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PAJAMA PROGRAM, INC.

Audited Financial Statements

June 30, 2022

Independent Auditor's Report

To the Board of Directors of
Pajama Program, Inc.

Opinion

We have audited the accompanying financial statements of Pajama Program, Inc. (the "Organization"), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, functional expenses, and 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 the Organization as of June 30, 2022, and the changes in 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 (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. 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 the Organization's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's 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 auditor's 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users on the basis of these 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 the Organization'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 the Organization'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.

A handwritten signature in blue ink that reads "Sax CPAs LLP". The signature is written in a cursive, flowing style.

New York, NY
February 9, 2023

PAJAMA PROGRAM, INC.
STATEMENT OF FINANCIAL POSITION
AT JUNE 30, 2022

Assets

Cash and cash equivalents	\$3,904,003
Contributions receivable	78,346
Program income receivable	6,886
Inventory (Note 2f)	1,247,631
Prepaid expenses and other assets	34,014
Fixed assets, net (Note 3)	49,966
Total assets	\$5,320,846

Liabilities and Net Assets

Liabilities:	
Accounts payable and accrued expenses	\$235,203
Total liabilities	235,203
Net assets:	
Without donor restrictions	5,050,246
With donor restrictions (Note 4)	35,397
Total net assets	5,085,643
Total liabilities and net assets	\$5,320,846

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, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Public support and revenue:			
Donated books and pajamas (Note 2f)	\$1,535,023		\$1,535,023
Contributions	2,296,716	\$59,158	2,355,874
Government grant -			
Pay check Protection Program (Note 5)	164,215		164,215
Fundraising event income (Note 6)	285,150		285,150
Donated space (Note 7)	97,193		97,193
Education revenue	66,351		66,351
Interest income	5,654		5,654
Net assets released from restrictions (Note 4)	52,211	(52,211)	0
	<u>4,502,513</u>	<u>6,947</u>	<u>4,509,460</u>
Total public support and revenue			
Expenses:			
Program services	3,633,952		3,633,952
Supporting services:			
Management and general	374,333		374,333
Fundraising	439,851		439,851
	<u>4,448,136</u>	<u>0</u>	<u>4,448,136</u>
Total expenses			
Change in net assets	54,377	6,947	61,324
Net assets - beginning of year	4,995,869	28,450	5,024,319
Net assets - end of year	<u>\$5,050,246</u>	<u>\$35,397</u>	<u>\$5,085,643</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, 2022

		Supporting Services		
	Program Services	Management and General	Fundraising	Total Expenses
Salaries	\$714,044	\$68,891	\$238,478	\$1,021,413
Payroll taxes and benefits	137,189	13,236	45,819	196,244
Distribution of books and pajamas	1,621,333			1,621,333
Professional fees	86,334	221,712	40,549	348,595
Office expenses	55,066	5,313	18,391	78,770
Occupancy expenses (including in-kind) (Note 7)	787,083	5,981	19,651	812,715
Postage and shipping	117,317	3,911	9,125	130,353
Travel	13,381		1,487	14,868
Insurance	12,916	1,246	4,314	18,476
Advertising and marketing		16,879		16,879
Fundraising event expenses			120,767	120,767
Program supplies	53,452			53,452
Other expenses	56	33,711		33,767
Depreciation	35,781	3,453	11,950	51,184
Total expenses	3,633,952	374,333	510,531	4,518,816
Less: expenses with a direct benefit to donor netted with revenue			(70,680)	(70,680)
Total expenses by function for statement of activities	<u>\$3,633,952</u>	<u>\$374,333</u>	<u>\$439,851</u>	<u>\$4,448,136</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, 2022

Cash flows from operating activities:	
Change in net assets	\$61,324
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	51,184
Forgiveness of Paycheck Protection Program loan	(164,215)
Donated books and pajamas	(1,535,023)
Distribution of books and pajamas	1,621,333
Changes in assets and liabilities:	
Contributions receivable	(22,143)
Program income receivable	(6,886)
Prepaid expenses and other assets	(374)
Accounts payable and accrued expenses	84,450
Deferred revenue	(11,609)
Total adjustments	<u>16,717</u>
Net cash provided by operating activities	<u>78,041</u>
Cash flows from investing activities:	
Purchases of inventory	(384,945)
Purchases of fixed assets	<u>(13,894)</u>
Net cash used for investing activities	<u>(398,839)</u>
Net decrease in cash and cash equivalents	(320,798)
Cash and cash equivalents - beginning of year	<u>4,224,801</u>
Cash and cash equivalents - end of year	<u><u>\$3,904,003</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, 2022

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.

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 the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 958-605 for recording contributions, which are recognized when contributions become unconditional in nature. Contributions are recorded in the net asset classes referred to 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 were received, they are classified as without donor restrictions.

The Organization evaluates whether contributions are conditional or unconditional. Contributions are considered to be conditional when both a barrier must be overcome for the Organization to be entitled to the revenue and a right of return of the asset or right of release from the obligation exists.

