

**HappyBottoms
Independent Auditor's Report
and
Financial Statements
December 31, 2014**

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David Emerick
Rick Hann

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, 2014, 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, 2014, 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
June 30, 2015

HAPPYBOTTOMS
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2014

ASSETS

Current Assets

Cash and cash equivalents	\$ 426,604
Accounts receivable	1,483
Grants receivable	10,000
Inventory	322,611
Pledges receivable	38,120
Total Current Assets	<u>798,818</u>

Noncurrent Assets

Pledges receivable	20,520
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**Equipment, at cost net of
accumulated depreciation**

11,583

Total Assets

\$ 830,921

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 2,399
Total Current Liabilities	<u>2,399</u>

Net Assets

Unrestricted	699,025
Temporarily restricted	129,497
Total Net Assets	<u>828,522</u>

Total Liabilities and Net Assets

\$ 830,921

See notes to financial statements

HAPPYBOTTOMS
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2014

	Unrestricted	Temporarily Restricted	Total
Revenues			
Public support			
Corporate contributions	\$ 22,959	\$ 1,600	\$ 24,559
Individual contributions	55,105	-	55,105
Events income	135,691	-	135,691
Foundation and trust grants	113,233	51,500	164,733
Warehouse space and equipment	-	98,560	98,560
In-kind diapers	161,551	-	161,551
In-kind warehouse space	47,621	-	47,621
In-kind other (See Note 5)	210,497	-	210,497
Total public support	<u>746,657</u>	<u>151,660</u>	<u>898,317</u>
Other revenue			
Program revenue	5,546	-	5,546
T-shirt income	1,020	-	1,020
Miscellaneous income	290	-	290
Interest income	1,092	-	1,092
Total other revenue	<u>7,948</u>	<u>-</u>	<u>7,948</u>
Net assets released from restrictions	<u>87,391</u>	<u>(87,391)</u>	<u>-</u>
Total Revenues	841,996	64,269	906,265
Expenses			
Program services	461,107	-	461,107
Supporting services			
Management and general	82,436	-	82,436
Fundraising	71,093	-	71,093
Total Expenses	<u>614,636</u>	<u>-</u>	<u>614,636</u>
Increase in net assets	227,360	64,269	291,629
Net assets, beginning of year	471,665	65,228	536,893
Net assets, end of year	<u><u>\$ 699,025</u></u>	<u><u>\$ 129,497</u></u>	<u><u>\$ 828,522</u></u>

See notes to financial statements

HAPPYBOTTOMS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2014

	Program Services	Supporting Services		Total Expenses	
	Total	Management and General	Fundraising		Total
Diapers	\$ 150,548	\$ -	\$ -	\$ -	\$ 150,548
In-kind warehouse space	47,621	-	-	-	47,621
Warehouse space	45,833	-	-	-	45,833
Technology	47,341	-	-	-	47,341
Staff payroll expense	133,460	42,715	55,460	98,175	231,635
Event expenses	-	2,940	10,032	12,972	12,972
Marketing expense	-	11,480	-	11,480	11,480
Warehouse equipment and supplies	11,132	259	-	259	11,391
Printing, copying, and postage	1,200	1,219	-	1,219	2,419
Administrative equipment supplies	489	5,753	-	5,753	6,242
Professional fees	-	7,300	4,500	11,800	11,800
Warehouse utilities	8,204	-	-	-	8,204
Insurance - liability, directors, and officers	6,982	2,722	1,101	3,823	10,805
Diaper processing expense	5,106	-	-	-	5,106
Outside services	-	3,750	-	3,750	3,750
Telephone	222	1,056	-	1,056	1,278
Depreciation	2,428	-	-	-	2,428
Administrative fees	-	588	-	588	588
Paypal fees	-	921	-	921	921
Meals and entertainment	541	95	-	95	636
Conferences and conventions	-	432	-	432	432
Board meeting expenses	-	230	-	230	230
Training	-	976	-	976	976
	\$ 461,107	\$ 82,436	\$ 71,093	\$ 153,529	\$ 614,636

