

**HappyBottoms
Independent Auditor's Report
and
Financial Statements
December 31, 2013**

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David Emerick
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EMERICK & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS & AUDITING PROFESSIONALS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
HappyBottoms

We have audited the accompanying financial statements of HappyBottoms (a nonprofit organization), which comprise the statement of financial position as of December 31, 2013, 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 audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HappyBottoms as of December 31, 2013, 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.

Emerick & Company, P.C.

Kansas City, Missouri
July 10, 2014

**HAPPYBOTTOMS
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2013**

ASSETS

Current Assets

Cash and cash equivalents	\$ 252,678
Accounts receivable	6,125
Grants receivable	10,000
Inventory	<u>255,738</u>
Total Current Assets	524,541

**Equipment, at cost net of
accumulated depreciation**

13,352

Total Assets

\$ 537,893

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 1,000
Total Current Liabilities	<u>1,000</u>

Net Assets

Unrestricted	471,665
Temporarily restricted	<u>65,228</u>
Total Net Assets	<u>536,893</u>

Total Liabilities and Net Assets

\$ 537,893

**HAPPYBOTTOMS
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2013**

	Unrestricted	Temporarily Restricted	Total
Revenues			
Public support			
Corporate contributions	\$ 7,814	\$ -	\$ 7,814
Individual contributions	58,899	-	58,899
Events income	91,459	-	91,459
Foundation and trust grants	64,475	46,000	110,475
Warehouse space and equipment	-	23,670	23,670
In-kind diapers	300,195	-	300,195
In-kind warehouse space	87,000	-	87,000
In-kind other (See Note 5)	92,947	-	92,947
Total public support	<u>702,789</u>	<u>69,670</u>	<u>772,459</u>
Other revenue			
T-shirt income	810	-	810
Miscellaneous income	305	-	305
Interest income	80	-	80
Total other revenue	<u>1,195</u>	<u>-</u>	<u>1,195</u>
Net assets released from restrictions	<u>30,748</u>	<u>(30,748)</u>	<u>-</u>
Total Revenues	734,732	38,922	773,654
Expenses			
Program services	340,179	-	340,179
Supporting services			
Fundraising	22,704	-	22,704
Management and general	37,527	-	37,527
Total Expenses	<u>400,410</u>	<u>-</u>	<u>400,410</u>
Increase in net assets	334,322	38,922	373,244
Net assets, beginning of year	137,343	26,306	163,649
Net assets, end of year	<u>\$ 471,665</u>	<u>\$ 65,228</u>	<u>\$ 536,893</u>

See accountant's review report and notes to financial statements

HAPPYBOTTOMS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2013

	Program Services		Supporting Services			Total Expenses
	Total	Management and General	Fundraising	Total	Total	
Diapers	\$ 136,093	\$ -	\$ -	\$ -	\$ -	\$ 136,093
In-kind warehouse space	87,000	-	-	-	-	87,000
Technology	49,342	-	-	-	-	49,342
Staff payroll expense	39,903	-	-	-	-	39,903
Event expenses	-	6,511	22,218	28,729	28,729	28,729
Marketing expense	-	13,079	-	13,079	13,079	13,079
Warehouse equipment and supplies	5,289	123	-	123	123	5,412
Printing, copying, and postage	9,000	140	13	153	153	9,153
Administrative equipment supplies	473	6,035	-	6,035	6,035	6,508
Professional fees	-	5,250	-	5,250	5,250	5,250
Warehouse utilities	5,184	-	-	-	-	5,184
Insurance - liability, directors, and officers	3,001	1,170	473	1,643	1,643	4,644
Diaper processing expense	2,802	-	-	-	-	2,802
Outside services	-	2,010	-	2,010	2,010	2,010
Telephone	285	1,353	-	1,353	1,353	1,638
Depreciation	1,431	-	-	-	-	1,431
Administrative fees	-	615	-	615	615	615
Paypal fees	-	613	-	613	613	613
Meals and entertainment	376	66	-	66	66	442
Conferences and conventions	-	424	-	424	424	424
Board meeting expenses	-	113	-	113	113	113
Training	-	25	-	25	25	25
	<u>\$ 340,179</u>	<u>\$ 37,527</u>	<u>\$ 22,704</u>	<u>\$ 60,231</u>	<u>\$ 400,410</u>	

See accountant's review report and notes to financial statements

HAPPYBOTTOMS
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2013

Cash Flows From Operating Activities

Increase in net assets	\$ 373,244
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	1,431
Donation of warehouse equipment	(4,428)
Net changes in operating assets and liabilities:	
Accounts receivable	(6,125)
Grants receivable	15,000
Inventory	(225,883)
Accounts payable	500
Net cash provided by operating activities	153,739

Cash Flows From Investing Activities

Acquisition of property and equipment	(8,604)
Net cash used by investing activities	(8,604)

Net increase in cash and cash equivalents 145,135

Cash and cash equivalents, beginning of year 107,543

Cash and cash equivalents, end of year \$ 252,678

**HAPPYBOTTOMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1: ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Following is a summary of significant accounting policies consistently applied in the preparation of the accompanying financial statements for HappyBottoms ("the organization").

Nature of Activities

HappyBottoms is a Kansas City, Missouri organization established to acquire diapers through drives and donations. These diapers are distributed through partner agencies to low income children. The organization works to increase community awareness of the basic health need of diapers.

The organization's donor base for cash contributions primarily consist of nonprofit organization grants, foundation and trust grants, corporate contributions, and individual contributions. Gifts in kind are also received primarily from local companies and individuals.

Basis of Accounting

The financial statements of the organization have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents

Cash and cash equivalents are liquid investments with original maturities at the date of purchase of three months or less and consist primarily of non-interest-bearing checking accounts.

