



Audited Financial Statements

For the Years Ended June 30, 2020 and 2019

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**Davies, Goldstein
& Associates CPA's PLLC**
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Fashion & Compassion:

We have audited the accompanying financial statements of Fashion & Compassion (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the years 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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fashion & Compassion as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Davies, Goldstein Associates, CPA's PLLC

Matthews, North Carolina
November 6, 2020

Fashion & Compassion
Statements of Financial Position
As of June 30, 2020 and 2019

Assets	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Current Assets		
Cash	\$ 267,561	\$ 104,096
Pledges and Other Receivables	1,287	12,382
Inventory	62,120	82,700
Other Current Assets	-	1,000
Total Current Assets	<u>330,968</u>	<u>200,177</u>
Long-term Assets		
Property and Equipment, net	<u>11,335</u>	<u>8,777</u>
Total Long-term Assets	<u>11,335</u>	<u>8,777</u>
Total Assets	<u><u>\$ 342,303</u></u>	<u><u>\$ 208,954</u></u>
 Liabilities and Net Assets		
Current Liabilities		
Accounts Payable and Accrued Expenses	\$ 29,895	\$ 25,730
Notes Payable, Current Portion (Note 7)	7,555	-
Deferred Revenue	-	8,150
Total Current Liabilities	<u>37,450</u>	<u>33,880</u>
Notes Payable, net of Current Portion	<u>152,345</u>	<u>-</u>
Total Liabilities	<u><u>189,795</u></u>	<u><u>33,880</u></u>
Net Assets		
Net Assets Without Donor Restrictions	152,508	175,074
Net Assets With Donor Restrictions	-	-
Total Net Assets	<u>152,508</u>	<u>175,074</u>
Total Liabilities and Net Assets	<u><u>\$ 342,303</u></u>	<u><u>\$ 208,954</u></u>

The accompanying notes are an integral part of these financial statements

Fashion & Compassion
Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2020 and 2019

	2020			2019		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenues and Other Support						
Product Sales	\$ 228,953	\$ -	\$ 228,953	\$ 375,623	\$ -	\$ 375,623
Cost of Goods Sold	(132,876)	-	(132,876)	(261,938)	-	(261,938)
Gross Profit from Product Sales	96,077	-	96,077	113,685	-	113,685
Contributions and Donations	294,492	-	294,492	267,894	-	267,894
Payroll Protection Program Proceeds	59,381	-	59,381	-	-	-
In-Kind Donations	14,785	-	14,785	30,668	-	30,668
Total Revenues and Other Support	<u>\$ 464,735</u>	<u>\$ -</u>	<u>\$ 464,735</u>	<u>\$ 412,247</u>	<u>\$ -</u>	<u>\$ 412,247</u>
Expenses						
Program Expenses	353,399	-	353,399	317,075	-	317,075
Management and General Expenses	107,235	-	107,235	103,580	-	103,580
Fundraising Expenses	26,667	-	26,667	20,398	-	20,398
Total Expenses	<u>487,301</u>	<u>-</u>	<u>487,301</u>	<u>441,053</u>	<u>-</u>	<u>441,053</u>
Change in Net Assets	<u>\$ (22,565)</u>	<u>\$ -</u>	<u>\$ (22,565)</u>	<u>\$ (28,806)</u>	<u>\$ -</u>	<u>\$ (28,806)</u>
Net Assets, Beginning of Year	\$ 175,074	\$ -	\$ 175,074	\$ 203,880	\$ -	\$ 203,880
Change in Net Assets	(22,565)	-	(22,565)	(28,806)	-	(28,806)
Net Assets, End of Year	<u>\$ 152,508</u>	<u>\$ -</u>	<u>\$ 152,508</u>	<u>\$ 175,074</u>	<u>\$ -</u>	<u>\$ 175,074</u>

The accompanying notes are an integral part of these financial statements

Fashion & Compassion
Statement of Functional Expenses
For the Year Ended June 30, 2020

