



Financial Statements

As of and for the Years Ended
December 31, 2018 and 2017



A Precious Child, Inc.

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Independent Auditor's Report

Board of Directors
A Precious Child, Inc.
Broomfield, Colorado

We have audited the accompanying financial statements of the A Precious Child, Inc. (the "Organization"), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, cash flows, and functional expenses 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.

Auditor's 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 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 qualified audit opinion.



Basis for Qualified Opinion

We were not engaged as auditors of the Organization until after December 31, 2018, and, therefore, did not observe the counting of physical inventories at the end of the year. We were unable to satisfy ourselves by other auditing procedures concerning the inventory held at December 31, 2018, which is stated in the balance sheet at \$2,563,184. As a result of this matter, we were unable to determine whether any adjustments might have been found necessary in respect of recorded or unrecorded inventories, and the related elements making up the statements of activities, and cash flows.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 2 to the financial statements, in 2018, the Organization adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Other Matter

The 2017 financial statements of A Precious Child, Inc. were audited by other auditors, whose report dated February 28, 2019 expressed an unmodified opinion.

ACM LLP

Greeley, Colorado
November 5, 2019

A Precious Child, Inc.

Statements of Financial Position

<i>December 31,</i>	2018	2017
Assets		
Current assets		
Cash and cash equivalents	\$ 1,120,263	\$ 943,303
Inventories	2,563,184	361,481
Investments	17,998	18,659
Pledges receivable	307,875	52,889
Prepaid expenses and other	50,422	53,327
Total current assets	4,059,742	1,429,659
Property and equipment, net	3,727,222	44,710
Total assets	\$ 7,786,964	\$ 1,474,369
Liabilities and net assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 25,682	\$ 44,311
Long-term debt, current portion	15,027	-
Total current liabilities	40,709	44,311
Long-term debt, net of current portion	2,234,973	-
Total liabilities	2,275,682	44,311
Commitments and contingencies		
Net assets		
Without donor restrictions	3,609,083	1,301,274
With donor restrictions	1,902,199	128,784
Total net assets	5,511,282	1,430,058
Total liabilities and net assets	\$ 7,786,964	\$ 1,474,369

See accompanying independent auditor's report and notes to the financial statements.

A Precious Child, Inc.

Statements of Activities

Year Ended December 31,	2018			2017		
	Without Donor Restriction	With Donor Restriction	Total	Without Donor Restriction	With Donor Restriction	Total
Support and revenue						
Contributed support	\$ 469,603	\$ 2,449,265	\$ 2,918,868	\$ 580,768	\$ 320,539	\$ 901,307
Gifts-in-kind						
Donated materials/goods	13,801,238	-	13,801,238	10,422,456	-	10,422,456
Donated facilities	16,548	-	16,548	16,548	-	16,548
Donated services	90,057	-	90,057	76,689	-	76,689
Donated other	634	-	634	6,826	-	6,826
Grants	115,978	147,916	263,894	82,693	110,110	192,803
Special events	828,156	112,770	940,926	763,897	4,060	767,957
Interest and other income	63,117	-	63,117	4,632	-	4,632
Net assets released from restrictions	936,536	(936,536)	-	456,946	(456,946)	-
Total support and revenue	16,321,867	1,773,415	18,095,282	12,411,455	(22,237)	12,389,218
Expenses						
Program services	12,863,714	-	12,863,714	11,592,866	-	11,592,866
Capital campaign	415,583	-	415,583	-	-	-
Management and general	211,850	-	211,850	170,314	-	170,314
Fundraising	312,234	-	312,234	270,749	-	270,749
Direct benefits to donors	210,677	-	210,677	155,939	-	155,939
Total expenses	14,014,058	-	14,014,058	12,189,868	-	12,189,868
Change in net assets	2,307,809	1,773,415	4,081,224	221,587	(22,237)	199,350
Net assets, beginning of year	1,301,274	128,784	1,430,058	1,079,687	151,021	1,230,708
Net assets, end of year	\$ 3,609,083	\$ 1,902,199	\$ 5,511,282	\$ 1,301,274	\$ 128,784	\$ 1,430,058

See accompanying independent auditor's report and notes to the financial statements.

