

**HappyBottoms
Independent Auditor's Report
and
Financial Statements
December 31, 2015**

**HAPPYBOTTOMS
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EMERICK & COMPANY, P.C.

David Emerick
Rick Hann

CERTIFIED PUBLIC ACCOUNTANTS, AUDITING & TAX 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, 2015, 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, 2015, 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
May 10, 2016

HAPPYBOTTOMS
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2015

ASSETS

Current Assets

Cash and cash equivalents	\$ 571,026
Grants receivable	60,000
Pledges receivable	30,770
Inventory	201,701
Total Current Assets	<u>863,497</u>

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

14,231

Total Assets

\$ 877,728

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 1,207
Total Current Liabilities	<u>1,207</u>

Net Assets

Unrestricted	736,185
Temporarily restricted	140,336
Total Net Assets	<u>876,521</u>

Total Liabilities and Net Assets

\$ 877,728

See notes to financial statements

**HAPPYBOTTOMS
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2015**

	Unrestricted	Temporarily Restricted	Total
Revenues			
Public support			
Contributions	\$ 130,803	\$ 17,500	\$ 148,303
Foundation and trust grants	162,735	134,000	296,735
Special events revenue	153,917	-	153,917
Contributed diapers	48,403	-	48,403
In-kind contributions from suppliers	216,837	-	216,837
Contributed warehouse space and equipment	49,217	-	49,217
Other in-kind contributions	142,145	-	142,145
Total public support	<u>904,057</u>	<u>151,500</u>	<u>1,055,557</u>
Other revenue			
Program revenue	4,824	-	4,824
Merchandise sales	2,367	-	2,367
Other income	1,655	-	1,655
Interest income	4,642	-	4,642
Total other revenue	<u>13,488</u>	<u>-</u>	<u>13,488</u>
Net assets released from restrictions	<u>140,661</u>	<u>(140,661)</u>	<u>-</u>
Total Revenues	1,058,206	10,839	1,069,045
Expenses			
Program services	762,641	-	762,641
Supporting services			
Management and general	127,430	-	127,430
Development	130,975	-	130,975
Total Expenses	<u>1,021,046</u>	<u>-</u>	<u>1,021,046</u>
Increase in net assets	37,160	10,839	47,999
Net assets, beginning of year	699,025	129,497	828,522
Net assets, end of year	<u><u>\$ 736,185</u></u>	<u><u>\$ 140,336</u></u>	<u><u>\$ 876,521</u></u>

See notes to financial statements

HAPPYBOTTOMS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2015

	Program Services	Supporting Services		Total Expenses
		Management and General	Development	
Diaper purchases, processing and distribution	\$ 477,674	\$ -	\$ -	\$ 477,674
Contributed wipes distributed	4,000	-	-	4,000
Salaries	107,865	64,641	100,313	272,819
Payroll taxes	6,423	3,378	5,179	14,980
Employee benefits	3,880	517	4,519	8,916
Professional fees	-	15,198	-	15,198
Occupancy	100,124	-	-	100,124
Travel	2,234	1,755	-	3,989
Advertising and promotion	-	11,142	-	11,142
Printing	1,707	6,085	2,795	10,587
Warehouse equipment & supplies	8,612	-	-	8,612
Office equipment & supplies	625	3,802	-	4,427
Other office expenses	-	2,104	-	2,104
Information technology	47,154	5,921	912	53,987
Conferences, meetings and seminars	1,188	2,159	-	3,347
Membership and dues	-	1,040	-	1,040
Merchandise purchase	-	1,403	-	1,403
Insurance	979	3,592	790	5,361
Special events expense	-	-	16,467	16,467
Depreciation	-	3,352	-	3,352
Miscellaneous	176	1,341	-	1,517
	<u>\$ 762,641</u>	<u>\$ 127,430</u>	<u>\$ 130,975</u>	<u>\$ 1,021,046</u>

See notes to financial statements

**HAPPYBOTTOMS
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2015**

Cash Flows From Operating Activities	
Increase in net assets	\$ 47,999
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	3,352
In-kind contribution of property and equipment	(6,000)
Net changes in operating assets and liabilities:	
Accounts receivable	1,483
Grants receivable	(50,000)
Inventory	120,910
Pledges receivable	27,870
Accounts payable	(1,192)
Net cash provided by operating activities	<u>144,422</u>
Net increase in cash and cash equivalents	144,422
Cash and cash equivalents, beginning of year	<u>426,604</u>
Cash and cash equivalents, end of year	<u><u>\$ 571,026</u></u>

See notes to financial statements

**HAPPYBOTTOMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1: ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Nature of Activities

HappyBottoms (the Organization) is a not-for-profit organization established for the purpose of providing diapers to low-income families while raising awareness of diaper need in the Kansas City area. HappyBottoms works with social service agency partners to distribute diapers. Gifts in kind of diapers and other goods and services are received from local companies and individuals. The Organization's donor base for cash contributions consists of not-for-profit organization grants, foundation and trust grants, corporate contributions, and individual contributions.