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 which applies to education revenue for providing sleep health seminars and workshops. 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.

Management has reviewed the collectability of all receivables, factoring judgement about creditworthiness and age of receivables, as well as historical experience. Based on that evaluation, management feels that no allowance for doubtful accounts is necessary as of June 30, 2022. All receivables are expected to be collected within one year.

d. 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.

e. 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 \$1,690,592 in cash donations and \$510,000 in donated pajamas. This accounted for 49% of total revenue and support for the year ended June 30, 2022.

f. 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 and such items are expensed as program services expenses when sent to program participants. During the year ended June 30, 2022, the Organization received \$1,535,023 of donated pajamas and books. The basis for valuing these contributions

are recent comparable prices for purchasing similar goods in the United States of America. There are no associated donor restrictions.

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.

g. 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.

h. 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.

i. Advertising and Marketing

Advertising and marketing costs are expensed as incurred.

j. 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.

k. 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.

l. Accounting for Uncertainty of Income Taxes

Management does not believe its financial statements include any material, uncertain tax positions. Tax filings for periods ending June 30, 2019 and later are subject to examination by applicable taxing authorities.

m. New Accounting Pronouncement

FASB issued Accounting Standards Update (“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.

Management is in the process of evaluating the impact this standard will have on future financial statements.

Note 3 - Fixed Assets

Fixed assets at June 30, 2022 consist of the following:

Furniture and equipment	\$260,870
Less: accumulated depreciation	<u>(210,904)</u>
Total fixed assets, net	<u>\$49,966</u>

Note 4 - Net Assets With Donor Restrictions

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

	Balance <u>7/1/21</u>	<u>Contributions</u>	Released from <u>Restrictions</u>	Balance <u>6/30/22</u>
Purpose restricted:				
Palm Beach County	\$6,379	\$0	\$0	\$6,379
Book purchases	14,500	34,200	(42,686)	6,014
Sleep Education	0	19,958	(9,380)	10,578
Boston chapter	4,263	5,000	(145)	9,118
Syracuse chapter	<u>3,308</u>	<u>0</u>	<u>0</u>	<u>3,308</u>
Total	<u>\$28,450</u>	<u>\$59,158</u>	<u>(\$52,211)</u>	<u>\$35,397</u>

Note 5 - Paycheck Protection Program Loan

During the year ended June 30, 2021, the Organization obtained a loan in the amount of \$164,215 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, 2022, the Organization met all conditions for forgiveness and recognized the loan as revenue in 2022. In addition, the Organization was notified that full forgiveness was approved by the SBA.

Note 6 - Fundraising Event

The Organization held two fundraising events during the year ended June 30, 2022. Activity is summarized as follows:

	<u>Gala</u>	<u>Walk</u>	<u>Total</u>
Event income	\$310,573	\$45,257	\$355,830
Less: expenses with a direct benefit to donors	<u>(70,680)</u>	<u>0</u>	<u>(70,680)</u>
	239,893	45,257	285,150
Less: other event expenses	<u>(48,796)</u>	<u>(1,291)</u>	<u>(50,087)</u>
Total	<u>\$191,097</u>	<u>\$43,966</u>	<u>\$235,063</u>

Note 7 - In-kind Contributions

In-kind contributions received during the year ended June 30, 2022 were allocated as follows:

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Occupancy expenses	<u>\$71,561</u>	<u>\$5,981</u>	<u>\$19,651</u>	<u>\$97,193</u>

The valuation of in-kind contributions is based on fair market value on the basis of recent comparable prices for renting similar space in the New York/New Jersey area. There are no associated donor restrictions.

Note 8 - 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, and there is no written lease agreement for this space. 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 February 28, 2028.
- c) Atlanta Office – 475C Bill Kennedy Way SE, Atlanta GA 30316 – The Organization has a noncancellable lease agreement that expires on August 31, 2023 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, 2023	\$198,020
	June 30, 2024	122,994
	June 30, 2025	102,400
	June 30, 2026	106,400
	June 30, 2027	108,800
	Thereafter	<u>73,600</u>
Total		<u>\$712,214</u>

Rent and distribution center expense for the year ended June 30, 2022 was \$788,000.

Note 9 - 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 10 - Liquidity and Availability of Financial Resources

The following reflects the Organization's financial assets at June 30, 2022, 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	\$3,904,003
Contributions receivable	78,346
Program income receivable	<u>6,886</u>
Total financial assets	\$3,989,235
Less amounts not available for general expenditures:	
Net assets with donor restrictions –	
Future programs and periods	<u>(35,397)</u>
Financial assets available to meet cash needs	
for general expenditures within one year	<u>\$3,953,838</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 11 - Subsequent Events

Subsequent events have been evaluated through February 9, 2023, the date the financial statements were available to be issued. There were no material events that have occurred that require adjustment to or disclosure to the financial statements.

Note 12 - 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.