A Precious Child, Inc.

Statements of Cash Flows

<i>Year Ended December 31,</i>	2018	2017
Cash flows from operating activities		
Change in net assets	\$ 4,081,224	\$ 199,350
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	51,759	3,124
Net realized and unrealized losses (gains) on investments	661	(1,320)
Bad debt expense	50	-
Donated investments	-	(1,022)
(Increase) decrease in operating assets:		
Pledges receivable	(255,036)	(12,045)
Inventory	(2,201,703)	44,332
Prepaid expense and other	2,905	(17,747)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(18,629)	17,286
Net cash provided by operating activities	1,661,231	231,958
Cash flows from investing activities		
Purchase of investments	-	(1,373)
Purchase of property and equipment	(1,484,271)	(23,027)
Net cash used by investing activities	(1,484,271)	(24,400)
Net change in cash and cash equivalents	176,960	207,558
Cash and cash equivalents, beginning of year	943,303	735,745
Cash and cash equivalents, end of year	\$ 1,120,263	\$ 943,303
Supplemental disclosure of non-cash investing activities:		
Fixed assets purchased through borrowings on long-term debt	\$ 2,250,000	\$ -

See accompanying independent auditor's report and notes to the financial statements.

A Precious Child, Inc.

Statements of Functional Expenses

Year Ended December 31, 2018	Program Services										Capital Campaign	Management and General	Fundraising	Direct Benefit to Donor	Total 2018
	Precious Essentials	Precious Boutiques	Basics 4 Babies	giveSPORTS	The Learning Center	Fill a Backpack	Precious Gift	giveARTS	Edusentials	Total Program					
Salaries and wages	\$ 294,269	\$ -	\$ 56,686	\$ 50,120	\$ 31,285	\$ 44,291	\$ 51,646	\$ 10,191	\$ 19,960	\$ 558,448	\$ 113,648	\$ 124,599	\$ 190,451	\$ -	\$ 987,146
Payroll taxes	24,699	-	4,726	4,113	2,889	3,606	4,259	836	1,638	46,766	946	10,055	14,589	-	72,356
Workers' compensation	2,177	-	408	408	476	340	681	68	136	4,694	-	816	1,292	-	6,802
Payroll fees	1,277	-	223	223	252	195	336	39	78	2,623	-	456	813	-	3,892
Health insurance	11,768	-	1,861	1,142	755	775	991	168	366	17,826	-	2,939	13,170	-	33,935
401k processing fees	859	-	161	161	188	134	268	27	54	1,852	-	322	510	-	2,684
Staff 401k match	1,540	-	269	328	95	314	528	91	168	3,333	-	1,583	524	-	5,440
Total salaries and benefits	336,589	-	64,334	56,495	35,940	49,655	58,709	11,420	22,400	635,542	114,594	140,770	221,349	-	1,112,255
Office supplies	4,676	-	480	295	333	192	608	111	74	6,769	171	1,545	61	-	8,546
Telephone, telecommunications	6,796	-	791	500	541	664	1,106	228	104	10,730	-	1,513	23	-	12,266
Postage, mailing service	139	-	6	4	4	85	89	1	1	329	1,414	166	5,879	-	7,788
Credit card fees	-	-	-	-	-	136	-	-	-	136	-	17,080	8,920	-	26,136
Bank fees	-	-	-	-	-	-	-	-	-	-	7,013	159	-	-	7,172
Books, subscriptions, reference	468	-	34	22	22	11	50	6	6	619	298	90	264	-	1,271
Printing and copying	7,615	-	982	689	540	664	835	205	190	11,720	3,673	1,574	3,042	-	20,009