Basis of Presentation

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

Revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to any donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions on their use that may be met by actions of the Organization or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed or other legal restrictions requiring that the principal be maintained permanently by the Organization.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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. Significant estimates incorporated into the Organization's financial statements include the timing and collectability of pledges receivable, the value of gifts-in-kind and the resulting carrying value of contributed inventory.

Cash and Cash Equivalents

Cash and cash equivalents are liquid investments with original maturities at the date of purchase of three months or less.

Contributions and Pledges Receivable

Contributions, including promises to give, are recorded when they become unconditional. Conditional promises to give are recognized when the conditions upon which they depend are substantially met. Unconditional promise to give, due in the next year, are recorded at their stated amount. Unconditional promises to give that are expected to be collected beyond the next year are discounted to the present value of estimated future cash flows. Amortization of the discount is recorded as revenue. Management establishes an allowance for uncollectible pledges based upon individual donor payment history.

Inventory

Contributed diapers are valued on a first-in, first-out basis using a weighted average price per diaper as determined by a diaper price comparison by size, brand and retailer. For the year ended December 31, 2015, contributed diapers were valued at .27 cents. Purchased diapers are valued on a first-in, first-out basis.

**HAPPYBOTTOMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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

Equipment

Equipment is recorded at cost and depreciated over the estimated useful life of three to seven years. Annual depreciation is computed using the straight-line method. Donated assets are recorded at fair market value on the date of contribution.

Functional 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. Expenses that can be identified to specific program or support activities are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated by management's estimate of resources devoted to the program or support activity.

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.

Advertising

The organization records advertising expenses when such costs are incurred. The total amount of advertising expense for the year ended December 31, 2015 was \$11,142, which includes \$10,000 of donated advertising.

NOTE 2: PLEDGES RECEIVABLE

Pledges receivable of \$30,770 at December 31, 2015 are due within one year and are considered fully collectible. Accordingly, no allowance for uncollectible pledges has been recorded.

NOTE 3: EQUIPMENT

Equipment consists of the following:

Equipment	\$ 22,192
Less: accumulated depreciation	<u>7,961</u>
	\$ <u>14,231</u>

NOTE 4: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were restricted for the following purposes at December 31, 2015:

Program expenses	\$ 40,428
Salaries	31,600
Warehouse rent/time restricted	38,270
Technology	11,493
Quality control	<u>18,545</u>
	\$ <u>140,336</u>

**HAPPYBOTTOMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5: DONATED SERVICES AND MATERIALS

In-kind contributions from suppliers consist of a discount on purchased diapers. The diapers are recorded in inventory using a weighted average price per diaper as determined by a diaper price comparison by size, brand and retailer. The contribution revenue is the difference between the fair value of the diaper and the expense incurred by the Organization.

Other in-kind contributions consist of donated services and materials including marketing materials, warehouse space, administrative equipment and supplies, equipment, and professional services. These items were recorded in the financial statements based on the fair market value at the date of donation.

NOTE 6: WAREHOUSE LEASE

The Organization leases warehouse space under an operating lease at a monthly rental of \$4,167 through January 2017. The terms of the lease are for a below market rental rate. Therefore, an in-kind contribution and related expense of \$40,000 are recorded. Rental expense for the year ended December 31, 2015 was \$90,000 which includes the portion related to the in-kind contribution.

Future minimum lease payments at December 31, 2015 are:

2016	\$ 50,004
2017	<u>4,167</u>
	\$ <u>54,171</u>

NOTE 7: RELATED PARTY TRANSACTIONS

Approximately \$32,000 in contributions were received from board members for the year ended December 31, 2015. In-kind contributions for facilities valued at \$40,000 (see Note 6) were received from the employer of a board member for the year ended December 31, 2015.

NOTE 8: LITIGATION

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 sustaining injuries to her eye while volunteering for the Organization. The matter is being handled by the Organization's insurance carrier. 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.

NOTE 9: SUBSEQUENT EVENTS

Management has evaluated subsequent events through May 10, 2016 the date on which the financial statements were available to be issued.