

Undies for Everyone

Financial Statements
and Independent Auditors' Report
for the year ended December 31, 2021

Undies for Everyone

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Independent Auditors' Report

To the Board of Directors of
Undies for Everyone:

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Undies for Everyone, which comprise the statement of financial position as of December 31, 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Undies for Everyone 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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Undies for Everyone and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. 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 Undies for Everyone's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' 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 auditors' 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 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 Undies for Everyone'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 Undies for Everyone'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.

Blazek & Vetterling

August 2, 2022

Undies for Everyone

Statement of Financial Position as of December 31, 2021

ASSETS

Cash	\$	219,400
Contributions receivable		45,765
Underwear supplies		125,968
Equipment, net (<i>Note 3</i>)		<u>5,400</u>
TOTAL ASSETS	\$	<u>396,533</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$	44,869
Accrued payroll liabilities		30,653
Refundable advance – Paycheck Protection Program (<i>Note 2</i>)		<u>58,713</u>
Total liabilities		<u>134,235</u>
Net assets:		
Without donor restrictions		262,298
With donor restrictions		<u> </u>
Total net assets		<u>262,298</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>396,533</u>

See accompanying notes to financial statements.

Undies for Everyone

Statement of Activities for the year ended December 31, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
REVENUE:			
Contributions	\$ 413,869	\$ 372,325	\$ 786,194
In-kind contributions of underwear (<i>Note 5</i>)	873,002		873,002
Other income	<u>3,780</u>	<u></u>	<u>3,780</u>
Total revenue	1,290,651	372,325	1,662,976
Net assets released from restrictions:			
Expended for restricted purpose	457,825	(457,825)	
Expiration of time restrictions	<u>10,000</u>	<u>(10,000)</u>	<u></u>
Total	<u>1,758,476</u>	<u>(95,500)</u>	<u>1,662,976</u>
EXPENSES:			
Program services	1,382,496		1,382,496
Management and general	79,282		79,282
Fundraising	<u>145,903</u>	<u></u>	<u>145,903</u>
Total expenses	<u>1,607,681</u>	<u></u>	<u>1,607,681</u>
CHANGES IN NET ASSETS	150,795	(95,500)	55,295
Net assets, beginning of year	<u>111,503</u>	<u>95,500</u>	<u>207,003</u>
Net assets, end of year	<u>\$ 262,298</u>	<u>\$ 0</u>	<u>\$ 262,298</u>

See accompanying notes to financial statements.

Undies for Everyone

Statement of Functional Expenses for the year ended December 31, 2021

	<u>PROGRAM SERVICES</u>	<u>MANAGEMENT AND GENERAL</u>	<u>FUNDRAISING</u>	<u>TOTAL EXPENSES</u>
Salary and benefits	\$ 234,153	\$ 37,177	\$ 51,715	\$ 323,045
Distributions of underwear to partner organizations	1,043,164			1,043,164
Contract and professional fees	13,962	26,191	70,615	110,768
Building rent, utilities, and insurance	64,638	3,797	3,910	72,345
Equipment and supplies	16,196	6,171	17,283	39,650
Fees and dues		5,459		5,459
Depreciation	5,400			5,400
Other	<u>4,983</u>	<u>487</u>	<u>2,380</u>	<u>7,850</u>
Total expenses	<u>\$ 1,382,496</u>	<u>\$ 79,282</u>	<u>\$ 145,903</u>	<u>\$ 1,607,681</u>

See accompanying notes to financial statements.

Undies for Everyone

Statement of Cash Flows for the year ended December 31, 2021

CASH FLOWS FROM OPERATING ACTIVITIES:

Changes in net assets	\$ 55,295
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Depreciation	5,400
Changes in operating assets and liabilities:	
Contributions receivable	(15,814)
Underwear supplies	(105,868)
Prepaid expenses	
Accounts payable	9,740
Accrued payroll liabilities	6,175
Refundable advance – Paycheck Protection Program	<u>58,713</u>
Net cash provided by operating activities	<u>13,641</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	13,641
Cash, beginning of year	<u>205,759</u>
Cash, end of year	<u><u>\$ 219,400</u></u>

See accompanying notes to financial statements.