Software	17,601	-	1,903	1,380	981	2,610	3,831	342	217	28,865	50	1,795	6,210	-	36,920
Supplies	4,820	-	1,019	413	363	370	672	113	83	7,853	2,680	1,295	32	-	11,860
Facilities maintenance and insurance	8,272	-	780	611	988	590	852	240	188	12,521	15,914	1,191	125	-	29,751
Rent	54,459	1,018	7,047	6,789	5,410	6,546	5,702	912	3,768	91,651	-	8,057	-	-	99,708
Office furniture and fixtures	23,863	-	2,337	1,551	1,039	2,155	2,665	264	256	34,130	79,929	12,428	361	-	126,848
Utilities	11,628	-	1,157	1,148	2,024	2,665	2,748	69	130	21,569	-	1,031	362	-	22,962
Parking	10	-	1	1	1	-	2	-	-	15	-	17	254	-	286
Depreciation	20,873	-	2,454	1,371	1,215	3,054	3,054	-	-	32,021	13,666	3,036	3,036	-	51,759
Insurance - vehicle	2,062	-	196	196	-	785	785	-	-	4,024	-	-	-	-	4,024
Fuel - vehicle	2,860	6	283	343	-	1,130	1,130	-	-	5,752	97	-	-	-	5,849
Toll road charges - vehicle	15	-	1	1	-	6	6	-	-	29	-	-	-	-	29
Maintenance - vehicle	1,121	40	120	120	-	479	479	-	-	2,359	-	1	-	-	2,360
Fundraising fees	-	-	-	-	-	-	-	-	-	-	-	711	3,243	-	3,954
Government fees	-	-	-	10	-	-	-	-	-	10	-	200	100	-	310
Professional fees - other	2,903	-	300	200	200	100	450	50	50	4,253	-	2,001	-	-	6,254
Program goods purchased	4,279	-	11,556	443	16,061	104,115	9,457	-	2,562	148,473	-	-	-	-	148,473
Program expense - other than goods	22,979	47	1,519	1,696	498	7,098	4,783	-	-	38,620	15,192	-	-	-	53,812
Program scholarships	-	-	-	42,522	45	-	-	9,043	17,393	69,003	-	-	-	-	69,003
giveSPORTS and other events	-	-	-	-	-	-	-	-	-	-	-	144	11,422	-	11,566
Insurance	3,917	-	595	299	496	353	363	183	85	6,291	-	850	200	-	7,341
Marketing expenses	4,274	-	465	296	317	1,016	15,594	95	74	22,131	12,755	1,148	29,342	-	65,376
Staff and board development	3,801	-	431	282	306	190	492	116	64	5,682	-	5,219	1,250	-	12,151
Conference, convention, meeting	21	-	-	-	-	-	-	-	-	21	-	-	22	-	43
Mileage reimbursement	782	-	212	448	10	460	464	112	224	2,712	60	168	955	-	3,895
Membership dues - organization	892	25	107	60	57	50	116	9	22	1,338	-	2,104	1,196	-	4,638
Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	217	-	-	217
Bad debts	-	-	-	-	-	-	-	-	-	-	-	50	-	-	50
Awards	-	-	-	-	-	37	-	-	-	37	-	-	1,233	-	1,270
Volunteer expense	3,158	-	366	218	257	188	438	94	54	4,773	3,618	847	3,706	-	12,944
Facilities	-	-	-	-	-	-	-	-	-	-	47,458	-	-	-	47,458
In-kind program materials/goods	8,724,442	-	1,274,176	304,188	-	752,210	544,543	-	-	11,599,559	597	12	-	-	11,600,168
In-kind professional services	21,426	-	3,216	4,288	2,680	1,072	4,823	536	536	38,577	36,350	6,431	9,647	-	91,005
In-kind facilities	15,600	-	-	-	-	-	-	-	-	15,600	-	-	-	-	15,600
Interest expense	-	-	-	-	-	-	-	-	-	-	60,054	-	-	-	60,054
Direct benefits to donors	-	-	-	-	-	-	-	-	-	-	-	-	-	210,677	210,677
Total functional expenses	\$ 9,312,341	\$ 1,136	\$ 1,376,868	\$ 426,879	\$ 70,328	\$ 938,686	\$ 664,846	\$ 24,149	\$ 48,481	\$ 12,863,714	\$ 415,583	\$ 211,850	\$ 312,234	\$ 210,677	\$ 14,014,058
	66%	0%	10%	3%	1%	7%	5%	0%	0%	92%	3%	2%	2%	2%	100%

Continued.

