

PAJAMA PROGRAM, INC.
Audited Financial Statements
June 30, 2021

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Pajama Program, Inc.

We have audited the accompanying financial statements of Pajama Program, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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.

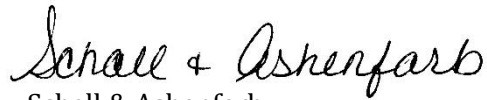
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

As more fully described in Note 2g of the financial statements, the Organization did not perform a physical count of inventory for the year ended June 30, 2020 and did not have sufficient systems in place to track the inventory activity during the year. As a result, we were unable to obtain sufficient appropriate audit evidence about the amount reported as the opening inventory balance as of June 30, 2020, as well as the donated books and pajamas and the distribution of books and pajamas during the year ended June 30, 2021.

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 Pajama Program, Inc. as of June 30, 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.


Schall & Ashenfarb
Certified Public Accountants, LLC

February 16, 2022

PAJAMA PROGRAM, INC.
STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2021

Assets

Cash and cash equivalents	\$4,224,801
Contributions receivable	56,203
Inventory	948,996
Prepaid expenses and other assets	33,640
Fixed assets, net (Note 3)	<u>87,256</u>
Total assets	<u><u>\$5,350,896</u></u>

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued expenses	\$150,753
Deferred revenue	11,609
Paycheck Protection Program loan (Note 4)	<u>164,215</u>
Total liabilities	<u><u>326,577</u></u>

Net assets:

Without donor restrictions	4,995,869
With donor restrictions (Note 5)	<u>28,450</u>

Total net assets	<u><u>5,024,319</u></u>
Total liabilities and net assets	<u><u>\$5,350,896</u></u>

The attached notes and auditor's report are an integral part of these financial statements.

PAJAMA PROGRAM, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue:			
Donated books and pajamas	\$1,146,914		\$1,146,914
Contributions	2,358,884	\$24,500	2,383,384
Government grant -			
Paycheck Protection Program (Note 4)	163,667		163,667
Fundraising event income (Note 6)	223,358		223,358
In-kind contributions (Note 7)	115,375		115,375
Education revenue	17,995		17,995
Interest income	11,956		11,956
Net assets released from restrictions (Note 5)	3,484	(3,484)	0
Total public support and revenue	<u>4,041,633</u>	<u>21,016</u>	<u>4,062,649</u>
Expenses:			
Program services	3,326,955		3,326,955
Supporting services:			
Management and general	419,810		419,810
Fundraising	381,875		381,875
Total expenses	<u>4,128,640</u>	<u>0</u>	<u>4,128,640</u>
Change in net assets from operations	<u>(87,007)</u>	<u>21,016</u>	<u>(65,991)</u>
Non-operating activities:			
Inherent contribution (Note 8)	94,804		94,804
Total non-operating activities	<u>94,804</u>	<u>0</u>	<u>94,804</u>
Change in net assets	7,797	21,016	28,813
Net assets - beginning of year	<u>4,988,072</u>	<u>7,434</u>	<u>4,995,506</u>
Net assets - end of year	<u><u>\$4,995,869</u></u>	<u><u>\$28,450</u></u>	<u><u>\$5,024,319</u></u>

The attached notes and auditor's report are an integral part of these financial statements.

PAJAMA PROGRAM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2021

	<u>Supporting Services</u>			<u>Total Expenses</u>
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Salaries	\$589,680	\$74,942	\$174,522	\$839,144
Payroll taxes and benefits	107,907	13,714	31,935	153,556
Distribution of books and pajamas	1,692,194			1,692,194
Professional fees (including in-kind) (Note 7)	82,083	174,852	78,350	335,285
Office expenses	47,292	6,011	13,996	67,299
Occupancy expenses (including in-kind) (Note 7)	584,513	7,209	16,821	608,543
Postage and shipping	132,035	4,401	10,269	146,705
Insurance	12,480	1,586	3,693	17,759
Advertising and marketing		87,798		87,798
Fundraising event expenses			37,335	37,335
Program supplies	28,170			28,170
Other expenses	76	42,876		42,952
Depreciation	50,525	6,421	14,954	71,900
Total expenses	<u><u>\$3,326,955</u></u>	<u><u>\$419,810</u></u>	<u><u>\$381,875</u></u>	<u><u>\$4,128,640</u></u>

The attached notes and auditor's report are an integral part of these financial statements.