See notes to financial statements

**HAPPYBOTTOMS
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2014**

Cash Flows From Operating Activities	
Increase in net assets	\$ 291,629
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	2,428
Contributions restricted for warehouse rent	(39,920)
Net changes in operating assets and liabilities:	
Accounts receivable	4,642
Inventory	(66,873)
Pledges receivable	(58,640)
Accounts payable	1,399
Net cash provided by operating activities	<u>134,665</u>
 Cash Flows From Investing Activities	
Acquisition of property and equipment	<u>(659)</u>
Net cash used by investing activities	<u>(659)</u>
 Cash Flows From Financing Activities	
Contributions restricted for warehouse rent	<u>39,920</u>
Net cash provided by financing activities	<u>39,920</u>
 Net increase in cash and cash equivalents	 173,926
 Cash and cash equivalents, beginning of year	 <u>252,678</u>
 Cash and cash equivalents, end of year	 <u><u>\$ 426,604</u></u>

See notes to financial statements

**HAPPYBOTTOMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

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 operates in Lenexa, Kansas and was 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 consists 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.

Inventory

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

Unconditional promises to give

Unconditional promises to give are recorded as receivables and revenue when received. Pledges to give are classified as temporarily restricted net assets based in accordance with donor-specified restrictions.

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.

Donated assets are recorded at fair market value on the date of contribution. Depreciation of donated assets is included in depreciation expense.

Net Assets

Unrestricted Net Assets

Unrestricted net assets are available for use in general operations.

Temporarily Restricted Net Assets

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, 2014**

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, administrative assistant, warehouse and volunteer manager, development director, and executive director salaries 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 costs 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

The Organization recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

A substantial number of volunteers have donated significant amounts of time to the organization's program services and to its fund-raising campaigns. The value of this contributed time, which does not meet the criteria outlined above, is not reflected in these statements. However, because recognition of contributed services, as revenue, would also involve recognition of corresponding expenses, there would be no effect on net assets.

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, 2014 was \$12,680, which includes \$11,200 of donated advertising.

**HAPPYBOTTOMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 2: PLEDGES RECEIVABLE

Pledges receivable consists of the following at December 31, 2014:

Due in less than one year	\$ 38,120
Due in one to five years	<u>20,520</u>
	\$ <u>58,640</u>

Pledges receivable are considered fully collectible at December 31, 2014 and all pledges will be collected by 2016. No allowance for uncollectible pledges has been recorded.

NOTE 3: EQUIPMENT

Equipment consists of the following:

Equipment	\$ 16,192
Less: accumulated depreciation	<u>4609</u>
	\$ <u>11,583</u>

Depreciation expense for the years ended December 31, 2014 totaled \$2,428.

NOTE 4: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were restricted for the following purposes:

Diaper program	\$ 16,500
Warehouse equipment overhead	10,000
Salaries and overhead	26,600
Warehouse rent	<u>76,397</u>
	\$ <u>129,497</u>

NOTE 5: DONATED SERVICES AND MATERIALS

The organization recognized revenue and expenses for certain donated materials, supplies and professional services for the year ended December 31, 2014. 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, 2014, the Organization received donated services and materials that included marketing materials, administrative equipment and supplies, software, phones, shelving, items for special events held, executive director and development director services, and accounting services. The value of these donations amounted to \$419,669. These donated services and materials primarily benefited the supporting services of the organization.

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, 2014, no income was recognized for purposes unrelated to the exempt purpose of the organization, therefore, no related tax expense has been recorded. 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.

**HAPPYBOTTOMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2014**

NOTE 7: WAREHOUSE LEASE

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 December 31, 2014, the minimum lease payments under the terms of all lease agreements years were as follows:

2015	\$ 50,004
2016	50,004
2017	4,167
	<u>\$ 104,175</u>

NOTE 8: SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 30, 2015, the date on which the financial statements were available to be issued.

In April 2015, the Organization was served a Notice of a Lawsuit Filed. The plaintiff is seeking recovery of an undetermined amount due to the plaintiff's claim of sustaining injuries to her eye while volunteering for the Organization. While the final outcome cannot be determined at this time, management is of the opinion that the ultimate liability, if any, from the final resolution of these matters will not have a material effect on the Organization's financial statements.