Penny Appeal USA(PAUSA)

Financial Statements
And
Independent Auditor's Report

Year Ended December 31, 2018
(With summarized comparative financial information for the year ended December 31, 2017)

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ABERCROMBIE & ASSOCIATES, LLC
ACCOUNTING • IT SERVICES • CONSULTING

Independent Auditor's Report

To the Board of Directors
Penny Appeal USA(PAUSA)

We have audited the accompanying financial statements of the Penny Appeal USA(PAUSA), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and change in net assets, 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.

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 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 PAUSA as of December 31, 2018, and the change 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.

Report on Summarized Comparative Information

We have previously audited Penny Appeal USA's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 13, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Abercrombie & Associates, LLC

Abercrombie & Associates, LLC
May 15, 2019
Silver Spring, MD

Penny Appeal USA
Statement of Financial Position
December 31, 2018
(With summarized comparative financial information December 31, 2017)

	2018	2017
ASSETS		
Cash and cash equivalents	$ 602,467	$ 413,633
Grants and accounts receivable	55,425	39,739
Prepaid expenses	43,437	4,481
Deposits	3,390	2,350
Fixed Assets (Net)	54,198	36,946
Other Merchandise	9,774	
TOTAL ASSETS	768,691	497,148
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	95,683	83,993
Subgrants payable	138,680	71,240
Total Liabilities	234,363	155,233
NET ASSETS		
Without Donor Restriction	112,201	(76,176)
With Donor Restriction	422,127	418,091
Total Net Assets	534,328	341,915
TOTAL LIABILITIES AND NET ASSETS	$ 768,691	$ 497,148

The accompanying notes are an integral part of the financial statements

Penny Appeal USA
Statement of Activities
Year Ended December 31, 2018
(With summarized comparative financial information for the year ended December 31, 2017)

Revenue	**Without Donor Restriction**	**With Donor Restriction**	**2018 Total**	**2017 Total**
Contributions and grants	$ 1,469,522	$ 1,582,994	$ 3,052,516	$ 1,565,567
In -Kind Revenue	4,770		4,770	
Interest income	10	-	10	-
Net assets released from restrictions	1,578,958	(1,578,958)	-	-
Special Events	43,738		43,738	
Total Revenue and Support	3,096,998	4,036	3,101,034	1,565,567
Expenses				
Program Service	1,873,980	-	1,873,980	1,141,549
Management and General	149,555	-	149,555	235,482
Fundraising	885,086	-	885,086	402,310
Total Expenses	2,908,621	-	2,908,621	1,779,341
Change in Net Assets	188,377	4,036	192,413	(213,774)
Net Assets, Beginning of Year	(76,176)	418,091	341,915	555,689
Net Assets, End of Year	$ 112,201	$ 422,127	$ 534,328	$ 341,915

Penny Appeal USA
Statement of Functional Expenses
December 31, 2018
(With summarized comparative financial information for December 31, 2017)