A Precious Child, Inc.

Statements of Functional Expenses

Year Ended December 31, 2017	Program Services											Management and General	Fundraising	Direct Benefit to Donor	Total 2017
	Precious Essentials	Precious Boutiques	Basics 4 Babies	giveSPORTS	The Learning Center	Fill a Backpack	Precious Gift	COR Center	giveARTS	Edusentials	Total Program				
Salaries and wages	\$ 206,204	\$ -	\$ 41,997	\$ 38,249	\$ 23,705	\$ 34,389	\$ 40,087	\$ 65,473	\$ 7,021	\$ 13,848	\$ 470,973	\$ 107,973	\$ 189,981	\$ -	\$ 768,927
Payroll taxes	16,927	-	3,429	3,186	2,119	2,867	3,234	5,266	592	1,306	38,926	8,698	15,349	-	62,973
Workers' compensation	1,590	-	331	331	331	331	331	728	66	132	4,171	730	1,722	-	6,623
Payroll fees	839	-	175	175	175	174	175	384	4	(592)	1,509	384	909	-	2,802
Health insurance	7,454	-	1,714	1,420	492	1,327	1,428	2,166	327	674	17,002	1,536	9,818	-	28,356
Total salaries and benefits	233,014	-	47,646	43,361	26,822	39,088	45,255	74,017	8,010	15,368	532,581	119,321	217,779	-	869,681
Office supplies	2,994	-	401	247	309	258	259	240	167	65	4,940	646	13	-	5,599
Telephone, telecommunications	4,302	-	609	377	440	614	615	1,116	244	80	8,397	692	-	-	9,089
Postage, mailing service	154	-	24	19	21	40	21	12	12	3	306	80	2,796	-	3,182
Credit card fees	-	-	-	-	-	59	-	-	-	-	59	23,703	-	-	23,762
Bank fees	-	-	-	-	-	-	-	-	-	-	-	95	-	-	95
Books, subscriptions, reference	150	-	-	-	-	-	-	-	-	-	150	60	-	-	210
Printing and copying	4,045	-	552	514	378	767	412	327	200	107	7,302	744	1,426	-	9,472
Software	7,157	28	967	632	598	1,423	1,423	375	343	100	13,046	911	3,564	-	17,521
Supplies	3,649	-	538	383	450	433	413	309	257	64	6,496	643	131	-	7,270
Facilities maintenance and insurance	1,220	-	168	92	137	133	132	129	77	21	2,109	202	-	-	2,311
Rent	80,566	-	9,514	8,249	18,796	22,545	22,866	17,203	1,835	941	182,515	5,959	-	-	188,474
Office furniture and fixtures	6,587	-	724	666	411	1,581	1,314	933	238	58	12,512	590	60	-	13,162
Utilities	7,785	-	890	865	1,604	2,149	2,152	1,637	27	9	17,118	679	-	-	17,797
Parking	7	-	-	6	-	-	-	-	-	-	13	24	82	-	119
Depreciation	1,562	-	156	156	-	625	625	-	-	-	3,124	-	-	-	3,124
Insurance - vehicle	927	-	93	93	-	371	371	-	-	-	1,855	-	-	-	1,855
Fuel - vehicle	1,771	5	177	178	-	711	738	-	-	-	3,580	-	-	-	3,580
Toll road charges - vehicle	50	-	5	5	-	20	20	-	-	-	100	-	-	-	100
Maintenance - vehicle	1,037	8	103	103	-	411	411	-	-	-	2,073	-	-	-	2,073
Fundraising fees	-	-	-	-	-	-	-	-	-	-	-	15	2,881	-	2,896
Government fees	-	-	-	-	-	-	-	-	-	-	-	51	-	-	51
Professional fees - other	-	-	-	-	-	-	-	-	-	-	-	6,000	-	-	6,000
Program goods purchased	1,353	-	4,759	-	492	82,863	28,458	-	-	1,200	119,125	-	-	-	119,125
Program expense - other than goods	10,890	173	895	1,193	8,992	2,266	4,126	-	15	-	28,550	-	-	-	28,550
Program scholarships	-	-	-	39,744	-	-	-	-	1,970	7,436	49,150	-	-	-	49,150
giveSPORTS and other events	-	-	-	-	-	-	-	-	-	-	-	-	4,524	-	4,524
Insurance	4,418	-	669	360	562	423	423	345	316	92	7,608	846	75	-	8,529
Marketing expenses	845	-	131	71	111	1,545	229	74	63	18	3,087	175	26,581	-	29,843
Staff and board development	2,646	10	373	217	298	237	272	185	162	56	4,456	3,154	2,109	-	9,719
Mileage reimbursement	317	-	135	315	-	433	332	1,016	94	175	2,817	183	2,293	-	5,293
Membership dues - organization	1,256	-	352	56	98	71	70	56	56	14	2,029	446	2,320	-	4,795
Miscellaneous	153	-	-	-	-	-	-	-	-	-	153	1,901	-	-	2,054
Bad debts	5,381	-	828	414	724	617	517	414	414	103	9,412	1,585	-	-	10,997
Awards	67	-	10	5	9	6	6	5	5	1	114	13	892	-	1,019
Volunteer expense	2,274	-	346	222	294	217	218	177	166	46	3,960	788	618	-	5,366
In-kind program materials/goods	7,818,784	-	1,041,691	522,256	-	597,588	493,841	(637)	165	-	10,473,688	(74)	-	-	10,473,614
In-kind professional services	16,548	-	-	-	-	-	-	-	-	-	16,548	-	-	-	16,548
In-kind facilities	69,838	-	246	123	216	3,039	154	123	123	31	73,893	882	2,605	-	77,380
Direct benefits to donors	-	-	-	-	-	-	-	-	-	-	-	-	-	155,939	155,939
Total functional expenses	\$ 8,291,747	\$ 224	\$ 1,113,002	\$ 620,922	\$ 61,762	\$ 760,533	\$ 605,673	\$ 98,056	\$ 14,959	\$ 25,988	\$ 11,592,866	\$ 170,314	\$ 270,749	\$ 155,939	\$ 12,189,868
	68%	0%	9%	5%	1%	6%	5%	1%	0%	0%	95%	1%	2%	1%	100%

