TRACY'S KIDS, INC.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

December 31, 2019

CHAN GROUP
Certified Public Accountants and Consultants

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Tracy's Kids, Inc.

We have audited the accompanying financial statements of Tracy's Kids, Inc. (the Organization), which comprise of the statement of financial position as of December 31, 2019, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 auditors consider 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.

HAN GROUP
Certified Public Accountants and Consultants

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Tracy's Kids, Inc. as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, Tracy's Kids, Inc. has adopted new accounting guidance, Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU 2018-08 *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to that matter.

HAN GROUP LLC

Washington, DC
May 12, 2020

TRACY'S KIDS, INC.
Statement of Financial Position
December 31, 2019

Assets		
Cash and cash equivalents	$	582,129
Contributions receivable		60,850
Investments		1,133,792
Prepaid expenses		12,962
Property and equipment		733
Total assets	$	1,790,466
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$	8,547
Deferred revenue		3,850
Total liabilities		12,397
Net Assets		
Without donor restrictions		
Undesignated		950,069
Board designated – general reserve		800,000
Total without donor restrictions		1,750,069
With donor restrictions		28,000
Total net assets		1,778,069
Total liabilities and net assets	$	1,790,466

See accompanying notes.

TRACY'S KIDS, INC.
Statement of Activities
Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support			
Contributions	$ 980,289	$ 28,000	$ 1,008,289
Net investment gain	100,270	-	100,270
Donated goods and services	32,256	-	32,256
Special event:			
Special event meals and entertainment	40,650	-	40,650
Less: Direct donor benefit cost	(40,200)	-	(40,200)
Net special event	450	-	450
Net assets released from restrictions:			
Satisfaction of purpose restrictions	145,000	(145,000)	-
Total revenue and support	1,258,265	(117,000)	1,141,265
Expenses			
Program services:			
Art Therapy Programs	611,390	-	611,390
Total program services	611,390	-	611,390
Supporting services:			
General and administrative	92,647	-	92,647
Fundraising	129,075	-	129,075
Total supporting services	221,722	-	221,722
Total expenses	833,112	-	833,112
Change in Net Assets	425,153	(117,000)	308,153
Net Assets, beginning of year	1,324,916	145,000	1,469,916
Net Assets, end of year	$ 1,750,069	$ 28,000	$ 1,778,069

See accompanying notes.

TRACY'S KIDS, INC.
Statement of Functional Expenses
Year Ended December 31, 2019

		Supporting Services			
	Program Services	General and Administrative	Fundraising	Total Supporting Services	Total
Contributions made	$ 563,720	$ -	$ -	$ -	$ 563,720
Contract labor	26,041	29,046	45,071	74,117	100,158
Event	-	-	82,178	82,178	82,178
Legal and professional fees	-	44,885	-	44,885	44,885
Art supplies	17,264	-	-	-	17,264
Advertising	-	9,027	-	9,027	9,027
Bank fees	-	4,104	-	4,104	4,104
Meals and entertainment	3,309	-	-	-	3,309
Office expenses	706	1,100	1,220	2,320	3,026
Licenses	-	2,459	-	2,459	2,459
Conferences and continuing education	-	1,636	-	1,636	1,636
Insurance	246	274	426	700	946
Depreciation	104	116	180	296	400
Total expenses	$ 611,390	$ 92,647	$ 129,075	$ 221,722	$ 833,112

See accompanying notes.

TRACY'S KIDS, INC.
Statement of Cash Flows
Year Ended December 31, 2019

Cash Flows from Operating Activities		
Change in net assets	$	308,153
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation		400
Net realized and unrealized gain on investments		(66,201)
Change in operating assets and liabilities:		
Contributions receivable		(29,850)
Prepaid expenses		8,265
Accounts payable and accrued expenses		69
Deferred revenue		3,850
Net cash provided by operating activities		224,686
Cash Flows from Investing Activities		
Proceeds from sales of investments		51,329
Purchases of investments		(285,242)
Net cash used in investing activities		(233,913)
Net Decrease in Cash and cash equivalents		(9,227)
Cash and cash equivalents, beginning of year		591,356
Cash and cash equivalents, end of year	$	582,129

See accompanying notes.

1. Nature of Operations

Tracy's Kids, Inc. (the Organization) is a 501(c)(3) nonprofit helping young cancer patients and their families cope with the emotional stress and trauma of cancer and its treatment. The Organization's mission is to ensure that the children and families they serve are emotionally equipped to fight cancer as actively as possible and prepared for the time when they are cancer free.

The Organization uses art therapy to engage with young patients, their siblings and parents so that they can express feelings and reflect on their treatment experiences. In addition, the Organization provides contributions to clinics and hospitals which facilitate art therapy programs. The Organization funds its program and supporting services primarily through contributions from corporations, foundations and individuals.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Consequently, revenue is recognized when earned and expenses are recognized when the obligation is incurred.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits, money market accounts and all highly liquid investments with initial maturities of three months or less.

