

ONLY MAKE BELIEVE, INC.

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

DECEMBER 31, 2016 AND 2015

ONLY MAKE BELIEVE, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Only Make Believe, Inc.

We have audited the accompanying financial statements of Only Make Believe, Inc. (a nonprofit corporation), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities 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.

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 the audit to obtain reasonable assurance about whether the financial statements are free of 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 Only Make Believe, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lotz + Carr, LLP

New York, New York
May 4, 2017

ONLY MAKE BELIEVE, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash (Notes 1c, 8a and 9)	\$ 345,625	\$ 911,758
Unconditional promises to give (Notes 1e and 3)		
Unrestricted	67,250	91,847
Temporarily restricted	58,370	-
Prepaid expenses	16,979	23,159
Investments (Notes 1d and 4)	877,205	525,350
Property and equipment, net of accumulated depreciation (Notes 1f and 5)	12,470	19,362
Security deposits	<u>23,253</u>	<u>22,597</u>
Total Assets	<u><u>\$1,401,152</u></u>	<u><u>\$1,594,073</u></u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	<u>\$ 23,911</u>	<u>\$ 16,832</u>
Commitment (Note 6)		
Net Assets		
Unrestricted		
Operating reserve (Note 2a)	300,000	300,000
Other	<u>1,000,186</u>	<u>1,212,393</u>
Total Unrestricted	1,300,186	1,512,393
Temporarily restricted (Note 2b)	<u>77,055</u>	<u>64,848</u>
Total Net Assets	<u>1,377,241</u>	<u>1,577,241</u>
Total Liabilities and Net Assets	<u><u>\$1,401,152</u></u>	<u><u>\$1,594,073</u></u>

See notes to financial statements.

ONLY MAKE BELIEVE, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Changes in Unrestricted Net Assets		
Revenue, Contributions and Other Support		
Contributions (Notes 1e and 8b)	\$ 619,090	\$ 700,424
Benefit income (Note 9)	465,539	1,122,415
Less: Direct expenses	(111,177)	(113,211)
Donated supplies (Note 10)	-	8,750
Investment income (Note 4)	6,907	1,209
	<u>980,359</u>	<u>1,719,587</u>
Net assets released from restrictions		
Satisfaction of time and program restrictions	64,848	10,000
	<u>64,848</u>	<u>10,000</u>
Total Revenue, Contributions and Other Support	<u>1,045,207</u>	<u>1,729,587</u>
Expenses		
Program Services		
Performances	827,444	674,025
Supporting Services		
Management and general	238,894	243,617
Fundraising	191,076	190,992
Total Supporting Services	<u>429,970</u>	<u>434,609</u>
Total Expenses	<u>1,257,414</u>	<u>1,108,634</u>
Increase (Decrease) in Unrestricted Net Assets	<u>(212,207)</u>	<u>620,953</u>
Changes in Temporarily Restricted Net Assets		
Contributions	77,055	64,848
Net assets released from restrictions	<u>(64,848)</u>	<u>(10,000)</u>
Increase in Temporarily Restricted Net Assets	<u>12,207</u>	<u>54,848</u>
Increase (decrease) in net assets	(200,000)	675,801
Net assets, beginning of year	<u>1,577,241</u>	<u>901,440</u>
Net Assets, End of Year	<u><u>\$1,377,241</u></u>	<u><u>\$1,577,241</u></u>

See notes to financial statements.

ONLY MAKE BELIEVE, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities		
Increase (decrease) in net assets	\$ (200,000)	\$ 675,801
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities:		
Depreciation expense	6,490	6,330
Loss on disposal of equipment	402	-
Realized loss on sale of investments	1,793	-
Unrealized (gain) loss on investments	2,196	(553)
(Increase) decrease in:		
Unconditional promises to give	(33,773)	(38,599)
Prepaid expenses	6,180	(6,420)
Security deposits	(656)	(637)
Increase (decrease) in accounts payable and accrued expenses	7,079	(22,818)
Net Cash Provided (Used) By Operating Activities	<u>(210,289)</u>	<u>613,104</u>
Cash Flows From Investing Activities		
Acquisition of property and equipment	-	(9,581)
Purchase of investments	(878,983)	(524,797)
Proceeds from sale of investments	523,139	-
Net Cash Used By Investing Activities	<u>(355,844)</u>	<u>(534,378)</u>
Net increase (decrease) in cash	(566,133)	78,726
Cash, beginning of year	<u>911,758</u>	<u>833,032</u>
Cash, End of Year	<u>\$ 345,625</u>	<u>\$ 911,758</u>

See notes to financial statements.