See accompanying independent auditor's report and notes to the financial statements

A Precious Child, Inc.

Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies of A Precious Child, Inc. (the “Organization”) is presented to assist in understanding the Organization’s financial statements. The financial statements and notes are representations of the Organization’s management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America (“GAAP”) and have been consistently applied in the preparation of financial statements.

Nature of Activities

The Organization is a not-for-profit 501(c)(3) organization, incorporated under the laws of Colorado, for the purpose of providing assistance to children and families facing difficult life challenges such as abuse and neglect, crisis situations, and poverty. The Organization focuses on meeting a child’s most basic needs such as clothing, shoes, coats, sports equipment, backpacks, and school supplies. The Organization serves clients in Adams, Arapahoe, Broomfield, Boulder, Douglas, Jefferson, Denver, and Weld counties. The Organization’s revenue comes primarily from contributions.

The Organization has the following core programs:

- Precious Essentials – provides clothing and other basic essentials to children and adults in a dignified manner to increase self-esteem for impoverished children and families;
- Precious Boutiques – satellite resource centers that are located in schools and shelters and dedicated to improving accessibility to basic essentials on-site for children in need;
- Basics 4 Babies – provides direct aid to mothers and families who might otherwise ration or go without basic necessities for their babies;
- giveSPORTS – provides new and gently-used sports equipment as well as participation fee scholarships so all children have the opportunity to participate in sports;
- The Learning Center – ensures that every child who comes to the Resource Center is provided with a safe space that encourages STEM-based learning and complements their academic studies;
- Fill A Backpack – provides backpacks filled with age-appropriate school supplies to maximize academic potential for disadvantaged and displaced children;
- Precious Gift – provides gifts to children who otherwise would not receive any during monumental times in their life, such as birthdays and the holiday season;

A Precious Child, Inc.