	Program	Management and General	Fundraising	Total
Compensation	\$ 191,410	\$ 84,776	\$ 13,658	\$ 289,844
Artisan Expenses	39,523	-	-	39,523
Advertising and Marketing	37,769	-	-	37,769
Occupancy	26,870	3,063	1,531	31,464
Donations to Partner Organizations	23,478	-	-	23,478
Communications and Technology	13,457	1,743	871	16,071
Development and Fundraising	-	-	10,310	10,310
Travel and Conferences	8,707	-	-	8,707
Professional Services	1,525	6,396	-	7,921
Other General and Administrative	243	7,221	-	7,221
Insurance	5,055	595	297	5,947
Office Expenses	1,668	3,098	-	4,766
Depreciation	3,141	-	-	3,141
Dues and Subscriptions	553	-	-	553
Interest Expense	-	344	-	344
Total Functional Expenses	<u>\$ 353,399</u>	<u>\$ 107,235</u>	<u>\$ 26,667</u>	<u>\$ 487,301</u>

Fashion & Compassion
Statement of Functional Expenses
For the Year Ended June 30, 2019

	Program	Management and General	Fundraising	Total
Compensation	\$ 202,498	\$ 86,018	\$ 13,259	\$ 301,775
Advertising and Graphic Design	20,681	-	-	20,681
Occupancy	27,550	3,140	1,570	32,260
Donations to Partner Organizations	30,603	-	-	30,603
Communications and Technology	8,494	1,100	550	10,144
Development and Fundraising	-	-	4,628	4,628
Travel and Conferences	14,751	-	-	14,751
Professional Services	100	6,046	-	6,146
Other General and Administrative	502	3,189	-	3,691
Insurance	6,647	782	391	7,820
Office Expenses	1,044	1,939	-	2,983
Depreciation	2,796	-	-	2,796
Dues and Subscriptions	737	-	-	737
Interest Expense	672	1,366	-	2,038
Total Functional Expenses	\$ 317,075	\$ 103,580	\$ 20,398	\$ 441,053

Fashion & Compassion
Statements of Cash Flows
For the Years Ended June 30, 2020 and 2019

Cash Flows from Operating Activities	2020	2019
Change in Net Assets	\$ (22,565)	\$ (28,806)
Depreciation Expense	3,141	2,796
Adjustments to reconcile Change in Net Assets to net cash flows provided by operating activities:		
Decrease in Pledges and Other Receivables	11,094	13,026
Decrease in Inventory	20,580	66,091
Decrease in Other Current Assets	1,000	1,300
Increase (Decrease) in Accounts Payable and Accrued Expenses	4,165	(77,875)
(Decrease) Increase in Deferred Revenue	(8,150)	930
Net Cash Provided By (Used In) Operating Activities	<u>9,265</u>	<u>(22,538)</u>
 Cash Flows from Investing Activities		
Purchase of property and equipment	<u>(5,699)</u>	<u>-</u>
Net Cash Used In Investing Activities	<u>(5,699)</u>	<u>-</u>
 Cash Flows from Financing Activities		
Proceeds from Notes Payable	<u>159,900</u>	<u>-</u>
Net Cash Provided by Financing Activities	<u>159,900</u>	<u>-</u>
 Net Change in Cash	163,466	(22,538)
 Cash, beginning of year	<u>104,096</u>	<u>126,634</u>
Cash, end of year	<u><u>\$ 267,561</u></u>	<u><u>\$ 104,096</u></u>
 Supplemental Data:		
Cash Paid for Interest	<u>\$ 344</u>	<u>\$ 2,102</u>

The accompanying notes are an integral part of these financial statements.

Fashion & Compassion
Notes to the Financial Statements
For the Years Ended June 30, 2020 and 2019

Note 1 - The Organization

Fashion & Compassion (hereafter referred to as the “Organization”) is a nonprofit organization formed in 2013 that creates empowerment communities where vulnerable women connect with God, one another and resources as their lives are transformed. The Organization empowers vulnerable and at-risk women by providing economic mobility, social capital, and a safe space for healing and healthy community. They achieve this through personal development, goal-setting, and work readiness training and mentoring. Their clients are women overcoming a wide range of traumatic circumstances such as human trafficking, poverty, abuse, addiction, incarceration, ethnic persecution, and displacement. Through their innovative weekly jewelry projects, the Organization provides a unique combination of healing, support, and work readiness for women in need, empowering their clients with the capacity to set goals and achieve their aspirations. The Organization also helps these women develop individual Empowerment Plans that outline their goals for the future and the steps they can take to achieve their goals. These women are supported in achieving their goals by connecting them with the vast array of resources available in the Charlotte community. Meanwhile, the women receive a stipend, participate in one-on-one or group mentoring sessions, develop work readiness and life skills and create a support network that includes the other women in the program, volunteers and staff. Additionally, the Organization partners with international artisan projects to provide opportunities to vulnerable communities.

