

**HappyBottoms
Independent Auditor's Report
and
Financial Statements
December 31, 2018**

**HAPPYBOTTOMS
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EMERICK & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS, AUDITING & TAX PROFESSIONALS

David Emerick • James Flanagan • Rick Hann • Kristy Helt

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, 2018, 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, 2018, 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
April 3, 2019

HAPPYBOTTOMS
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

ASSETS

Current Assets

Cash and cash equivalents	\$ 402,163
Grants receivable	22,500
Pledges receivable	9,050
Prepaid expenses	1,750
Inventory	<u>201,810</u>
Total Current Assets	<u>637,273</u>

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

21,015

Total Assets

\$ 658,288

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 1,533
Deferred revenue - partner fees	<u>13,024</u>
Total Current Liabilities	<u>14,557</u>

Net Assets

Without donor restrictions	627,780
With donor restrictions	<u>15,951</u>
Total Net Assets	<u>643,731</u>

Total Liabilities and Net Assets

\$ 658,288

See notes to financial statements

**HAPPYBOTTOMS
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2018**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues			
Public support			
Contributions	\$ 190,496	\$ -	\$ 190,496
Foundation and trust grants	319,099	20,800	339,899
Special events revenue	175,392		
Less: cost of direct benefit to donors	<u>6,411</u>	-	168,981
Partner agency fees	29,339	-	29,339
Diaper delivery fees	6,658	-	6,658
Mobile diaper wrapping revenues	16,190	-	16,190
Contributed diapers	178,378	-	178,378
In-kind contributions from suppliers	63,840	-	63,840
Contributed warehouse space and equipment	15,017	-	15,017
Other in-kind contributions	<u>12,567</u>	-	<u>12,567</u>
Total public support	<u>1,000,565</u>	<u>20,800</u>	<u>1,021,365</u>
Other revenue			
Merchandise sales	538	-	538
Other income	693	-	693
Interest income	<u>2,406</u>	-	<u>2,406</u>
Total other revenue	<u>3,637</u>	-	<u>3,637</u>
Net assets released from restrictions	<u>35,409</u>	<u>(35,409)</u>	<u>-</u>
Total Revenues	1,039,611	(14,609)	1,025,002
Expenses			
Program services	677,518	-	677,518
Supporting services			
Management and general	90,725	-	90,725
Development	<u>92,520</u>	-	<u>92,520</u>
Total Expenses	<u>860,763</u>	<u>-</u>	<u>860,763</u>
Increase (Decrease) in net assets	178,848	(14,609)	164,239
Net assets, beginning of year	<u>448,932</u>	<u>30,560</u>	<u>479,492</u>
Net assets, end of year	<u>\$ 627,780</u>	<u>\$ 15,951</u>	<u>\$ 643,731</u>

See notes to financial statements

HAPPYBOTTOMS
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED DECEMBER 31, 2018

	Program Services	Supporting Services		Total Expenses
		Management and General	Development	
Diaper distribution	\$ 300,890	\$ -	\$ -	\$ 300,890
Salaries	243,428	50,196	71,429	365,053
Professional services	-	17,624	-	17,624
Occupancy	88,402	-	-	88,402
Client education	5,988	-	-	5,988
Diapermobile	3,761	-	-	3,761
Travel	2,295	162	1,013	3,470
Awareness and marketing	2,605	3,324	400	6,329
Fees	12	2,163	2	2,177
Warehouse equipment and supplies	1,295	-	-	1,295
Office expense	1,628	7,474	35	9,137
Information technology	15,950	2,498	6,509	24,957
Conferences, meetings and seminars	1,137	1,909	715	3,761
Insurance	2,774	5,148	734	8,656
Special events expense	-	-	11,683	11,683
Bad debt expense	-	200	-	200
Depreciation	6,715	-	-	6,715
Miscellaneous	638	27	-	665
	<u>\$ 677,518</u>	<u>\$ 90,725</u>	<u>\$ 92,520</u>	<u>\$ 860,763</u>