Notes to the Financial Statements

- COR (Child Outcomes Resource) Center – provides personalized case management to disadvantaged and displaced children and families connecting them with needed resources, services, opportunities, and educational support;
- giveARTS – provides new and gently-used equipment and supplies, as well as participation fee scholarships, giving children in need the opportunity to participate in music, dance, theater, and visual arts;
- Edusentials – provides economic opportunities and resources through scholarships to remove barriers for school attendance and improve educational outcomes.

Basis of Presentation

The Organization follows accounting standards set by the Financial Accounting Standards Board, commonly referred to as the “FASB.” The FASB sets GAAP which the Organization follows to ensure the financial condition, results of operations, and cash flows are consistently reported. References to GAAP issued by the FASB in these footnotes are to the FASB Accounting Standards Codification, sometimes referred to as the “Codification” or “ASC”.

Cash and Cash Equivalents

The Organization considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are not held for long-term purposes, to be cash and cash equivalents.

The Organization maintains its cash balances in financial institutions, which at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents. As of December 31, 2018, the Organization had approximately \$790,000 in excess of federally insured limits.

Investments

The Organization records investments at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values on the statement of financial position. Net investment return/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external and internal investment expenses.

A Precious Child, Inc.

Notes to the Financial Statements

Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures* requires the use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value for all financial instruments required to be measured at fair value, into three broad levels as described below:

- Level 1 - Quoted market prices in active markets for identical assets and liabilities;
- Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in inactive markets, or model-derived valuations in which all significant inputs are observable or can be derived principally from, or corroborated by, observable market data;
- Level 3 - Unobservable inputs are used when little or no market data is available.

This hierarchy, established by GAAP, requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The asset or liability's measurement within the fair value hierarchy is based on the lowest level of input that is significant to the measurement.

Inventories

Inventories are stated at the estimated fair value derived from published independent sector rates in accordance with the Internal Revenue Service's Publication 561, *Determining the Value of Donated Property*. Inventories include items such as clothes, shoes, coats, sports equipment, backpacks, and school supplies.

Pledges Receivable

Pledges receivable that are expected to be collected in less than one year are reported at net realizable value. Pledges receivable that are expected to be collected in more than one year are initially recorded at their estimated fair values. That fair value is computed using a present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. In years subsequent to initial recording, an allowance for uncollectible amounts is determined based on the relationship with the donor, historical experience, an assessment of the current economic environment, and analysis of subsequent events. As of December 31, 2018 and 2017, management expects that all amounts are fully collectible in the next year; accordingly, there is no allowance for uncollectible pledges.

Property and Equipment

Property and equipment acquired in excess of \$1,000 and with a life expectancy of more than one year are capitalized at cost for purchased fixed assets and at estimated fair value, at the date of receipt, for donated property. Depreciation is provided on the straight-line method based upon the estimated useful life of the assets, which ranges from 5 to 39 years.

A Precious Child, Inc.

Notes to the Financial Statements

Long-Lived Assets

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recovered. The Organization looks primarily to the undiscounted future cash flows in its assessment of whether or not long-lived assets have been impaired. Management is not aware of any indications of impairment and therefore no impairment loss was recorded during the years ended December 31, 2018 or 2017.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – net assets subject to donor- (or certain grantor-) 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. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue and Revenue Recognition

Revenue is recognized when earned and collectability is reasonably assured.

The Organization recognizes contributions, and grants not classified as exchange transactions, when cash, securities or other assets, or an unconditional promise to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

In-kind Contributions

In-kind contributions are reflected as contributions at their estimated fair value at date of donation and are reported as unrestricted support. These amounts have been reported as both in-kind gifts revenue and included as program costs to properly reflect the total cost to each particular program. The Organization recognizes the fair value of contributed services received if such services, a) create or enhance nonfinancial assets, or b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not contributed.

