

**HappyBottoms
Independent Auditor's Report
and
Financial Statements
December 31, 2017**

**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, 2017, 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, 2017, 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
March 20, 2018

HAPPYBOTTOMS
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

ASSETS

Current Assets

Cash and cash equivalents	\$ 395,097
Grants receivable	12,743
Pledges receivable	2,700
Accounts receivable - employees	588
Inventory	52,023
Total Current Assets	<u>463,151</u>

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

27,729

Total Assets

\$ 490,880

LIABILITIES AND NET ASSETS

Current Liabilities

Deferred revenue - partner fees	\$ 11,388
Total Current Liabilities	<u>11,388</u>

Net Assets

Unrestricted	448,932
Temporarily restricted	30,560
Total Net Assets	<u>479,492</u>

Total Liabilities and Net Assets

\$ 490,880

See notes to financial statements

**HAPPYBOTTOMS
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2017**

	Unrestricted	Temporarily Restricted	Total
Revenues			
Public support			
Contributions	\$ 166,265	\$ -	\$ 166,265
Foundation and trust grants	100,540	78,820	179,360
Government grants	4,500	-	4,500
Special events revenue	152,746		
Less: cost of direct benefit to donors	<u>6,952</u>	-	145,794
Contributed diapers	58,901	-	58,901
In-kind contributions from suppliers	69,885	-	69,885
Contributed warehouse space and equipment	17,000	-	17,000
Contributed construction services	6,000	-	6,000
Other in-kind contributions	<u>26,930</u>	-	<u>26,930</u>
Total public support	595,815	78,820	674,635
Other revenue			
Merchandise sales	149	-	149
Other income	1,293	-	1,293
Unrealized loss	(155)	-	(155)
Interest income	<u>2,967</u>	-	<u>2,967</u>
Total other revenue	4,254	-	4,254
Net assets released from restrictions	<u>108,871</u>	<u>(108,871)</u>	<u>-</u>
Total Revenues	708,940	(30,051)	678,889
Expenses			
Program services	714,612	-	714,612
Supporting services			
Management and general	118,027	-	118,027
Development	<u>96,061</u>	-	<u>96,061</u>
Total Expenses	<u>928,700</u>	<u>-</u>	<u>928,700</u>
Decrease in net assets	(219,760)	(30,051)	(249,811)
Net assets, beginning of year	<u>668,692</u>	<u>60,611</u>	<u>729,303</u>
Net assets, end of year	<u>\$ 448,932</u>	<u>\$ 30,560</u>	<u>\$ 479,492</u>

See notes to financial statements

HAPPYBOTTOMS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2017

	Program Services	Supporting Services		Total Expenses
		Management and General	Development	
Diaper purchases, processing and distribution	\$ 406,615	\$ -	\$ -	\$ 406,615
Salaries	166,396	47,084	67,174	280,654
Payroll taxes	12,997	3,154	6,557	22,708
Employee benefits	3,776	2,738	4,815	11,329
Professional fees	-	30,934	-	30,934
Occupancy	69,437	12,254	-	81,691
Potty training education program	6,132	-	-	6,132
Diaper mobile program	684	-	-	684
Construction services	6,000	-	-	6,000
Travel	3,850	270	371	4,491
Advertising and promotion	-	622	-	622
Printing	269	480	-	749
Warehouse equipment and supplies	3,150	-	-	3,150
Office equipment and supplies	1,202	3,094	175	4,471
Other office expenses	62	5,693	6	5,761
Information technology	27,673	1,631	583	29,887
Conferences, meetings and seminars	662	857	145	1,664
Membership and dues	250	525	-	775
Insurance	2,067	5,765	1,329	9,161
Special events expense	-	-	14,906	14,906
Loss on sale of asset	-	1,096	-	1,096
Bad debt expense	-	515	-	515
Depreciation	3,313	-	-	3,313
Miscellaneous	77	1,315	-	1,392
	<u>\$ 714,612</u>	<u>\$ 118,027</u>	<u>\$ 96,061</u>	<u>\$ 928,700</u>

See notes to financial statements

HAPPYBOTTOMS
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2017

Cash Flows From Operating Activities

Decrease in net assets	\$ (249,811)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	3,313
Loss on sale of asset	1,096
Net changes in operating assets and liabilities:	
Grants receivable	28,257
Inventory	57,103
Pledges receivable	21,800
Accounts receivable - employees	(588)
Deferred revenue - partner fees	11,388
Accounts payable	<u>(3,493)</u>
Net cash used by operating activities	<u>(130,935)</u>

Cash Flows from Investing Activities

Purchase of fixed assets	<u>(17,980)</u>
Net cash used by investing activities	<u>(17,980)</u>

Net decrease in cash and cash equivalents (148,915)

Cash and cash equivalents, beginning of year 544,012

Cash and cash equivalents, end of year \$ 395,097

**HAPPYBOTTOMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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, 2017, 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, 2017**

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, 2017 was \$622.

NOTE 2: PLEDGES RECEIVABLE

Pledges receivable of \$2,700 at December 31, 2017 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	\$ 39,845
Less: accumulated depreciation	<u>12,116</u>
	\$ <u>27,729</u>

NOTE 4: TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were restricted for the following purposes at December 31, 2017:

Program expenses	\$ 19,820
Salaries	1,274
Technology	<u>9,466</u>
	\$ <u>30,560</u>

**HAPPYBOTTOMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017**

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 \$5,575 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 \$3,039 through January 2019. The terms of the lease are for a below market rental rate. Therefore, an in-kind contribution and related expense of \$15,000 are recorded. Rental expense for the year ended December 31, 2017 was \$72,885 which includes the portion related to the in-kind contribution.

Future minimum lease payments at December 31, 2017 are:

2018	\$ 36,286
2019	<u>3,039</u>
	<u>\$ 39,325</u>

NOTE 7: RELATED PARTY TRANSACTIONS

Approximately \$54,500 in contributions was received from board members for the year ended December 31, 2017. In-kind contributions for facilities valued at \$15,000 (see Note 6) were received from the employer of a board member for the year ended December 31, 2017.

NOTE 8: DEFERRED REVENUE – PARTNER FEES

Deferred revenue – partner fees consists of prepaid partner agency fees for 2018.

NOTE 9: SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 20, 2018 the date on which the financial statements were available to be issued.