See notes to financial statements

HAPPYBOTTOMS
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2018

Cash Flows From Operating Activities

Increase in net assets	\$ 164,239
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	6,715
Net changes in operating assets and liabilities:	
Grants receivable	(9,757)
Inventory	(149,788)
Pledges receivable	(6,350)
Accounts receivable - employees	588
Prepaid expenses	(1,750)
Deferred revenue - partner fees	1,636
Accounts payable	1,533
Net cash provided by operating activities	7,066
Net increase in cash and cash equivalents	7,066
Cash and cash equivalents, beginning of year	395,097
Cash and cash equivalents, end of year	\$ 402,163

See notes to financial statements

**HAPPYBOTTOMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 1: ORGANIZATION AND SUMMARY OF ACCOUNTING POLICIES

Nature of Activities

HappyBottoms (the Organization) is a not-for-profit organization established to collaborate with community partners to empower, connect and impact low income families by alleviating diaper need in the Kansas City Community. The Organization's vision is to positively impact the mental, physical and financial stability of a family in crisis and need through diaper assistance, education and connection to service. 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:

Net assets without donor restrictions - Net assets that are not subject to any donor-imposed restrictions.

Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are classified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

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 net realizable value based on inputs from values published by an outside Organization and diaper price comparisons by size. For the year ended December 31, 2018, contributed diapers were valued at \$.30. Purchased diapers are valued at a standard cost of \$.30, approximating average costs.

**HAPPYBOTTOMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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 Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statement of activities. Costs that can be directly attributed to a specific program or supporting service are charged to that program or supporting function. Expenses that relate to more than one program or supporting service require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, information technology, office expenses and insurance, which are allocated on the basis of estimates of time and effort.

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.

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for Profit Entities (*Topic 958*) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly.

Advertising

The organization records advertising expenses when such costs are incurred. The total amount of advertising expense for the year ended December 31, 2018 was \$3,433.

NOTE 2: PLEDGES RECEIVABLE

Pledges receivable of \$9,050 at December 31, 2018 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>18,830</u>
	\$ <u>21,015</u>

**HAPPYBOTTOMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 4: NET ASSETS

Net assets with donor restrictions were as follows at December 31, 2018:

Program expenses	\$ 15,951
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Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

Program	\$ 24,669
Salaries	1,274
Technology	<u>9,466</u>
	\$ <u>35,409</u>

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 \$.30 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 \$88,402 which includes the portion related to the in-kind contribution.

Subsequent to year-end the Organization signed a new operating lease for five years. The new lease has monthly payments that vary from \$5,833 to \$8,333.

Future minimum lease payments are:

2019	\$ 70,000
2020	100,000
2021	100,000
2022	100,000
2023	<u>25,000</u>
	<u>\$395,000</u>

NOTE 7: RELATED PARTY TRANSACTIONS

Approximately \$29,813 in contributions was received from board members for the year ended December 31, 2018. 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, 2018.

NOTE 8: DEFERRED REVENUE – PARTNER FEES

Deferred revenue – partner fees consists of prepaid partner agency fees for 2019.

**HAPPYBOTTOMS
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

NOTE 9: SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 3, 2019 the date on which the financial statements were available to be issued.

NOTE 10: AVAILABILITY AND LIQUIDITY

HappyBottoms strives to maintain liquid financial assets sufficient to cover operating expenditures. The following table reflects the Organization's financial assets as of December 31, 2018, reduced by amounts that are not available to meet general expenditures because of donor restrictions. Amounts not available include a donor restriction for program expenses.

Financial assets at year end:

Cash and cash equivalents	\$402,163
Grants receivable	22,500
Pledges receivable	<u>9,050</u>
Total financial assets	433,713

Less amounts not available to be used within one year:

Net assets with donor restrictions	<u>15,951</u>
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Financial assets available to meet general expenditures over the next twelve months

\$417,762