

Undies For Everyone

Financial Statements
and Independent Auditors' Report
for the year ended December 31, 2020

Undies For Everyone

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Independent Auditors' Report

To the Board of Directors of
Undies For Everyone:

We have audited the accompanying financial statements of Undies For Everyone, which comprise the statement of financial position as of December 31, 2020 and the related statements of activities, of functional expenses, and of 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 our 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 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 Undies For Everyone as of December 31, 2020 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.

Blazek & Vetterling

May 20, 2021

Undies For Everyone

Statement of Financial Position as of December 31, 2020

ASSETS

Cash	\$	205,759
Accounts receivable		29,951
Underwear supplies		20,100
Equipment, net (<i>Note 4</i>)		<u>10,800</u>
TOTAL ASSETS	\$	<u>266,610</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$	35,129
Accrued payroll liabilities		<u>24,478</u>
Total liabilities		<u>59,607</u>
Net assets:		
Without donor restrictions		111,503
With donor restrictions (<i>Note 6</i>)		<u>95,500</u>
Total net assets		<u>207,003</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>266,610</u>

See accompanying notes to financial statements.

Undies For Everyone

Statement of Activities for the year ended December 31, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 332,602	\$ 185,926	\$ 518,528
Special event	81,377		81,377
Direct donor benefits	(17,448)		(17,448)
Government grant contribution – Paycheck Protection Program (<i>Note 3</i>)		58,700	58,700
In-kind contributions of underwear	35,235		35,235
Other income	950		950
Total revenue	432,716	244,626	677,342
Net assets released from restrictions:			
Expended for restricted purpose	303,446	(303,446)	
Total	736,162	(58,820)	677,342
EXPENSES:			
Program services	534,306		534,306
Fundraising	99,619		99,619
Management and general	60,623		60,623
Total expenses	694,548		694,548
CHANGES IN NET ASSETS	41,614	(58,820)	(17,206)
Net assets, beginning of year	69,889	154,320	224,209
Net assets, end of year	\$ 111,503	\$ 95,500	\$ 207,003

See accompanying notes to financial statements.

Undies For Everyone

Statement of Functional Expenses for the year ended December 31, 2020

	<u>PROGRAM SERVICES</u>	<u>FUNDRAISING</u>	<u>MANAGEMENT AND GENERAL</u>	<u>TOTAL EXPENSES</u>
Salary and benefits	\$ 212,696	\$ 45,387	\$ 35,327	\$ 293,410
Distributions of underwear to partner organizations	216,121			216,121
Building rent, utilities, and insurance	64,645	3,935	3,857	72,437
Contract and professional fees	11,603	26,958	9,375	47,936
Equipment and supplies	19,377	21,085	5,385	45,847
Fees and dues			5,814	5,814
Depreciation	5,400			5,400
Other	<u>4,464</u>	<u>2,254</u>	<u>865</u>	<u>7,583</u>
Total expenses	<u>\$ 534,306</u>	<u>\$ 99,619</u>	<u>\$ 60,623</u>	694,548
Direct donor benefits				<u>17,448</u>
Total				<u>\$ 711,996</u>

See accompanying notes to financial statements.

Undies For Everyone

Statement of Cash Flows for the year ended December 31, 2020

CASH FLOWS FROM OPERATING ACTIVITIES:

Changes in net assets	\$ (17,206)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	5,400
Changes in operating assets and liabilities:	
Accounts receivable	2,530
Underwear supplies	35,687
Prepaid expenses	39,888
Accounts payable	23,263
Accrued payroll liabilities	24,192
Refundable advance	<u>(25,026)</u>
Net cash provided by operating activities	<u>88,728</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from line of credit	50,000
Payments on line of credit	<u>(50,000)</u>
Net cash provided by financing activities	<u>0</u>

NET CHANGE IN CASH

88,728

Cash, beginning of year

117,031

Cash, end of year

\$ 205,759

See accompanying notes to financial statements.

Undies For Everyone

Notes to Financial Statements for the year ended December 31, 2020

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization – Undies For Everyone was incorporated in 2012 under the Texas Non-Profit Corporation Act. Its mission is to provide kids living in poverty or crisis with new underwear, recognizing the importance of a small basic need as part of a child’s increased chances for long-term success. Undies For Everyone serves children through partner organizations throughout Texas and is expanding to cities outside of Texas in 2021 including Oklahoma City, Tulsa, Albuquerque and Washington D.C.

Federal income tax status – Undies For Everyone is exempt from federal income tax under §501(c)(3) of the Internal Revenue Code and is classified as a public charity under §170(b)(1)(A)(vi).

Underwear supplies consist of children’s underwear and is recorded at cost, if purchased or the estimated fair market value, if donated.

Net asset classification – Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both.

Contributions are recognized as revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as with donor restrictions. Conditional contributions are subject to one or more barriers that must be overcome before Undies For Everyone is entitled to receive or retain funding. Conditional contributions are recognized in the same manner when the conditions are substantially met. Funding received before conditions are met is reported as a refundable advance.