PAJAMA PROGRAM, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2021

Cash flows from operating activities:	
Change in net assets	\$28,813
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	71,900
Donated books and pajamas	(1,146,914)
Distribution of books and pajamas	1,692,194
Changes in assets and liabilities:	
Contributions receivable	(11,203)
Prepaid expenses and other assets	(8,962)
Accounts payable and accrued expenses	(8,282)
Deferred revenue	(3,391)
Paycheck Protection Program loan	548
Total adjustments	<u>585,890</u>
Net cash provided by operating activities	<u>614,703</u>
Cash flows from investing activities:	
Purchases of inventory	(293,952)
Purchases of fixed assets	<u>(8,009)</u>
Net cash used for investing activities	<u>(301,961)</u>
Net increase in cash and cash equivalents	312,742
Cash and cash equivalents - beginning of year	<u>3,912,059</u>
Cash and cash equivalents - end of year	<u><u>\$4,224,801</u></u>
Supplemental disclosure:	
Taxes paid	<u>\$0</u>
Interest paid	<u>\$0</u>

The attached notes and auditor's report are an integral part of these financial statements.

PAJAMA PROGRAM, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2021

Note 1 - Organization

Pajama Program, Inc. (the "Organization") is a not-for-profit corporation that promotes and supports a comforting bedtime routine for all children affected by instability to help them thrive. The Organization provides pajamas, inspiring storybooks, and critical resources for parents and caregivers.

The Organization's primary source of support is contributions from corporations, schools, and individuals. These contributions consist of cash, pajamas, or books.

During the year ended June 30, 2021, the Organization entered into an agreement to acquire a Michigan not-for-profit organization that provided evidence-based sleep health education programming and all assets were transferred to the Organization. In consideration of the transfer of the assets, the Organization will continue the mission of the Michigan not-for-profit organization as part of its programming activities.

The Organization is a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization which is not a private foundation.

Note 2 - Significant Accounting Policies

a. Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting, which is the process of recognizing revenue and expenses when earned or incurred rather than received or paid.

b. Basis of Presentation

The Organization reports information regarding their financial position and activities in the following classes of net assets:

- *Net Assets Without Donor Restrictions* – represents all activity without donor-imposed restrictions.
- *Net Assets With Donor Restrictions* – relates to contributions of cash and other assets with donor stipulations that make clear the assets' restriction, either due to a program nature, the passage of time, and/or must remain intact in perpetuity.

c. Revenue Recognition

The Organization follows the requirements of Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 958-605 for recording contributions, which are recorded at the earlier of when cash is received or at the time a pledge becomes unconditional in nature.

Contributions are recorded in one of the classes of net assets described above, depending on the existence and/or nature of any donor-imposed restriction. When a restriction expires, that is, when a stipulated time restriction ends, or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions. If donor restricted contributions are satisfied in the same period they are received, they are classified as without donor restrictions.

Contributions may be subject to conditions which are defined as both a barrier to entitlement and a right of return of payments or release from obligations and are recognized as income once the conditions have been substantially met.

Government grants have been evaluated and are considered to be conditional non-reciprocal transactions that fall under the scope of ASC 958-605. Revenue from these transactions is recognized when qualifying expenditures are incurred, performance related outcomes are achieved, and other conditions under the agreements are met. Cash received in advance of the conditions being met is treated as a liability.

Contributions and grants expected to be received within one year are recorded at net realizable value. Long-term pledges are recorded at fair value, using risk-adjusted present value techniques.

The Organization follows the requirements of FASB's ASC 606 for recognizing revenue from contracts with customers. The Organization receives education revenue for providing sleep health seminars and workshops which falls under ASC 606 and is included in the statement of activities. Revenue from training, seminars, and workshops is recognized at the point in time that the service is provided, and the performance obligation is complete. Fees that have not been collected at year end are reflected as accounts receivable. Amounts collected in advance are treated as deferred revenue.

Receivables are reviewed for collectability. Based on knowledge of specific donors and factoring in historical experience, no allowance for doubtful accounts exists as of June 30, 2021. Write-offs will be made in the period the receivable is deemed to be uncollectable.

d. Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing services. Non-operating activities are limited to the inherent contribution from the acquisition of the Michigan not-for-profit organization described in Notes 1 and 8.

e. Cash and Cash Equivalents

The Organization considers all liquid investments with an initial maturity of three months or less to be cash and cash equivalents.

f. Significant Concentrations

Financial instruments that potentially subject the Organization to a concentration of credit risk consist of cash and money market accounts that are placed with financial institutions that management deems to be creditworthy. At year end and at various times throughout the year, balances were in excess of insured amounts. The Organization did not suffer any losses due to bank failure.