Category	Domestic Programs	Education First	Emergency Response	Feed Our World	Heal Humanity	Income Generation	OrphanKind	Qurbani	Thirst Relief	Total Programs	Fundraising	Management and General	Total 2018	Total 2017
Salaries	$ 33,956	$ 10,252	$ 25,940	$ 25,940	$ -	$ 25,940	$ 25,940	$ 25,940	$ 25,940	$ 199,849	$ 167,121	$ 56,572	$ 423,542	$ 351,273
Payroll taxes	2,784	859	2,066	2,066	-	2,066	2,066	2,066	2,066	16,038	12,959	4,165	33,161	29,781
Fringe benefits	3,591	1,802	3,539	3,539	-	3,539	3,539	3,539	3,539	26,627	35,531	14,666	76,824	65,765
Subgrants	20,920	184,000	204,345	185,727	45,000	-	36,410	117,641	338,792	1,132,835	2,548	-	1,135,383	670,524
Contractors	8,089	4,966	6,939	9,888	-	17,539	12,888	6,939	9,539	76,785	65,258	2,921	144,964	83,857
Event	1,148	16	322	(0)	-	(0)	3,548	3,237	15	8,285	187,111	7,099	202,496	71,102
Marketing	21,598	558	31,100	26,824	-	3,116	48,243	37,330	22,762	191,532	205,910	2,283	399,724	215,831
Travel	934	61	1,285	373	-	1	28,854	1,033	868	33,408	66,010	6,603	106,020	53,833
Amortization	854	438	647	647	-	647	647	647	647	5,172	4,292	1,450	10,914	1,578
Bank fees	1,385	405	4,900	5,828	370	2,603	10,853	4,625	10,776	41,744	25,501	2,873	70,118	23,216
Depreciation	371	137	289	289	-	297	289	289	289	2,249	1,882	637	4,768	3,480
Information Technology	61	15	49	49	-	49	314	49	249	835	14,110	6,856	21,801	22,363
Insurance	-	-	-	-	-	-	-	-	-	-	384	2,072	2,457	444
Licenses and registrations	96	57	2,094	257	-	57	57	57	57	2,733	525	10,002	13,260	8,254
Office Expense	3,832	1,028	2,309	2,309	-	2,309	2,329	2,309	2,309	18,732	24,174	6,220	49,126	40,851
Postage and mailing	679	-	405	405	-	405	550	629	405	3,479	11,845	1,415	16,739	16,005
Printing	2,624	-	13,188	17,515	-	405	2,093	11,879	2,231	49,935	31,784	1,918	83,637	48,584
Professional Fees	3,944	380	3,112	3,112	-	3,112	3,112	3,112	3,123	23,007	17,829	7,055	47,890	54,737
Subscriptions	-	-	-	-	-	-	-	-	-	-	811	324	1,135	-
Supplies	2,544	23,973	11,009	110	-	110	1,610	110	149	39,615	8,586	1,202	49,403	17,863
Uncollectable	179	134	134	134	-	134	134	134	134	1,120	914	13,224	15,259	-
Grand Total	$ 109,589	$ 229,082	$ 313,671	$ 285,011	$ 45,370	$ 62,330	$ 183,476	$ 221,564	$ 423,887	$ 1,873,980	$ 885,086	$ 149,555	$ 2,908,621	$ 1,779,341

The accompanying notes are an integral part of the financial statements

Penny Appeal USA
Statement of Cash Flow
Year Ended December 31, 2018
(With summarized comparative financial information for the year ended December 31, 2017)

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	$ 192,413	$ (213,774)
Adjustment to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	4,768	3,481
Amortization	10,914	1,577
Bad Debt	15,259	
Decrease(Increase) in receivables	(33,025)	335,543
(Increase) in prepaid expenses	(38,956)	(1,481)
(Increase) in deposits	1,040	-
(Increase) in other merchandise	(9,774)	-
Increase in accounts payable & accrued expenses	79,128	38,615
Net cash provided by operating activities	221,768	163,961
Cash Flows from Investing Activities		
Purchase of new equipment	(32,934)	(27,475)
Net cash provided (used) by investing activities	(32,934)	(27,475)
Cash Flows from Financing Activities		
		-
Net cash provided by financing activities	-	-
Increase (decrease) in Cash and Cash Equivalents	188,834	136,486
Cash and Cash Equivalents, Beginning of Year	413,633	277,147
Cash and Cash Equivalents, End of Year	$ 602,467	$ 413,633
Cash paid for interest	-	-

The accompanying notes are an integral part of the financial statements

Note 1 – Organization and Summary of Accounting Policies

<u>Organization</u>
Penny Appeal USA is a 501 (c) (3) relief and development organization with a really big vision for the world. It works to create the best societies possible by breaking the cycles of need and poverty for good. Through both short-term relief efforts and long-term development programs, PA USA works to turn people's small change into a big difference.

Penny Appeal's programs are as follows:

Thirst Relief: We provide communities with access to clean, safe drinking water by building wells in 11 countries around the world. By providing access to safe drinking water—as well as sanitation and hygiene education—we empower children to receive an education and women to work on income generation activities.

Emergency Response: In the United States and abroad, we conduct needs assessments in areas suffering from natural or man-made disasters such as wars, floods and earthquakes and to provide immediate relief in the form of food packets, access to water, access to medical care and access to shelter.