The mission of the Organization is funded through sales of jewelry, leather bags, home accessories and other goods as well as donations from private donors, faith partners, corporate donors and foundations. The Organization is based in Charlotte, North Carolina where it maintains a boutique storefront, jewelry making facilities, as well as programming and office space.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles in the United States (US GAAP).

New Accounting Standards

The Organization adopted the provisions of ASU 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities* in fiscal 2019. The key changes to the Organization’s accounting policy as it relates to the ASU are as follows:

- Net assets to be presented in two categories: net assets with donor restrictions and net assets without donor restrictions.
- Expanded disclosure requirements related to net assets, liquidity and availability of resources, and functional expenses.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Organization adopted the new standard in fiscal 2020.

Fashion & Compassion
Notes to the Financial Statements
For the Years Ended June 30, 2020 and 2019

Note 2 - Summary of Significant Accounting Policies (continued)

New Accounting Standards (continued)

The adoption of this ASU did not have a significant impact on the Organization's financial statements. The majority of the Organization's revenue arrangements consist of contributions or retail sales where performance obligations are considered met at the time of sale (when revenue is recognized). Based on the Organization's evaluation process and review of revenue streams, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. Therefore, no changes were required to previously reported revenues as a result of the adoption.

Use of Estimates

The accompanying financial statements have been prepared in accordance with US GAAP, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash

Cash includes cash on deposit at financial institutions and petty cash. There were times that cash balances exceeded Federal Deposit Insurance Corporation limits during the year ended June 30, 2019. Management deems the risk of loss associated with this to be remote.

Contributions, Grants and Promises to Give

The Organization recognizes unconditional promises to give as support in the period the promise is received including contributions from private donors and grants. All promises to give are expected to be collected within one year. Management has determined that no allowance for doubtful accounts is necessary at June 30, 2020 and 2019.

Inventory

Inventory is valued at the lower of cost or market value for finished goods and the lower of average cost or market value for raw materials used in jewelry making. The average cost is used for raw materials because the individual items (beads, clasps, wire, etc.) are of low dollar value per unit and tracking at that level is not cost effective. The cost of finished goods is determined using the wholesale cost for purchased items or the allocated cost and labor associated with making the piece. At June 30, 2020 and 2019 management has determined that no allowance for obsolescence is necessary.

Property and Equipment

Tangible assets exceeding \$1,500 are classified as property and equipment. Donated assets are recorded at fair market value if it can be reasonable estimated. Property and equipment are depreciated using the straight-line method over the expected useful life.

Net Assets

Net assets without donor restrictions are comprised of all resources without donor-imposed restrictions at the date of the contribution. Donor restricted contributions that are received and expended in the same year are classified as net assets without donor restrictions. Additionally, net assets without donor restrictions include the total carrying value of all property and equipment used in the Organization.

Fashion & Compassion
Notes to the Financial Statements
For the Years Ended June 30, 2020 and 2019

Note 2 - Summary of Significant Accounting Policies (continued)

Net Assets (continued)

Net assets with donor restrictions carry restrictions that expire upon the passage of a prescribed period or upon the occurrence of a stated event as specified by the donor. When a donor restriction expires, the net assets are reclassified as net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized and allocated on a functional basis in the accompanying Statement of Functional Expenses. These allocations are based on management's best estimate of time and funds spent across program, management and fundraising activities. The most significant allocations are in compensation and occupancy where management uses its best estimate of time and effort spent by employees in the allocation process. Management revisits the allocation each year and adjusts for changes in roles and employees as necessary.

Donated Items and Services

Contributed services for voluntary donation of services are recognized in the financial statements when those services: (1) create or enhance non-financial assets; or (2) require specialized skills provided by individuals possessing those skills and are services that would be typically purchased if not provided by donation. The Organization records those services as contributions and expenses in the Statement of Activities at their estimated value. At June 30, 2020 and 2019, the Organization recorded donated professional services of \$3,870 and \$26,668, respectively. Additionally, the Organization recorded donated items, such as meals and office furnishings, of \$10,915 and \$4,000 at June 30, 2020 and 2019, respectively.

In addition, a substantial number of unpaid volunteers, including the Board of Directors, have made significant contributions of their time to provide services to the Organization which do not meet the criteria for recognition described above. The estimated value of their contributed time is not reflected in the financial statements; however, the Organization is heavily reliant on the continued support of volunteers in the community to maintain operations.