The Organization's largest donor provided \$1,633,675 in cash donations and \$776,000 in donated pajamas. This accounted for 60% of total revenue and support for the year ended June 30, 2021.

g. Inventory

The Organization receives donated pajamas and books that are distributed to program participants. Inventory that is donated is recorded at fair value as of the date of donation. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., exit price) in an orderly transaction between market participants at the measurement date.

Inventory is grouped into homogenous categories and estimates are computed based on average prices on recognized exchanges for similar goods. Inventory is valued at the lower of carrying value (average cost/donated value) or fair value.

A physical count of inventory for the period ended June 30, 2020 was not conducted. In April 2021, the Organization moved its inventory to a new storage facility and a physical count was performed upon transfer. The perpetual system is expected to be maintained going forward.

h. Fixed Assets

Property, furniture, and equipment that exceed pre-determined amounts and that have a useful life of greater than one year are recorded at cost or at fair value at the date of gift. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, which are 3 – 7 years for furniture and equipment.

i. In-kind Services

Donated services that either create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided in-kind, are recognized at fair value.

Many volunteers, including board members, provide services in support of the Organization's mission. Those services have not been recognized on the financial statements because they do not meet the criteria outlined above.

j. Advertising and Marketing

Advertising and marketing costs are expensed as incurred.

k. Management Estimates

The 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 those estimates.

l. Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the financial statements. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization. Salaries were allocated using time and effort as the basis.

The following expenses were allocated using the salary allocation as the basis:

- Payroll taxes and benefits
- IT Consultant in professional fees
- Office expenses
- Occupancy expenses for main office
- Insurance
- Depreciation

All other expenses have been charged directly to the applicable program or supporting services.

m. Accounting for Uncertainty of Income Taxes

The Organization does not believe its financial statements include any material, uncertain tax positions. The Organization had previously filed tax returns on a December year-end. Tax filings for the periods ended December 31, 2018 and later are subject to examination by applicable taxing authorities.

n. New Accounting Pronouncements

FASB issued Accounting Standards Update (“ASU”) No. 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which becomes effective for the June 30, 2022 year. This ASU focuses on improving transparency in the reporting of contributed nonfinancial assets and requires a separate line-item presentation on the statement of activities and additional disclosures.

FASB issued ASU No. 2016-02, *Leases*. The ASU which becomes effective for the June 30, 2023 year, requires the full obligation of long-term leases to be recorded as a liability with a corresponding “right to use asset” on the statement of financial position.

The Organization is in the process of evaluating the impact these standards will have on future financial statements.

Note 3 - Fixed Assets

Fixed assets at June 30, 2021 consist of the following:

Furniture and equipment	\$246,976
Less: accumulated depreciation	<u>(159,720)</u>
Total fixed assets, net	<u>\$87,256</u>

Note 4 - Paycheck Protection Program Loan

During the year ended June 30, 2020, the Organization obtained a loan in the amount of \$163,667 from the Small Business Administration (“SBA”) through the Paycheck Protection Program (“PPP”). Terms of the loan indicated that if certain conditions were met, which included maintaining average work forces during periods subsequent to receipt of the loan funds that were not less than pre-determined historical periods, that the loan, or a portion thereof, would be forgiven.

The Organization accounted for the PPP loan in accordance with ASC 958-605 as a conditional contribution. During the year ended June 30, 2021, the Organization met all conditions for forgiveness and recognized the loan as revenue. In addition, the Organization was notified that full forgiveness was approved by the SBA.

During the year ended June 30, 2021, the Organization obtained a second loan from the SBA in the amount of \$164,215 through the Paycheck Protection Program that had similar terms as the first loan. The Organization met the conditions for full forgiveness subsequent to year-end and will recognize the revenue in fiscal year 2022.