Domestic Programs: The two main programs in the United States are Beyond Bagged Lunches and Bridging the Digital Divide. Beyond Bagged Lunches focuses on those transitioning through homelessness by providing a range of social services such as access to food, hygiene packs, winter packs and access to medical assistance. Bridging the Digital Divide seeks to help children in low income communities succeed at school by providing them with the tools they need to succeed in the 21st century. We also provide parents with computer literacy classes to help them understand their children's homework and to empower them to find employment and access social services online.

OrphanKind: This program is designed to help transform the lives of disadvantaged orphan children, offering them a better future in a secure family setting. With multiple donors providing each child with all the essentials for their emotional, psychological, and physical growth, we help every orphan pave a sustainable way to a brighter future in the face of tremendous loss.

Income Generation: This program seeks to give families economic independence. We're promoting sustainability and resilience among rural farmers by distributing goats to them. Goat farming plays a prominent role in supplementing the income of rural households particularly among landless, marginal, small farmers.

Feed Our World: Each year, our international Feed Our World program provides life-saving, nutritious meals to the poor and needy. These meals help combat hunger poverty in crisis-hit countries across Asia, Africa and the Middle East.

Religious Giving: Through our Religious Giving program, Muslim supporters of the organization are able to fulfill their various religious duties. Whether it be Aqiqah (performed upon the birth of a child), Fidya (for those who can't partake in Ramadan fasting) or Zakat-al-Fitr (a mandatory charity paid on Eid Al Fitr), we ensure those most in need benefit from these donations.

Heal Humanity: Too many people in the world lack access to basic healthcare. Through Heal Humanity we work to ensure they have the necessary medical, dental and eye care they need via refurbishing health facilities and providing medical services.

Education First: Education is a vital part of helping children get the start in life they need to ensure a successful future. Once their basic necessities are met, we focus on giving children access to quality education by proving comfortable learning facilities and providing them with the necessary tools and resources they need to succeed.

Basis of Accounting

The financial statements of PAUSA have been prepared on the accrual basis of accounting in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14 Presentation of Financial Statements for Not-for-Profit Entities. The ASU was adopted for the year ended December 31, 2018 and applied retrospectively.

Tax Status

PAUSA has been granted exemption by the Internal Revenue Service (IRS) from federal income taxes under section 501(c)(3) of the Internal Revenue Code. The Internal Revenue Service has determined that the PAUSA is not a private foundation. PAUSA is required to report unrelated business income to the Internal Revenue Service and the State of Virginia.

Uncertain Tax Positions

The Financial Accounting Standards Board (FASB) has released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes. For the year ended December 31, 2018, PAUSA has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements. The Federal Form 990, Return of Organization Exempt from Income Tax, is subject to examination by the Internal Revenue Service generally for three years after it is filed. Tax year ending December 31, 2017, 2016 and 2015 remain open with both Federal and state taxing authorities.

Cash and Cash Equivalents

For financial statement purposes, cash and cash equivalents include operating cash accounts, petty cash and highly liquid, short-term instruments with original maturities of three months or less.

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 Restriction – Net assets available for use in general operations and not subject to donor restrictions are recorded as net assets without donor restrictions.
>
> Net Assets With Donor Restriction Net assets subject to donor or grantor imposed restrictions that will be met by the actions of PAUSA and/or the passage of time. When a restriction expires, with donor restriction net assets are reclassified to without donor restriction net assets and reported in the Statement of Activities and Changes in Net

Assets as net assets released from restrictions. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenue Recognition

PAUSA recognizes revenue when it is earned. Revenues are recorded at the time pledges are made, corporate support is pledged, products are shipped, services are performed, or obligations are fulfilled. Contributions are reported in accordance with the provisions of FASB ASC 958-605, *Revenue Recognition*.

Property and Equipment

Property and equipment consist of furniture, office equipment, computer equipment and intangible assets recorded at cost and depreciated using the straight-line method over the estimated useful life of the asset. PAUSA's capitalization policy currently records property and equipment acquisitions over $750 with an expected life of more than a year.

Donated Services, Goods and Facilities

Donated professional services are reflected in the statement of activities at their fair value. Materials and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the date of receipt.

