

# TRACY'S KIDS, INC.

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

December 31, 2021

(With Summarized Comparative Information for the Year Ended December 31, 2020)

**TRACY'S KIDS, INC.**

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## INDEPENDENT AUDITOR'S REPORT

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

### Opinion

We have audited the accompanying financial statements of Tracy's Kids, Inc. (the Organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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, 2021, 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.

### Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

#### **Report on Summarized Comparative Information**

We have previously audited Tracy's Kids, Inc.'s 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 2, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.



**HAN GROUP LLC**  
Washington, DC  
September 5, 2022

**TRACY'S KIDS, INC.**

Statement of Financial Position

December 31, 2021

(With Summarized Comparative Information for 2020)

	<u>2021</u>	<u>2020</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 210,774	\$ 258,908
Contributions receivable	32,750	23,500
Investments	1,277,631	1,431,707
Prepaid expenses	1,523	1,895
Property and equipment, net	-	333
Total assets	<u>\$ 1,522,678</u>	<u>\$ 1,716,343</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 14,164	\$ 29,130
Deferred revenue	-	3,850
Total liabilities	<u>14,164</u>	<u>32,980</u>
<b>Net Assets</b>		
Without donor restrictions		
Undesignated	672,259	847,108
Board designated – general reserve	800,000	800,000
Total without donor restrictions	1,472,259	1,647,108
With donor restrictions	36,255	36,255
Total net assets	<u>1,508,514</u>	<u>1,683,363</u>
Total liabilities and net assets	<u>\$ 1,522,678</u>	<u>\$ 1,716,343</u>

*See accompanying notes.*

**TRACY'S KIDS, INC.**  
Statement of Activities  
Year Ended December 31, 2021  
(With Summarized Comparative Information for 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>Revenue and Support</b>				
Contributions	\$ 392,552	\$ 60,000	\$ 452,552	\$ 581,715
Net investment income	70,934	-	70,934	97,972
Net Special event	12,350	-	12,350	-
Net assets released from restriction:				
Satisfaction of purpose restrictions	60,000	(60,000)	-	-
Total revenue and support	535,836	-	535,836	679,687
<b>Expenses</b>				
Program services:				
Art Therapy	597,013	-	597,013	604,207
Total program services	597,013	-	597,013	604,207
Supporting services:				
Management and general	61,223	-	61,223	43,552
Fundraising	52,449	-	52,449	126,634
Total supporting services	113,672	-	113,672	170,186
Total expenses	710,685	-	710,685	774,393
<b>Change in Net Assets</b>	(174,849)	-	(174,849)	(94,706)
<b>Net Assets</b> , beginning of year	1,647,108	36,255	1,683,363	1,778,069
<b>Net Assets</b> , end of year	\$ 1,472,259	\$ 36,255	\$ 1,508,514	\$ 1,683,363

See accompanying notes.

**TRACY'S KIDS, INC.**  
Statement of Functional Expenses  
Year Ended December 31, 2021  
(With Summarized Comparative Information for 2020)

	2021				2020	
	Program Services	Supporting Services		Total Supporting Services	Total	Total
	Art Therapy	Management and General	Fundraising			
Contributions made	\$ 560,306	\$ -	\$ -	\$ -	\$ 560,306	\$ 558,535
Contract labor	21,479	37,017	26,339	63,356	84,835	112,490
Professional fees	-	20,118	15,000	35,118	35,118	19,971
Art supplies	13,406	-	-	-	13,406	13,838
Events	-	-	8,939	8,939	8,939	59,465
Office expenses	1,822	3,051	2,171	5,222	7,044	9,301
Advertising	-	1,037	-	1,037	1,037	793
<b>Total Expenses</b>	<b>\$ 597,013</b>	<b>\$ 61,223</b>	<b>\$ 52,449</b>	<b>\$ 113,672</b>	<b>\$ 710,685</b>	<b>\$ 774,393</b>

See accompanying notes.

**TRACY'S KIDS, INC.**  
Statement of Cash Flows  
Year Ended December 31, 2021  
(With Summarized Comparative Information for 2020)

	<u>2021</u>	<u>2020</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (174,849)	\$ (94,706)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	333	400
Net Realized and unrealized gain on investments	(21,454)	(69,125)
Change in operating assets and liabilities:		
Contributions receivable	(9,250)	37,350
Prepaid expenses	372	11,067
Accounts payable and accrued expenses	(14,966)	20,583
Deferred revenue	(3,850)	-
Net cash used in operating activities	<u>(223,664)</u>	<u>(94,431)</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(46,953)	(327,902)
Proceeds from sales of investments	<u>222,483</u>	<u>99,112</u>
Net cash provided by (used in) investing activities	<u>175,530</u>	<u>(228,790)</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	(48,134)	(323,221)
<b>Cash and Cash Equivalents, beginning of year</b>	<u>258,908</u>	<u>582,129</u>
<b>Cash and Cash Equivalents, end of year</b>	<u>\$ 210,774</u>	<u>\$ 258,908</u>

See accompanying notes.



