

**HappyBottoms  
Independent Auditor's Report  
and  
Financial Statements  
December 31, 2016**

**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, 2016, 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, 2016, 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  
September 19, 2017

**HAPPYBOTTOMS**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2016**

**ASSETS**

**Current Assets**

|                           |                |
|---------------------------|----------------|
| Cash and cash equivalents | \$ 544,012     |
| Grants receivable         | 41,000         |
| Pledges receivable        | 24,500         |
| Inventory                 | <u>109,126</u> |
| Total Current Assets      | 718,638        |

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

14,158

**Total Assets**

\$ 732,796

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

|                           |                 |
|---------------------------|-----------------|
| Accounts payable          | <u>\$ 3,493</u> |
| Total Current Liabilities | <u>3,493</u>    |

**Net Assets**

|                        |                |
|------------------------|----------------|
| Unrestricted           | 668,692        |
| Temporarily restricted | <u>60,611</u>  |
| Total Net Assets       | <u>729,303</u> |

**Total Liabilities and Net Assets**

\$ 732,796

See notes to financial statements

**HAPPYBOTTOMS**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2016**

|   | Unrestricted             | Temporarily<br>Restricted | Total                    |
|---|--------------------------|---------------------------|--------------------------|
| <b>Revenues</b>                           |                          |                           |                          |
| Public support                            |                          |                           |                          |
| Contributions                             | \$ 139,870               | \$ -                      | \$ 139,870               |
| Foundation and trust grants               | 133,640                  | 95,000                    | 228,640                  |
| Special events revenue                    | 221,109                  | -                         | 221,109                  |
| Contributed diapers                       | 55,894                   | -                         | 55,894                   |
| In-kind contributions from suppliers      | 143,795                  | -                         | 143,795                  |
| Contributed warehouse space and equipment | 21,580                   | -                         | 21,580                   |
| Other in-kind contributions               | 40,532                   | -                         | 40,532                   |
| Total public support                      | <u>756,420</u>           | <u>95,000</u>             | <u>851,420</u>           |
| Other revenue                             |                          |                           |                          |
| Program revenue                           | 5,612                    | -                         | 5,612                    |
| Merchandise sales                         | 1,048                    | -                         | 1,048                    |
| Other income                              | 973                      | -                         | 973                      |
| Unrealized gain                           | 129                      | -                         | 129                      |
| Interest income                           | 4,050                    | -                         | 4,050                    |
| Total other revenue                       | <u>11,812</u>            | <u>-</u>                  | <u>11,812</u>            |
| Net assets released from restrictions     | <u>174,725</u>           | <u>(174,725)</u>          | <u>-</u>                 |
| <b>Total Revenues</b>                     | <b>942,957</b>           | <b>(79,725)</b>           | <b>863,232</b>           |
| <b>Expenses</b>                           |                          |                           |                          |
| Program services                          | 745,618                  | -                         | 745,618                  |
| Supporting services                       |                          |                           |                          |
| Management and general                    | 118,608                  | -                         | 118,608                  |
| Development                               | 146,224                  | -                         | 146,224                  |
| <b>Total Expenses</b>                     | <u>1,010,450</u>         | <u>-</u>                  | <u>1,010,450</u>         |
| <b>Decrease in net assets</b>             | <b>(67,493)</b>          | <b>(79,725)</b>           | <b>(147,218)</b>         |
| <b>Net assets, beginning of year</b>      | <u>736,185</u>           | <u>140,336</u>            | <u>876,521</u>           |
| <b>Net assets, end of year</b>            | <u><u>\$ 668,692</u></u> | <u><u>\$ 60,611</u></u>   | <u><u>\$ 729,303</u></u> |

See notes to financial statements

**HAPPYBOTTOMS**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED DECEMBER 31, 2016**

|   | Program<br>Services | Supporting Services       |                   | Total<br>Expenses   |
|---|---------------------|---------------------------|-------------------|---------------------|
|   |                     | Management<br>and General | Development       |                     |
| Diaper purchases, processing and distribution | \$ 458,052          | \$ -                      | \$ -              | \$ 458,052          |
| Salaries                                      | 155,045             | 38,598                    | 70,395            | 264,038             |
| Payroll taxes                                 | 13,379              | 7,316                     | 5,377             | 26,072              |
| Employee benefits                             | 3,512               | 1,166                     | 5,017             | 9,695               |
| Professional fees                             | 283                 | 15,022                    | 474               | 15,779              |
| Occupancy                                     | 68,488              | 12,000                    | -                 | 80,488              |
| Travel  | 7,615               | 2,707                     | 312               | 10,634              |
| Advertising and promotion                     | -                   | 647                       | -                 | 647                 |
| Printing                                      | 148                 | 1,387                     | -                 | 1,535               |
| Warehouse equipment and supplies              | 4,580               | -                         | -                 | 4,580               |
| Office equipment and supplies                 | 977                 | 6,287                     | 200               | 7,464               |
| Other office expenses                         | -                   | 1,823                     | 150               | 1,973               |
| Information technology                        | 30,837              | 16,047                    | 1,089             | 47,973              |
| Conferences, meetings and seminars            | 568                 | 1,072                     | 305               | 1,945               |
| Membership and dues                           | -                   | 600                       | -                 | 600                 |
| Merchandise purchase                          | -                   | 2,007                     | -                 | 2,007               |
| Insurance                                     | 1,881               | 4,456                     | 1,188             | 7,525               |
| Special events expense                        | -                   | -                         | 61,717            | 61,717              |
| Bad debt expense                              | -                   | 2,770                     | -                 | 2,770               |
| Depreciation                                  | -                   | 3,213                     | -                 | 3,213               |
| Miscellaneous                                 | 253                 | 1,490                     | -                 | 1,743               |
|   | <u>\$ 745,618</u>   | <u>\$ 118,608</u>         | <u>\$ 146,224</u> | <u>\$ 1,010,450</u> |