Fair Value Measurement

PAUSA adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurement. PAUSA accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

Reclassification

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. The reclassifications are primarily due to the adoption of Accounting Standards Update 2016-14, as discussed above, which requires two classifications of net assets from the previously presented three classes. Net assets previously classified as of December 31, 2017 as unrestricted net assets in the amount of $279,063 are now classified as without donor restrictions. Net assets previously classified as temporarily restricted net assets in the amount of $1,929,705 is now classified as net assets with donor restrictions.

Advertising Costs

Advertising costs are expensed as incurred.

Use of Estimates

Preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from estimates.

New Accounting Pronouncements (Not Yet Adopted)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S.

GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is years beginning after December 15, 2018. Early adoption is permitted. PAUSA has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made,* which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. AAJC has not yet decided on a transition method. The ASU is effective for fiscal years beginning after December 15, 2018.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statements of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach. PAUSA plans to adopt the new ASUs at the respective required implementation dates.

Note 2 – Grants and Accounts Receivable, Net

At December 31, 2017 included in Grants and Accounts Receivable were the following:

Grants/accounts receivable due in less than one year	$	57,767
Less: allowance for doubtful accounts		(2,342)
Grants/accounts receivable, net of allowance	$	55,425

Penny Appeal uses the allowance method to account for uncollectible receivables. Receivables are determined uncollectible based on management's review

Note 3 – Tangible and Intangible Property and Equipment

Furniture, equipment and intangible assets are recorded at cost. Depreciation and amortization are provided over the estimated useful lives of the respective assets, which range from three to ten years on a straight line basis. Penny Appeal capitalizes property and equipment in excess of $750.

Tangible property and equipment consists of the following at December 31, 2018:

Furniture and fixtures	$	3,748
Office equipment		22,742
Accumulated depreciation		(9,308)
Book value	$	17,182

Intangible property and equipment consists of the following at December 31, 2018:

Website development	$	6,176
Software development		43,332
Amortization		(12,492)
Book value	$	37,016

Depreciation and amortization expense were $4,768 and $10,914 respectively for the period ended December 31, 2018.

Note 4 - Net Assets Released From Restrictions

Net assets were released from donor-imposed restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors for the year ended December 31, 2018.

Program purpose	$	1,578,958
Total	$	1,578,958

Note 5 – Net Assets With Donor Restrictions

Net assets with donor restrictions are available for the following purposes at December 31, 2018:

Income Generation	$	2,298
Orphan Kind		205,177
Religious Giving		1,289
Emergency Response		62,647
Other programs		150,716
Total	$	422,127

Note 6 – Liquidity

Liquidity and availability
Financial assets available for general expenditure, that is, without donor or restrictions limiting their use, within one year of the statement of financial position, comprise the following:

Cash and Cash Equivalents	$ 602,467
Grants and accounts receivable	55,425
Less: Amount restricted for Donor designations	(422,127)
Net Financial Assets Available within one year	235,765

PAUSA's policy is to structure its financial assets to become available as general expenditures, liabilities and other obligations become due. As of December 31, 2018, PAUSA has financial assets equal to three months of operating expenses.

Note 7 - Commitments

PAUSA leases their office space in Virginia under a month to month operating lease. Rent expense for the year ended December 31, 2018 was $40,882.

Note 8 – In-kind Contributions

PAUSA received $4,770 in donated professional services in 2018. Donated services are shown as both support and expense in the Statement of Activities.

Note 9 - Concentration of Credit Risk

Financial instruments that potentially expose PAUSA to concentrations of credit risk consist primarily of cash and cash equivalents. Bank deposit accounts at one institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of $250,000. PAUSA maintained checking account balances which were in excess of federally insured limits (FDIC) at December 31, 2018. Management believes the risk is managed by maintaining all deposits with high quality financial institutions. PAUSA has not experienced, nor does it anticipate any loss of funds from its current concentration of risk.

Note 10 - Functional Allocation of Expenses

The cost of providing the various programs and supporting services have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. General and administrative costs have been allocated, when appropriate, to the programs and supporting services proportionately based on direct personnel costs.

Note 11 - Subsequent Events

In preparing these financial statements, PAUSA has evaluated events and transactions for potential recognition or disclosure through May 15, 2019, the date the financial statements were issued.