A Precious Child, Inc.

Notes to the Financial Statements

Special Events

The Organization holds special events such as the annual gala, golf and bowling tournaments and a luncheon throughout the year as fundraising events for the Organization. The gross revenues and expenses, including direct benefits to donors, from these events are presented in the statements of activities. Revenues are recognized when the donations are received.

Advertising

Advertising costs are expensed when incurred totaling \$65,376 and \$29,843, respectively, during 2018 and 2017.

Functional Allocation of Expenses

The costs of conducting the various programs and supporting activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail expenses by function and reports certain categories of expenses that are attributed to more than one program or supporting function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. These expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, and rent and utilities which have been allocated on a square footage basis, as well as salaries and related expenses and staff benefits which are allocated on the basis of estimates of time and effort.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1). However, income from activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. The Organization had no unrelated business income during the years ended December 31, 2018 and 2017.

The Organization believes that it has conducted its operations in accordance with, and has properly maintained, its tax-exempt status, and that it has taken no material uncertain tax positions that qualify for recognition or disclosure in the financial statements. The Organization is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2016.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates and such differences could be material.

A Precious Child, Inc.

Notes to the Financial Statements

Reclassifications

Certain amounts for the year ended December 31, 2017 have been reclassified to be consistent and comparable with the presentation of December 31, 2018 information. There is no change in the net assets as of December 31, 2017 as a result of these reclassifications.

Recently Issued Accounting Pronouncements

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). This ASU will supersede most current revenue recognition guidance, including industry-specific guidance. This ASU establishes a new contract and control-based revenue recognition model, changes the basis for deciding when revenue is recognized over time or at a point in time, and expands disclosures about revenue. ASU 2014-09 will be effective for the Organization's fiscal year beginning after December 15, 2018. The Organization is currently evaluating the impact that the adoption of this standard will have on its financial statements.

In June 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU assists entities in evaluating whether transactions should be accounted for as contributions or as exchange transactions and determining whether a contribution is conditional. ASU 2018-08 will be effective for the Organization's fiscal year beginning after December 15, 2018.

In February of 2016, the FASB issued ASU 2016-02, *Topic 842, Leases*. The purpose of this ASU is to establish the principle to report transparent and economically neutral information about the assets and liabilities that arise from leases. The new guidance is effective for public business entities with fiscal years beginning after December 15, 2018. For all other organizations the new guidance is effective for fiscal years beginning after December 15, 2020 and interim periods with fiscal years beginning after December 15, 2021. The Organization is currently evaluating the impact of adoption of this standard on its financial statements.

2. CHANGE IN ACCOUNTING PRINCIPLE

In August 2016, FASB issued ASU No. 2016-14, *Not-for-Profit Entities* (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has adjusted the presented in the statement of financial position and statement of activities and changes in net assets accordingly. The ASU has been applied retrospectively to all periods presented.

A Precious Child, Inc.

Notes to the Financial Statements

A summary of the net asset reclassifications driven by the adoption of ASU 2016-14 as of December 31, 2017 follows:

		2017
As originally stated:	As restated:	
Unrestricted	Without donor restrictions	\$ 1,301,274
Temporarily restricted	With donor restrictions	128,784
Total net assets, end of year		\$ 1,430,058

3. LIQUIDITY AND AVAILABILITY OF FUNDS

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position comprise the following:

Cash and cash equivalents	\$ 1,120,263
Investments	17,998
Pledges receivable, without donor restrictions	43,859
	\$ 1,182,120

As part of the Organization's liquidity management plans, cash and cash equivalents, short-term investments, and cash flows from operations are expected to continue to be sufficient to fund the Organization's ongoing operating activities.

4. INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments at December 31, 2018 consisted of the following:

	Level 1	Level 2	Level 3
Mutual funds - equities	\$ 17,161	\$ -	\$ -
Mutual funds - blended	837	-	-
	\$ 17,998	\$ -	\$ -

Investments at December 31, 2017 consisted of the following:

	Level 1	Level 2	Level 3
Mutual funds - equities	\$ 17,637	\$ -	\$ -
Mutual funds - blended	1,022	-	-
	\$ 18,659	\$ -	\$ -

Investment income earned on mutual funds for the years ended December 31, 2018 and 2017 consisted of unrealized gains and losses of \$(661) and \$2,319, respectively.