At various times during the year the balances in the bank exceed the FDIC limit. The organization has not experienced any loss in such accounts and believes it is not exposed to any significant credit risk on its cash balances.

Inventory

Inventory consists of diapers held for distribution. Inventory is stated at cost and is valued using the first in, first out (FIFO) method.

Equipment

Equipment is recorded at cost and depreciated over the estimated useful life of five to seven years. Annual depreciation is primarily computed using the straight-line method. The organization capitalizes equipment over a nominal amount. Maintenance and repairs are charged to expense as incurred.

Net Assets

Unrestricted Net Assets

Unrestricted net assets are available for use in general operations.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of amounts that are subject to donor restrictions. The organization is permitted to use up or expend the donated assets in accordance with the donor restriction.

The organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

**HAPPYBOTTOMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 1: ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Description of Program and Supporting Services

Program Services

The program services category includes expenses for distribution of diapers, distribution of educational material, program manager salary and benefits, and related utility and insurance expenses for the warehouse where diapers are stored.

Supporting Services

Fundraising

Provides the structure necessary to encourage and secure financial support from individuals, organizations and corporations.

Management and General

This supporting service category includes the functions necessary to secure proper administrative functioning of the organization's governing board, maintain an adequate working environment and manage financial responsibilities of the organization.

Expenses

Expenses are recognized by the organization during the period in which they are incurred. Expenses paid in advance and not yet incurred are deferred to the applicable period.

Functional Allocation of Expenses

The cost of providing various program and supporting activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Donated Services and Materials

A substantial number of volunteers have donated significant amounts of time to the organization's program services and to its fund-raising campaigns. In addition, the full-time Executive Director, full-time Development Director and other administrative functions are provided solely by volunteers. Accordingly, no amounts for these services and functions have been recognized in the statement of activities.

The organization does not recognize revenue for donated services. The organization recognizes revenue for certain donated materials and supplies based on their fair market value at the date of donation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain 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.

Advertising

The organization records advertising expenses when such costs are incurred. The total amount charged to advertising expense for December 31, 2013 was \$22,092, which includes \$19,000 of donated advertising.

**HAPPYBOTTOMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 2: EQUIPMENT

Equipment consists of the following:

Equipment	\$ 15,533
Less: accumulated depreciation	
	<u>2,181</u>
	\$ <u>13,352</u>

Depreciation expense for the years ended December 31, 2013 totaled \$1,431.

NOTE 3: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were restricted for the following purposes:

Donor software/inventory management software	\$ 10,000
Warehouse equipment overhead	6,558
Salaries and overhead	25,000
Warehouse rent	<u>23,670</u>
	\$ <u>65,228</u>

NOTE 4: NET ASSETS RELEASED FROM RESTRICTION

Temporarily restricted net assets released from restriction for the following purposes:

Warehouse equipment and overhead	\$ 11,942
Diaper purchases	<u>18,806</u>
	\$ <u>30,748</u>

NOTE 5: DONATED SERVICES AND MATERIALS

The organization recognized revenue and expenses for certain donated materials, supplies, professional services for the year ended December 31, 2013. These items were recorded in the statement of activities based on their fair market value at the time of donation.

In-kind other

For the year ended December 31, 2013, these donations included print materials valued at \$7,000 and warehouse equipment at \$4,428, which was capitalized. These donated materials were used primarily for program services.

The organization also received donated services and materials that included creation of a client database, marketing materials, administrative equipment and supplies, software, phones, shelving and accounting services. The value of these donations amounted to \$66,885. These donated services and materials primarily benefited the supporting services of the organization.

The organization received donated services and materials for an auction. The value of these donations amounted to \$14,634. These donated services and materials were used for fundraising services.

NOTE 6: INCOME TAXES

The organization has received an exemption from the Internal Revenue Service (IRS) from Federal income taxes under Section 501(a), as an entity described in Section 501(c)(3) of the Internal Revenue Code. The organization is required to make the appropriate tax payments on any income considered unrelated to its exempt purpose. For the years ended December 31, 2013, no income was recognized for purposes unrelated to the exempt purpose of the organization, therefore, no related tax expense has

**HAPPYBOTTOMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

NOTE 6: INCOME TAXES (CONTINUED)

been recorded. On January 1, 2011, the organization adopted the provisions of the FASB ASC Topic 740-10, *Income Taxes*. The implementation of FASB ASC Topic 740-10 had no impact on the organization's financial statements and, accordingly, no interest or penalties were accrued as of January 1, 2011. Management believes it has no material uncertain tax positions or any related penalties and interest to accrue for the years ended December 31, 2013 and, accordingly, there is no liability for unrecognized tax benefits.

The organization files IRS Form 990 annually with the Federal Government and is still open to examination by taxing authorities for 2013, 2012 and 2011.

NOTE 7: DIAPER AGREEMENT

During 2013, the organization made an agreement with the National Diaper Bank and Huggies to purchase 1 million diapers for two years each year at a reduced price.

At December 31, 2013, the minimum payments under the agreement were as follows:

2014	\$ 26,668
2015	12,500
	<u>\$ 39,168</u>

NOTE 8: SUBSEQUENT EVENTS

Management has evaluated subsequent events through July 10, 2014, the date on which the financial statements were available to be issued.

In January of 2014, the organization signed a warehouse rental agreement effective February 1, 2014 for 36 months with payments of \$4,167 per month.

At February 1, 2014, the minimum lease payments under the terms of all lease agreements for the five succeeding years were as follows:

2014	\$ 45,837
2015	50,004
2016	50,004
2017	4,167
	<u>\$ 150,012</u>