Contributions Receivable

Contributions receivable represent amounts due from the Organization's various donors and are recorded at their net present realizable value. The Organization has not recorded a present value discount or an allowance for uncollectible accounts, as management believes all amounts are fully collectible within one year.

Investments

Investments are measured at fair value and are composed of fixed income funds, dynamic asset allocation overlay funds, and equity funds. 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. Unrealized gains or losses on investments are determined by the change in fair value at the beginning and end of the reporting period. Investment income is presented net of investment advisory and management fees, if any, in the accompanying statement of activities. Net realized and unrealized gains or losses on investments are included in net investment income. Cash held in the investment portfolios is included in investments in the accompanying statement of financial position.

2. Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment over $2,500 with a projected useful life exceeding one year are capitalized and recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. Upon retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the accounts and the resulting gain or loss is included in revenue or expense.

Classification of Net Assets

- *Net Assets Without Donor Restrictions* represent funds that are not subject to donor-imposed stipulations and are available for support of the Organization's general operations. Included in net assets without donor restrictions are funds that have been designated by the Organization's Board of Directors as general long-term reserves.

- *Net Assets With Donor Restrictions* represent funds subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization does not have any donor-imposed restrictions which are perpetual in nature at December 31, 2019.

Revenue Recognition

Contributions

Contributions include foundation, corporate and individual donations as well as the contribution portion of sponsorships. Contributions without conditions are recognized upon notification of the award and are reported as support with donor restrictions if they are received with donor stipulations that limit the use of donated assets. Contributions with donor-imposed restrictions are reclassified to net assets without donor restrictions when those restrictions are met, only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions or for the expiration of donor-imposed time restrictions. These reclassifications are reported in the accompanying statement of activities as net assets released from restrictions.

Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are recognized in revenue once the conditions on which they depend have been met. Funds received in advance of the conditions being met are recorded as refundable advances. The Organization did not have any conditional contributions at December 31, 2019.

2. Summary of Significant Accounting Policies (continued)

Revenue Recognition (continued)

Special Event Revenue

Sponsorships of the Organization's events contain both exchange and contribution portions. Special event revenue represents the exchange portion of sponsorships for the fair market value of benefits provided to donors. The contribution portion of sponsorships are recognized in contribution income as previously described.

The organization recognizes special event revenue at the point in time when the goods and services are delivered. Special event revenue is shown net of related direct donor benefit costs in the accompanying statement of activities. Amounts received in advance of events are recorded in deferred revenue. Deferred revenue for future events was $3,850 at December 31, 2019 and is included in deferred revenue in the accompanying statement of financial position.

Donated Goods and Services

Donated goods and services are recorded as support at their estimated fair values at the dates of donation and are reported as support without donor restrictions. Donated services are recognized in the financial statements if the services (i) require specialized skills, (ii) are provided by individuals possessing these skills and would typically need to be purchased if not provided by donation. For the year ended December 31, 2018, the Organization received donated legal services valued at $29,256 used in general and administrative activities, and donated meals and entertainment valued at $3,000 used in fundraising activities.

Functional Allocation of Expenses

The costs of providing program and supporting services have been summarized on a functional basis in the accompanying statement of activities. The statement of functional expenses presents expenses by function and natural classification. The Organization incurs expenses that directly relate to, and can be assigned to, a specific program or supporting activity. The Organization also conducts a number of activities which benefit both its program objectives as well as supporting services. These costs, which are not specifically attributable to a specific program or supporting activity, are allocated by management on a consistent basis among program and supporting services benefited based on the distribution of labor. Expenses allocated include contract labor, office expenses, insurance, and depreciation.

2. Summary of Significant Accounting Policies (continued)

Change in Accounting Policies

Effective January 1, 2019, the Organization adopted Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958)*: *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* applying the changes using a modified prospective approach. The new guidance clarifies the evaluation as to whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and determination of whether a contribution is conditional.

Change in Accounting Policies (continued)

Effective January 1, 2019, the Organization adopted ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as amended. The core principle of ASU 2014-09 requires the recognition of revenue for exchange and partial exchange transactions when, or as goods or services are delivered, in the amount that reflects the consideration to which the entity is entitled in exchange for what has been delivered. The ASU requires that the entity use the following five step process: 1) Identify exchange agreements or partial exchange agreements that create a contract; 2) Identify their performance obligations; 3) Determine the transaction price; 4) Allocate the transaction price among the performance obligations; 5) Recognize revenue at the point in time when, or over the time period during which, a performance obligation is recognized.

Adoption of these updates resulted in no significant changes in the way the organization recognizes revenue, and therefore, no changes to previously audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standards.

Pending Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*. The core principles of ASU 2016-02 change the way organizations will account for their leases by recognizing lease assets and related liabilities on the statement of financial position and disclosing key information about leasing arrangements. ASU 2016-02 is effective for non-public entities for fiscal years beginning after December 15, 2020. Management is currently evaluating the impact of ASU 2016-02 on the Organization's financial statements.