**1. Nature of Operations**

Tracy's Kids, Inc. (the Organization) is a 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 as obligations are 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. Money market funds and other highly liquid investments, which are included in the investment portfolio, are excluded from cash and cash equivalents.

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, on the accompanying consolidated statement of activities. Net realized and unrealized gains or losses on investments are included in net investment income. Money market funds held in the investment portfolios are included in investments on the accompanying consolidated statement of financial position.

Contributions Receivable

Contributions receivable represent amounts due from the Organization's various contributors and are recorded at their net present realizable value. The balance of contributions receivable at December 31, 2021 is expected by management to be fully collectible within one year. If an amount becomes uncollectible, it is expensed when that determination is made.

## **2. Summary of Significant Accounting Policies (continued)**

### Property and Equipment

Property and equipment with a cost of \$2,500 or more 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.

### 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 a general reserve.
- *Net Assets With Donor Restrictions* represent funds that are 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 did not have any donor-imposed restrictions which are perpetual in nature at December 31, 2021.

### Revenue Recognition

#### *Contributions*

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 in compliance with the donor-imposed restrictions and for the expiration of donor-imposed time restrictions. These reclassifications are reported on 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. Amounts received in advance of the conditions being met are recorded as deferred revenue. The Organization did not have any conditional contributions at December 31, 2021.

## 2. Summary of Significant Accounting Policies (continued)

### Functional Allocation of Expenses

The costs of providing program and supporting services have been summarized on a functional basis on 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 certain 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 and office expenses.

### Pending Accounting Pronouncements

In February 2016, the 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, 2021.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The core principles of ASU 2020-07 address the measurement of nonfinancial contributions and increase the transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. The amendments in the update are to be applied on a retrospective basis. ASU 2020-07 is effective for non-public entities for fiscal years beginning after June 15, 2021.

Management is currently evaluating the impact of ASU 2016-02 and ASU 2020-07 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.

### Reclassifications

Certain prior year amounts have been reclassified to conform to the 2021 financial statement presentation.

### Summarized Comparative Information

The accompanying financial statements are presented with certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2020 from which the summarized information was derived.

### **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 (SIPC) 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 on the accompanying financial statements may not be reflective of the portfolio's value during subsequent periods.

Three contributors accounted for 24% of the Organization's total revenue and support for the year ended December 31, 2021. A change in the amount or continuation of funding from these sources could have a significant effect on the organization's operations. Additionally, 76% of the Organization's receivables are due from three sources.

### **4. Investments**

Investments consist of the following at December 31, 2021:

Fixed Income funds	\$ 624,085
Dynamic asset allocation overlay funds	368,311
Equity funds	<u>285,235</u>
Total investments	<u>\$ 1,277,631</u>

### **5. Fair Value**

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: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.
- Level 2: Inputs to the valuation methodology include (1) quoted prices for similar assets or liabilities in active markets; (2) quoted prices for identical or similar assets or liabilities in inactive markets; (3) inputs other than quoted prices that are observable for the asset or liability; and (4) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

**5. Fair Value (continued)**

The following is a summary of input levels used to determine fair values, measured on a recurring basis, of investments at December 31, 2021:

	<u>Level 1</u>	<u>Total</u>
Fixed income funds	\$ 624,085	\$ 624,085
Mutual funds	368,311	368,311
Equity funds	<u>285,235</u>	<u>285,235</u>
Total investments at fair value	<u>\$ 1,277,631</u>	<u>\$ 1,277,631</u>

**6. Property and Equipment**

The Organization held the following property and equipment at December 31, 2021:

Equipment	\$ 3,317
Website development	<u>3,000</u>
Total property and equipment	6,317
Less: accumulated depreciation and amortization	<u>(6,317)</u>
Property and equipment, net	<u>\$ -</u>

**7. Liquidity and Availability of Resources**

The following schedule reflects the Organization's financial assets as of December 31, 2021, 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.

Financial Assets:	
Cash and cash equivalents	\$ 210,774
Contributions receivable	32,750
Investments	<u>1,277,631</u>
Total financial assets	1,521,155
Less: Donor-imposed restrictions on the financial assets	(36,255)
Less: Board designated - general reserve	<u>(800,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 684,900</u>

**7. Liquidity and Availability of Resources (continued)**

The Organization's policy is to structure its financial assets to become available as general expenditures, liabilities and other 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. In addition, should the need arise, the Board may approve releases from its Board designated general reserve.

**8. Net Assets With Donor Restrictions**

Net assets with donor restrictions were restricted for the following at December 31, 2021:

Subject to expenditures for specific purposes:	
Art Therapy: Methodist Children's Hospital	\$ 36,255
	<u>36,255</u>
Total net assets with donor restrictions	<u>\$ 36,255</u>

During the year ended December 31, 2021, releases from net assets with donor restrictions were for the following:

Satisfaction of purpose restrictions:	
Art Therapy: Methodist Children's Hospital	\$ 25,000
Art Therapy: Children's National Hospital	10,000
Walter Reed	<u>25,000</u>
Total net assets released from donor restrictions	<u>\$ 60,000</u>

**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, 2021, 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.

The Organization performed an evaluation of uncertain tax positions for the year ended December 31, 2021 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 September 5, 2022, 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.