See notes to financial statements

**HAPPYBOTTOMS**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2016**

**Cash Flows From Operating Activities**

|   |              |
|---|--------------|
| Decrease in net assets  | \$ (147,218) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: |              |
| Depreciation  | 3,213        |
| Net changes in operating assets and liabilities:  |              |
| Grants receivable   | 19,000       |
| Inventory   | 92,575       |
| Pledges receivable  | 6,270        |
| Accounts payable  | 2,286        |
| Net cash used by operating activities   | (23,874)     |

**Cash Flows from Investing Activities**

|                                       |         |
|---------------------------------------|---------|
| Purchase of fixed assets              | (3,140) |
| Net cash used by investing activities | (3,140) |

**Net decrease in cash and cash equivalents** (27,014)

**Cash and cash equivalents, beginning of year** 571,026

**Cash and cash equivalents, end of year** \$ 544,012

**HAPPYBOTTOMS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**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 promises 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 at fair value based on inputs from values published by an outside Organization and diaper price comparisons by size. For the year ended December 31, 2016, contributed diapers were valued at .27 cents. Purchased diapers are valued at a standard cost of .27 cents, approximating average costs.

**HAPPYBOTTOMS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**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, 2016 was \$647.

**NOTE 2: PLEDGES RECEIVABLE**

Pledges receivable of \$24,500 at December 31, 2016 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                      | \$ 25,332        |
| Less: accumulated depreciation | <u>11,174</u>    |
|                                | \$ <u>14,158</u> |

**NOTE 4: TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets were restricted for the following purposes at December 31, 2016:

|                  |                  |
|------------------|------------------|
| Program expenses | \$ 15,890        |
| Salaries         | 15,449           |
| Technology       | 27,412           |
| Other            | <u>1,860</u>     |
|                  | \$ <u>60,611</u> |

**HAPPYBOTTOMS  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2016**

**NOTE 5: DONATED SERVICES AND MATERIALS**

In-kind contributions from suppliers consist of a discount on purchased diapers. The diapers are recorded in inventory at fair value of .27 cents based on inputs from values published by an outside Organization and diaper price comparisons by size. 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. Expenses include \$40,958 of in-kind donations that are included in Special Event Expenses on the Statement of Functional Expenses.

**NOTE 6: WAREHOUSE LEASE**

The Organization leases warehouse space under an operating lease at a monthly rental of \$2,860 through January 2019. The terms of the lease are for a below market rental rate. Therefore, an in-kind contribution and related expense of \$20,000 are recorded. Rental expense for the year ended December 31, 2016 was \$70,000 which includes the portion related to the in-kind contribution.

Future minimum lease payments at December 31, 2016 are:

|      |                  |
|------|------------------|
| 2017 | \$ 35,627        |
| 2018 | 36,286           |
| 2019 | <u>3,039</u>     |
|      | <u>\$ 74,952</u> |

**NOTE 7: RELATED PARTY TRANSACTIONS**

Approximately \$93,000 in contributions was received from board members for the year ended December 31, 2016. In-kind contributions for facilities valued at \$20,000 (see Note 6) were received from the employer of a board member for the year ended December 31, 2016.

**NOTE 8: LITIGATION**

In April 2015, the Organization was served a "Notice of a Lawsuit Filed". The plaintiff was seeking recovery of an undetermined amount due to the plaintiff's sustaining injuries to her eye while volunteering for the Organization. This matter has been resolved by the insurance carrier and there was no liability to the Organization.

**NOTE 9: CHANGE IN INVENTORY ACQUISITION**

Year-end inventory balances are maintained at lower levels than in prior years as a result of changes in the process for acquiring diapers from the National Diaper Bank Network/Huggies Diaper Program. Previously, large amounts of diapers were acquired at a time and specific sizes could not be requested. Beginning in 2016, diaper banks have the ability to specify sizes and quantities of diapers. This has resulted in the Organization being able to utilize its diaper need forecast model and achieve LEAN inventory management. Therefore, the Organization no longer maintains large quantities of diapers in inventory.

**NOTE 10: SUBSEQUENT EVENTS**

Management has evaluated subsequent events through September 19, 2017 the date on which the financial statements were available to be issued.