A Precious Child, Inc.

Notes to the Financial Statements

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of December 31:

	2018	2017
Building	\$ 2,030,000	\$ -
Land	1,470,000	-
Building improvements	234,271	-
Vehicles	36,992	36,992
Furniture and equipment	23,026	23,026
Property and equipment	3,794,289	60,018
Less: accumulated depreciation	(67,067)	(15,308)
Property and equipment, net	\$ 3,727,222	\$ 44,710

6. LONG-TERM DEBT

Mortgage Payable

In May 2018, the Organization entered into a promissory note payable for the purchase of land and a building. The note had an original principal balance of \$2,250,000 and matures in May 2027. The note requires interest payments for the first year at a rate of 4.49% followed by monthly principal and interest payments with interest at 4.99%. The note is collateralized by certain assets of the Organization.

Annual principal payments for the promissory note outstanding at December 31, 2018 are as follows:

<i>Year Ending December 31,</i>	
2019	\$ 15,027
2020	26,799
2021	28,167
2022	29,605
2023	37,175
Thereafter	2,113,227
	\$ 2,250,000

Line of Credit

The Organization has a line of credit with a bank for \$300,000, which matures in May 2021. The line requires monthly payments of interest with the outstanding balance of principal due upon maturity. The line accrues interest at the prime rate, restuling in a rate of 5.50% at December 31, 2018. There was no balance outstanding as of December 31, 2018.

A Precious Child, Inc.

Notes to the Financial Statements

7. NET ASSETS WITH DONOR RESTRICTIONS

As of December 31, 2018 and 2017, net assets with donor restrictions are restricted for the following purposes or periods:

	2018	2017
Subject to expenditures for specified purpose:		
Capital campaign	\$ 1,431,149	\$ 12,075
The Learning Center	100,361	15,000
Fill A Backpack	31,398	52,142
Edusentials	31,191	46,171
Precious Gift	200	-
Precious Essentials	25	26
Basics 4 Babies	-	3,370
Promises to give, restricted by donors for:		
Capital campaign	251,500	-
The Learning Center	11,000	-
Fill A Backpack	1,515	-
	1,858,339	128,784
Subject to the passage of time:		
Promises to give that are not restricted by donors	43,860	-
	\$ 1,902,199	\$ 128,784

8. LEASE OBLIGATIONS

The Organization leased office space under an operating lease through May 2018. During 2018, the Organization purchased a building and no longer needed the leased space. The lease obligation was set to expire in 2021 and the landlord released the Organization of future remaining lease obligations. During the years ended December 31, 2018 and 2017, the Organization paid \$99,708 and \$188,474, respectively, on this lease. The Organization leases copiers and future lease payments on the copiers are de minimis.

9. CONCENTRATIONS

The Organization received 16% of its support from one donor during the year ended December 31, 2018. This donor accounted for 81% of outstanding pledges receivable as of December 31, 2018. During the year ended December 31, 2017, no donors comprised of more than 10% of either contribution revenue or pledges receivable.

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Notes to the Financial Statements

10. RETIREMENT PLAN

The Organization sponsors a retirement plan under Internal Revenue Code Section 401(a). Employees may contribute amounts to the Plan based on the limits established by the IRS. The Organization makes a contribution to the Plan of 100% of the first 2% of eligible compensation deferred by the employee. For the year ended December 31, 2018, the Organization contributed \$5,440 to the retirement plan.

11. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through November 5, 2019, which is the date these financial statements were available to be issued. In July 2019, the Organization acquired three lots adjacent to their current offices for approximately \$1.4 million. This was acquired through a loan with a bank for approximately \$1.2 million with the remainder being funded with cash on hand. There are no other subsequent events that require additional disclosure in these financial statements.