Income Taxes

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for income taxes in the accompanying financial statements. The Organization has analyzed tax positions taken for filing with the Internal Revenue Service and the state jurisdiction of North Carolina where it operates. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Organization's financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2020.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. As of the date of this report, the Organization believes it is no longer subject to examinations for years prior to fiscal 2017.

Fashion & Compassion
Notes to the Financial Statements
For the Years Ended June 30, 2020 and 2019

Note 3 – Property and Equipment

Property and equipment consist of the following at June 30,

	<u>2020</u>	<u>2019</u>
Equipment	\$ 7,938	\$ 2,239
Software	10,620	10,620
Total	<u>\$18,558</u>	<u>\$12,859</u>
Less: Accumulated Depreciation	<u>(7,223)</u>	<u>(4,082)</u>
Property and Equipment, net	<u>\$11,335</u>	<u>\$8,777</u>

All property and equipment are currently depreciated using a 5-year useful life. Depreciation expense is \$3,141 and \$2,796 for the years ended June 30, 2020 and 2019, respectively.

Note 4 – Commitments

The Organization has various retail credit cards. At June 30, 2020 and 2019, the outstanding balance of \$14,423 and \$14,099 is included in the accompanying Statement of Position in Accounts Payable and Accrued Expenses, respectively. All accounts were current.

The Organization leases the boutique storefront, jewelry making facilities, and programming/office space for \$2,400 - \$3,150 a month (depending on how much is occupied by other tenants) and automatically renews each year unless cancelled.

Note 5 – Related Parties

The Organization has transactions with the following related parties:

- D&D Group - this company is partially owned by the founder and former Executive Director of the Organization (and current board member) and is the owner of the property leased by the Organization. The Organization paid rent of \$30,600 and \$31,400 to this company during the years ended June 30, 2020 and 2019, respectively.
- Fashion & Compassion Uganda – this Organization operated as a division of Fashion & Compassion until May 31, 2018 at which point it became a separate legal entity. The Organization made charitable donations of \$12,000 and \$15,460 to the Uganda Organization during the years ended June 30, 2020 and 2019, respectively.

Note 6 – Liquidity and Availability of Resources

At June 30, 2020 and 2019, there were no restrictions on financial assets. The financial assets available to meet cash needs for general expenditures within one year represents approximately 3 months of cash expenditures. The Organization has a multi-faceted revenue structure that includes the sale of goods, grants, individual donations, and fundraising events. Management believes that the resources available combined with the future receipts will be sufficient to meet operating cash needs in the next year and years to come.

Fashion & Compassion
Notes to the Financial Statements
For the Years Ended June 30, 2020 and 2019

Note 7 – Notes Payable

The Coronavirus Aid, Relief, and Economic Security Act of 2020 (CARES Act) created the Payroll Protection Program (PPP) as an extension of the Small Business Administration (SBA)'s loan program. Under this program, small businesses can obtain funding to keep workers on payroll and maintain operations. PPP grants are eligible for forgiveness provided that certain requirements are met, primarily related to the types of expenditures for which the funds are used. As of June 30, 2020, the Organization has a grant of \$59,381 outstanding in this program. Any portion of the grant that is not forgiven will be repaid in monthly installments at 1% interest over a 2-year period beginning in December 2020. Management has elected to record this loan as grant income. The application for forgiveness has been accepted by the issuing bank and is in the approval process with the SBA as of the date of this report.

The Organization also received a \$10,000 advance from the COVID-19 Economic Injury Disaster Loan (EIDL) program. Although this advance is eligible for forgiveness from the SBA, the advance must be deducted from any PPP funds obtained meaning that the advance turns into a PPP loan that must be repaid over 2 years at 1% interest. This advance is therefore recorded in the notes payable in the accompanying Statements of Financial Position.

Additionally, the Organization obtained a loan under the EIDL program of \$150,000. This loan is payable over 30 years at 2.75% interest and payments are deferred until May 2021. This loan is secured by the assets of the Organization and may be prepaid without any penalties or fees. Monthly payments of \$641 will be made until the loan is fully repaid. This note is not eligible for forgiveness by the SBA.

Note 8 – Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 6, 2020, the date the financial statements were available to be issued. The Organization has no knowledge of significant subsequent events as of this date other than those previously disclosed.