ONLY MAKE BELIEVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 1 - Organization and Summary of Significant Accounting Policies

a - Organization

Only Make Believe, Inc. ("OMB") is a unique interactive program that delivers the magical world of theater to children living with chronic illnesses in New York City medical facilities. OMB started in October 1999 as a project of The James and Dena Hammerstein Foundation. It is dedicated to the principle that freeing a child's creative spirit is a valuable part of the healing process. Each child takes an active part in creating a world of fantasy and fun that transcends the boundaries of the hospital walls, and as a result they are able to gain a new sense of self-esteem and joy. Combining the magic of theater with the power of a child's imagination enables them for the first time to see a world of possibilities rather than disabilities.

Fulfilling its vision to provide its program to as many children as possible, OMB replicated its model to facilities in Washington D.C.

b - Financial Statement Presentation

OMB reports 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.

c - Cash

For the purposes of the statement of cash flows, the Organization considers as cash all unrestricted highly liquid investments, purchased with a maturity of three months or less, to be cash except for cash included as investments.

d - Investments and Fair Value Measurements

OMB reflects investments at fair value in the statement of financial position. Interest, dividends, and gains and losses on investments are reflected in the statement of activities as increases and decreases in unrestricted net assets unless their use is temporarily or permanently restricted by explicit donor stipulations or by law. Gains and other investment income that are limited to specific uses by donor-imposed restrictions are reported as increases in unrestricted net assets if the restrictions are met in the same fiscal year in which the gains and other investment income are recognized.

Fair value is an estimate of the exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants (i.e., the exit price at the measurement date).

Financial instruments are categorized into a three-level fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level is based on the lowest priority level input is significant to the fair value of the instrument.

ONLY MAKE BELIEVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

d - Investments and Fair Value Measurements (continued)

The value of the Organization's investments is based on quoted market prices in active markets and is therefore classified within Level 1.

e - Contributions and Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to OMB, that is, in substance, unconditional. Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

f - Property and Equipment

Property and equipment are recorded at cost. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets.

g - Estimates

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

h - Tax Status

Only Make Believe, Inc. is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

i - Subsequent Events

OMB has evaluated subsequent events through May 4, 2017, the date that the financial statements are considered available to be issued.

Note 2 - Net Assets

a - Board Designated Operating Reserves

The Board has allocated \$300,000 as an operating reserve.

b - Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for future programs and periods.

ONLY MAKE BELIEVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 3 - Unconditional Promises to Give

Unconditional promises are due within one year. Uncollectible promises to give are expected to be insignificant.

Note 4 - Investments

Investments consist of the following at December 31:

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market fund	\$ 23,772	\$ 23,772	\$500,022	\$500,022
Mutual fund - balanced fund	855,076	853,433	-	-
Common stock	-	-	<u>24,775</u>	<u>25,328</u>
	<u>\$878,848</u>	<u>\$877,205</u>	<u>\$524,797</u>	<u>\$525,350</u>

Investment income for the years ended December 31, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Investment income	\$10,896	\$ 21
Realized losses	(1,793)	-
Unrealized gains (losses)	(2,196)	553
Interest on bank accounts	-	<u>635</u>
Total	<u>\$ 6,907</u>	<u>\$ 1,209</u>

Note 5 - Property and Equipment

Property and equipment consists of the following:

	<u>Life</u>	<u>2016</u>	<u>2015</u>
Furniture and equipment	5 years	\$28,085	\$45,272
Website	3 years	16,090	16,090
Software	3 years	-	<u>6,033</u>
		44,175	67,395
Less: Accumulated depreciation		<u>(31,705)</u>	<u>(48,033)</u>
		<u>\$12,470</u>	<u>\$19,362</u>

ONLY MAKE BELIEVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 5 - Property and Equipment (continued)

Depreciation expense for the years ended December 31, 2016 and 2015 was \$6,490 and \$6,330, respectively.