Use of Estimates

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

3. Concentrations

The Organization's cash and cash equivalents are held in accounts at certain commercial financial institutions, which aggregate balance, at times, may exceed the Federal Deposit Insurance Corporation (FDIC) limit or the Securities Investor Protection Corporation (SPIC) limits per depositor, per institution. The Organization has not experienced any losses to date as it relates to FDIC or SIPC insurance limits, monitors the credit worthiness of these institutions and believes that the risk of any loss is minimal.

In addition, the Organization invests funds in a professionally managed portfolio of marketable securities. Such investments are exposed to market and credit risks. Therefore, the Organization's investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported in the accompanying financial statements may not be reflective of the portfolio's value during subsequent periods.

4. Property and Equipment

The Organization held the following property and equipment at December 31, 2019:

Computer software	$	4,317
Website development		2,000
Total property and equipment		6,317
Less: accumulated depreciation		(5,584)
Property and equipment, net	$	733

5. Investments

Investments consist of the following at December 31, 2019:

Fixed income funds	$	740,877
Dynamic asset allocation overlay funds		226,729
Equity funds		166,186
Total investments	$	1,133,792

6. Fair Value Measurements

The three levels of the fair value hierarchy for recurring fair value measurements are prioritized based on the inputs to valuation techniques used to measure fair value and are as follows:

- *Level 1* – Based on unadjusted, quoted market prices in active markets for identical assets or liabilities accessible at the measurement date.
- *Level 2* – Based on inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets.
- *Level 3* – Based on unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining fair value.

The following is a summary of input levels used to determine fair values, measured on a recurring basis, of investments at December 31, 2019:

	Level 1	Total
Fixed income funds	$ 740,877	$ 740,877
Dynamic asset allocation overlay funds	226,729	226,729
Equity funds	166,186	166,186
Total investments at fair value	$ 1,133,792	$ 1,133,792

7. Liquidity and Availability of Resources

The following schedule reflects the Organization's financial assets at December 31, 2019, reduced by amounts not available for general use within one year. All financial assets listed below are considered to be convertible to cash within one year:

Cash and cash equivalents	$ 582,129
Contributions receivable	60,850
Investments	1,133,792
Total financial assets	1,776,771
Less: Deferred revenue	(3,850)
Less: Donor-imposed restrictions on financial assets	(28,000)
Less: Board designation of financial assets for general reserve	(800,000)
Financial assets available to meet cash needs for general expenditures within one year	$ 944,921

7. Liquidity and Availability of Resources (continued)

The Organization has a policy to structure its financial assets to be available and liquid as its obligations become due, operating within a prudent range of financial soundness and stability while maintaining and monitoring reserves to provide reasonable assurance that long-term program goals with donor restrictions will continue to be met. Occasionally, the Board designates a portion of net assets without donor restrictions as a general reserve. Should the need arise, the board may approve releases from this reserve.

8. Net Assets With Donor Restrictions

Net assets with donor restrictions were restricted for the following at December 31, 2019:

Subject to expenditure for specific purposes:		
Art Therapy Methodist Children's Hospital	$	28,000
Total net assets with donor restrictions	$	28,000

During the year ended December 31, 2019, releases from net assets with donor restrictions were for the satisfaction of the following time and purpose restrictions:

Satisfaction of expenditures for specific purposes:		
2019 Event	$	120,000
Art Therapy Methodist Children's Hospital		25,000
Total net assets released from restrictions	$	145,000

9. Income Taxes

Under Section 501(c)(3) of the Internal Revenue Code, the Organization is a nonprofit organization and is exempt from federal taxes on income other than net unrelated business income. No provision for federal or state income taxes is required for the year ended December 31, 2019, as the Organization had no taxable net unrelated business income.

The Organization follows the authoritative guidance relating to accounting for uncertainty in income taxes included in Accounting Standards Codification Topic 740-10, *Income Taxes*. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. It is the Organization's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expenses.

9. Income Taxes (continued)

The Organization performed an evaluation of uncertain tax positions for the year ended December 31, 2019 and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. The statute of limitations generally remains open for three tax years with the U.S. federal jurisdiction or the various states and local jurisdictions in which the Organization files tax returns.

10. Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 12, 2020, the date the financial statements were available to be issued. There were no subsequent events that require recognition of, or disclosure in, the financial statements, other than those in the following paragraph.

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses including cancellations of events and meetings in early 2020. The Organization has some program sites continuing to provide services directly, at a reduced capacity, and other sites providing services remotely. The Organization has not applied for any loans offered under the Coronavirus Aid, Relief and Economic Security Act, (CARES Act). While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of restrictions put in place by various levels of government. At this time, the potential related financial impact and duration cannot be reasonably estimated.