Special event revenue is the total amount paid by sponsors and attendees of an event and includes elements of both contributions and exchange transactions. Special event revenue is recognized when the event occurs and is reported in the statement of financial position as deferred revenue until the event occurs. Donor benefit costs for special events represent the cost of goods and services received by attendees of the special events.

In-kind contributions of underwear are recognized at estimated fair value when an unconditional commitment is received from the donor. The related expense is recognized as the item is distributed.

Contributions of services are recognized when services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During 2020, 166 volunteers contributed approximately 479 hours preparing inventory for distribution for which no amount has been reported in the financial statements because the services did not meet the criteria for recognition under generally accepted accounting principles.

Functional allocation of expenses – Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, and time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Rent and insurance are allocated based on estimated square footage. Professional fees for marketing and publication are allocated between management and general and fundraising based on purpose of the marketing message.

Estimates – Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent financial accounting pronouncement – In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. Qualitative and quantitative disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. Undies For Everyone is required to adopt this ASU for fiscal year 2022. Upon adoption, management expects to recognize lease commitments as both a right of use asset and a lease liability in the statement of financial position for commitments that are currently only disclosed in the financial statements.

NOTE 2 – ADOPTION OF ACCOUNTING STANDARD

Undies For Everyone 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*. The amendments in this ASU clarify and improve current guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction and provide additional guidance on determining whether a contribution is conditional or unconditional. Undies For Everyone adopted this ASU effective December 31, 2020. Adoption of this ASU had no impact on beginning net assets for 2020.

NOTE 3 – LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of December 31, 2020 comprise the following:

Financial assets:	
Cash	\$ 205,759
Accounts receivable	<u>29,951</u>
Total financial assets	235,710
Less: Approved board-designated reserves	<u>(5,000)</u>
Total financial assets available for general expenditure	<u>\$ 230,710</u>

For purposes of analyzing resources available to meet general expenditures over a 12-month period, Undies For Everyone considers all expenditures related to its ongoing activities of underwear distribution to partner organizations, to be general expenditures. Undies For Everyone expects to fund general expenditures in excess of financial assets available to meet cash needs with future contributions. The Board of Directors adopted a cash reserve policy in 2020 to designate excess cash flows for reserves or specific projects, as deemed prudent. In 2020, \$5,000 has been approved with a goal of establishing a \$25,000 reserve by the end of 2021 and six-month reserve over the next three to five years. In addition, Undies For Everyone has a line of credit available from a bank in the amount of \$50,000 to fund unexpected cash flow needs. The line from a bank expires May 24, 2022 and bears interest at the prime rate plus 2.5%.

In March 2020, the Director-General of the World Health Organization declared a pandemic related to the global outbreak of the new coronavirus COVID-19 and a national emergency was declared in the United States. A limited number of volunteers were utilized in 2020 as a result of the pandemic, but distribution was not significantly impacted. The extent of the impact of COVID-19 on Undies For Everyone's future operational and financial performance will depend on developments such as the duration and spread of the outbreak, impact on the City of Houston, as well as Undies For Everyone's donors, employees, and vendors, all of which are uncertain and cannot be predicted. While this matter may negatively impact Undies For Everyone's operating results and financial position, the financial impact cannot be reasonably estimated at this time.

Undies For Everyone has striven to maintain its full-time employees inspite of COVID-19 closures. In May 2020, Undies For Everyone received financial relief of \$58,700 through the Small Business Administration's Paycheck Protection Program (PPP). Notice of forgiveness was received in November 2020 and has been recognized in contribution revenue at December 31, 2020.

NOTE 4 – EQUIPMENT

Equipment at December 31, 2020 consists of the following:

Van	\$ 27,000
Accumulated depreciation	<u>(16,200)</u>
Equipment, net	<u>\$ 10,800</u>

NOTE 5 – LEASE COMMITMENT

Undies For Everyone leases office space in Houston, Texas under a noncancellable lease agreement. Rent expense under this agreement totaled \$59,489 in 2020. Future minimum lease payments are due as follows:

2021	\$ 59,319
2022	60,349
2023	61,408
2024	<u>62,488</u>
Total	<u>\$ 243,564</u>

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2020 are restricted for next year’s operations as follows:

Expansion to new regions	\$ 50,000
Houston operations	25,500
Fort Worth operations	10,000
2021 operations	<u>10,000</u>
Total net assets with donor restrictions	<u>\$ 95,500</u>

NOTE 7 – SUBSEQUENT EVENTS

In January 2021, Undies For Everyone received additional financial relief of \$58,712 funded under the Small Business Administration’s PPP Second Draw Program. This PPP Second Draw loan accrues interest at 1% and is payable over 5 years. PPP loan principal and interest may be forgiven, in whole or in part, if funds are used for the intended purposes. The unsecured loan is considered to be a conditional contribution and will be recognized as revenue upon forgiveness by the bank.

Management has evaluated subsequent events through May 20, 2021, which is the date that the financial statements were available for issuance. No events, other than the additional PPP loan and the ongoing impact of COVID-19, were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