Note 5 - Net Assets With Donor Restrictions

The following summarizes the activity of net assets with donor restrictions:

	Balance <u>7/1/20</u>	<u>Contributions</u>	Released from <u>Restrictions</u>	Balance <u>6/30/21</u>
Purpose restricted:				
Palm Beach County	\$7,434	\$0	(\$1,055)	\$6,379
Book purchases	0	14,500	0	14,500
Boston chapter	0	5,000	(737)	4,263
Syracuse chapter	<u>0</u>	<u>5,000</u>	<u>(1,692)</u>	<u>3,308</u>
Total	<u>\$7,434</u>	<u>\$24,500</u>	<u>(\$3,484)</u>	<u>\$28,450</u>

Note 6 - Fundraising Event

The Organization held a virtual fundraising event during the year ended June 30, 2021.

Activity is summarized as follows:

Event income	\$223,358
Less: indirect event expenses	<u>(37,335)</u>
Total	<u>\$186,023</u>

Note 7 - In-kind Contributions

In-kind contributions received during the year ended June 30, 2021 were allocated as follows:

	Program Services	Management and General	Fundraising	Total
Professional fees	\$0	\$26,525	\$0	\$26,525
Occupancy expenses	<u>64,820</u>	<u>7,209</u>	<u>16,821</u>	<u>88,850</u>
Total	<u>\$64,820</u>	<u>\$33,734</u>	<u>\$16,821</u>	<u>\$115,375</u>

Note 8 - Inherent Contribution

As described in Note 1, the Organization entered into an agreement to acquire a Michigan not-for-profit organization. The financial statements reflect an inherent contribution of \$94,804, which represents the excess of the fair value of assets acquired over the fair value of liabilities assumed on the acquisition date.

Note 9 - Commitments

The Organization occupies the following spaces:

- a) Pajama Program Main Office – 171 Madison Avenue, Suite 1409, New York, NY 10016 – This space is donated in-kind to the Organization. See Note 7.
- b) New York Reading Center – 114 East 39th Street, New York, NY 10016 – The Organization has a noncancellable lease agreement that expires on January 31, 2023.
- c) Atlanta Office – 475C Bill Kennedy Way SE, Atlanta GA 30316 – The Organization has a noncancellable lease agreement that expires on April 30, 2022 with an option to extend an additional 5 years at the end of the term.
- d) Metro Detroit Office – 19171 Merriman Road, Livonia, MI 48152 – The Organization has a noncancellable lease agreement that expires on February 28, 2023.
- e) Storage Facility and Distribution Center – The Organization has an agreement with a storage facility and distribution center that expires on January 26, 2024. The terms of the agreement provide for a monthly maintenance fee of \$1,475 in addition to labor costs for receiving, handling, and fulfilling distributions of inventory that are charged on a variable basis.

Future minimum payments under these leases are as follows:

Year ending:	June 30, 2022	\$192,431
	June 30, 2023	99,903
	June 30, 2024	<u>8,850</u>
Total		<u>\$301,184</u>

Rent and distribution center expense for the year ended June 30, 2021 was \$584,000.

Note 10 - Retirement Plan

The Organization offers employees the option of participating in a 401(k) retirement plan; whereby, the employees can contribute pre-tax dollars up to statutory limits. Employees who are 21 years of age and have been employed for three months are eligible to participate. The Organization does not contribute to the plan.

Note 11 - Liquidity and Availability of Financial Resources

The following reflects the Organization's financial assets at June 30, 2021, reduced by amounts that have donor-imposed restrictions within one year of the statement of financial position date:

Financial assets at year-end:

Cash and cash equivalents	\$4,224,801	
Contributions receivable	<u>56,203</u>	
Total financial assets		\$4,281,004
Less amounts not available for general expenditures:		
Net assets with donor restrictions –		
Future programs and periods		<u>(28,450)</u>
Financial assets available to meet cash needs		
for general expenditures within one year		<u>\$4,252,554</u>

The Organization maintains cash on hand to be available for its general expenditures, liabilities, and other obligations for on-going operations. As part of its liquidity management, the Organization operates its programs within a Board approved budget and relies on contributions and special events to fund its operations and program activities.

Note 12 - Subsequent Events

Subsequent events have been evaluated through February 16, 2022, the date the financial statements were available to be issued. Adjustments and disclosures have been made for all subsequent events that have occurred.

Note 13 - Other Matters

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an impact on the economies and financial markets of many countries, including the geographical area in which the Organization operates. As of the date of these financial statements, many of the travel restrictions and stay at home orders have been lifted, however, supply chains remain impacted. Management continues to monitor the outbreak, however, as of the date of these financial statements, the potential impact cannot be quantified.