Undies for Everyone

Notes to Financial Statements for the year ended December 31, 2021

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 the United States, including Albuquerque, Atlanta, Austin, Brownsville (Rio Grande Valley), Cleveland, Dallas, Washington, D.C., Fort Worth, Harlingen (Rio Grande Valley), Houston, Los Angeles, Miami, Milwaukee, Oklahoma City, San Antonio, St. Louis, and Tulsa.

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).

Contributions receivable that are expected to be collected within one year are recorded at net realizable value. Contributions receivable that are expected to be collected in future years are discounted to estimate the present value of future cash flows. An allowance for uncollectible contributions receivable is provided when it is believed that contributions may not be collected in full. Contributions receivable at December 31, 2021 are expected to be collected within one year. At December 31, 2021, a contribution receivable of \$20,000 or 44% of contributions receivable are due from one donor.

It is Undies for Everyone’s policy to write off receivables against the allowance when management determines the receivable will not be collected. The amount of bad debt expense or loss on valuation of contributions receivable recognized each period and the resulting adequacy of the allowance at the end of each period are determined using an individual account-by-account analysis of receivable balances. It is possible that management’s estimate regarding the collectability of the balances will change in the near term resulting in a change in the carrying value of contributions receivable.

Underwear supplies consist of children’s underwear and are recorded at fair value at the time of purchase or donation.

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. In 2021, 22% of contributions were from one donor.

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 2021, 1,294 volunteers contributed approximately 5,794 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 pronouncements – Accounting Standards Update (ASU) 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, will require contributed nonfinancial assets to be presented as a separate line item in the statement of activities, apart from contributions of cash and other financial assets and will require disclosure about the measurement and use of types of contributed nonfinancial assets. The ASU will be effective for fiscal years beginning after June 15, 2021 and requires retrospective application. Undies for Everyone will adopt this ASU in fiscal year 2022.

In February 2016, the Financial Accounting Standards Board issued 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. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors 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 – 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, 2021 comprise the following:

Financial assets:	
Cash	\$ 219,400
Contributions receivable	<u>45,765</u>
Total financial assets	265,165
Less financial assets not available for general expenditure:	
Approved board-designated reserves	<u>(30,000)</u>
Total financial assets available for general expenditure	<u>\$ 235,165</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. Reserve balances are \$30,000 at December 31, 2021 with a goal to obtain a 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 of credit expired May 24, 2022. The line of credit was renewed on June 1, 2022 in the amount of \$75,000 and will mature on May 24, 2023. It bears interest at the prime rate plus 2.5%.

Undies for Everyone has striven to maintain its full-time employees inspite of COVID-19 closures. In January 2021, Undies for Everyone received financial relief of \$58,712 funded through the Small Business Administration’s Paycheck Protection Program Second Draw Program. Notice of forgiveness was received in February 2022 and will be recognized as contribution revenue in 2022.

NOTE 3 – EQUIPMENT

Equipment at December 31, 2021 consists of the following:

Van	\$ 27,000
Accumulated depreciation	<u>(21,600)</u>
Equipment, net	<u>\$ 5,400</u>

NOTE 4 – LEASE COMMITMENT

Undies for Everyone leases office space in Houston, Texas under a noncancellable lease agreement. Rent expense under this agreement totaled \$58,396 in 2021. Future minimum lease payments are due as follows:

2022	\$ 60,349
2023	61,408
2024	<u>62,488</u>
Total	<u>\$ 184,245</u>

NOTE 5 – IN-KIND CONTRIBUTIONS

Undies for Everyone receives contributions in the form of underwear. Underwear is valued at the average wholesale costs at the time of donation. Management performed a market survey of the costs of comparable underwear distributed by the organization and determined an average wholesale value. Undies for Everyone receives a significant discount on its purchases of underwear from a vendor. The difference between the wholesale value of the underwear and the price paid by Undies for Everyone was recorded as an in-kind contribution. In-kind contributions at December 31, 2021 were \$873,002. In 2021, 97% of in-kind contributions were from two donors.

NOTE 6 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 2, 2022, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events other than as disclosed in Note 2, were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.
