021	<u>5,821</u>
Total	<u>\$ 206,945</u>

Lease expense totaled \$64,875 in 2017 and \$53,090 in 2016.

NOTE 6 – PERIWINKLE ARTS IN MEDICINE PROGRAM PARTNERSHIP WITH TEXAS CHILDREN'S HOSPITAL

As part of Periwinkle's long-term commitment of providing enjoyable and educational art activities to children, families and their caregivers affected by pediatric cancer and blood disorders, Periwinkle entered into a five-year agreement with Texas Children's Hospital. This exclusive partnership expands the Periwinkle Arts In Medicine Program at Texas Children's Cancer and Hematology Centers to other Texas Children's Hospital facilities through the addition of financial, staff and volunteer resources. The agreement requires annual payments of \$100,000 for five years to Texas Children's Hospital for an AIM Coordinator, performance fees, and supplies for the program. The first payment was made in September 2015, with subsequent payments in September of each year through September 2019. The agreement can be terminated with 60-days' notice by either Texas Children's Hospital or Periwinkle. The fiscal 2017 and 2016 payments of \$100,000 each are a program expense and are reported as professional fees in the statement of functional expenses.

NOTE 7 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 28, 2018, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.