Note 6 - Commitment

OMB occupies office space in New York and Washington, D.C. under lease agreements with minimum annual rentals as follows:

Year ending December 31, 2017	\$96,242
Period ending March 31, 2018	23,200

Rent expense for the years ended December 31, 2016 and 2015 was \$104,691 and \$101,081, respectively.

Note 7 - Functional Allocation of Expenses

The cost of providing the various program and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Note 8 - Concentration and Credit Risk

a - OMB maintains cash and investment accounts in financial institutions. The balances are insured up to maximum limits by various agencies. At times, balances may exceed insured limits.

b - OMB received 14% and 9% of its contribution income in 2016 and 2015 respectively, from a single Board member.

ONLY MAKE BELIEVE, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015

Note 9 - Fundraising Benefit

OMB's annual fundraising benefit, which is the primary source of event revenue, is conducted in November of each year. Proceeds are used throughout the year to fund hospital workshops and offset administrative expenses. Year-end cash at hand is directly impacted by this annual event.

Note 10 - Donated Services and Supplies

OMB is the beneficiary of the efforts of hundreds of dedicated volunteers who assist in the running of its programs. The committed Costume Collective volunteers design and create the costumes that the children wear during every OMB performance. OMB also has gifted and talented artists and crafts people who design and create the props and costumes for the actors at no cost. The Organization is also thankful to the OMB Buddy volunteers who provide assistance at the hospitals. These volunteers accompany the actors onsite and help facilitate the program by pairing up with children who need extra assistance and/or special attention. Volunteers provided over 5,200 hours in 2016 to support OMB's programs.

As these donated services do not meet the criteria for recognition as provided for in generally accepted accounting principles, they have not been included in the accompanying financial statements.

During 2015, OMB received donated supplies used in programming in the amount of \$8,750 which have been included in the accompanying financial statements.

Note 11 - Pension Plan

OMB maintains a pension plan established under Internal Revenue Code Section 401(k) for the benefit of its employees. Employees may elect to contribute to the plan. OMB also makes a matching contribution to the plan. For the years ended December 31, 2016 and 2015, for eligible employees who have completed one year of service, OMB made a matching contribution equal to an employee's contribution, up to 3% of the employee's gross salary. Total expense under this plan was \$5,454 (2016) and \$4,651 (2015).

SUPPLEMENTARY INFORMATION



LUTZ AND CARR

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**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY INFORMATION**

To the Board of Directors of
Only Make Believe, Inc.

We have audited the financial statements of Only Make Believe, Inc. as of and for the years ended December 31, 2016 and 2015, and our report thereon dated May 4, 2017 which expressed an unmodified opinion on those financial statements, appears on pages 1 and 2. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses for the year ended December 31, 2016 with comparative totals for 2015 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Lutz + Carr, LLP

New York, New York
May 4, 2017

ONLY MAKE BELIEVE, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2016 WITH COMPARATIVE TOTALS FOR 2015

	Program Services	Supporting Services		2016	2015
		Management and General	Fundraising	Total Expenses	Total Expenses
Salaries	\$567,868	\$ 107,929	\$ 75,010	\$ 750,807	\$ 653,068
Employee benefit and payroll taxes	108,396	20,602	14,318	143,316	117,564
Occupancy	79,182	15,050	10,459	104,691	101,081
Professional fees	2,737	54,400	16,799	73,936	50,111
Indirect benefit event expense	-	-	57,232	57,232	36,837
Printing and publication	984	799	6,492	8,275	6,334
Supplies	28,090	11,750	268	40,108	48,360
Telephone, internet and webhosting	5,281	1,003	698	6,982	7,458
Insurance	15,252	2,898	2,015	20,165	21,673
Postage	14	1,878	220	2,112	2,975
Subscriptions, dues and fees	468	6,815	1,613	8,896	13,404
Travel	11,665	265	1,130	13,060	20,040
Marketing	-	383	475	858	3,490
Depreciation	4,907	935	648	6,490	6,330
Miscellaneous	2,600	14,187	3,699	20,486	19,909
Total Expenses, 2016	<u>\$827,444</u>	<u>\$ 238,894</u>	<u>\$ 191,076</u>	<u>\$1,257,414</u>	
Total Expenses, 2015	<u>\$674,025</u>	<u>\$ 243,617</u>	<u>\$ 190,992</u>		<u>\$1,108,634</u>

See independent auditors' report on supplementary information.