

NATIONAL DIAPER BANK NETWORK, INC.

**Financial Statements with
Independent Auditor's Report**

June 30, 2016 and 2015

DRAFT

NATIONAL DIAPER BANK NETWORK, INC.

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INDEPENDENT AUDITOR'S REPORT

DRAFT



GUILMARTIN ▪ DIPIRO ▪ SOKOLOWSKI LLC

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
National Diaper Bank Network, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of National Diaper Bank Network, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 National Diaper Bank Network, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

 DRAFT

Middletown, Connecticut
DATE

FINANCIAL STATEMENTS

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NATIONAL DIAPER BANK NETWORK, INC.

Statements of Financial Position

June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 582,770	\$ 621,145
Accounts receivable, net	170,313	194,431
Unconditional promises to give, net	-	48,426
Prepaid expenses	<u>15,255</u>	<u>9,314</u>
Total current assets	768,338	873,316
Non-current assets:		
Property and equipment, net	766	2,394
Other assets, net	<u>6,223</u>	<u>16,535</u>
Total assets	<u>\$ 775,327</u>	<u>\$ 892,245</u>
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 76,631	\$ 50,815
Accrued payroll liabilities	<u>11,557</u>	<u>7,114</u>
Total current liabilities	<u>88,188</u>	<u>57,929</u>
Net assets:		
Unrestricted:		
Operational	487,139	675,890
Board designated	<u>200,000</u>	<u>100,000</u>
Total unrestricted	687,139	775,890
Temporarily restricted	<u>-</u>	<u>58,426</u>
Total net assets	<u>687,139</u>	<u>834,316</u>
Total liabilities and net assets	<u>\$ 775,327</u>	<u>\$ 892,245</u>

See accompanying notes to financial statements.

NATIONAL DIAPER BANK NETWORK, INC.

Statements of Activities and Changes in Net Assets

For the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Changes in Unrestricted Net Assets</u>		
Support and revenue:		
Contributions	\$ 421,467	\$ 317,302
In-kind support	1,928,806	2,884,040
Partner fees	343,000	647,625
Revenue sharing	4,793	28,077
Grant revenue	2,921	36,413
Other income	26,618	14,768
Net assets released from restrictions	<u>58,426</u>	<u>121,902</u>
Total support and revenue	<u>2,786,031</u>	<u>4,050,127</u>
Expenses:		
Program services	2,616,854	3,513,576
Management and general	110,043	107,261
Fundraising	<u>147,885</u>	<u>65,965</u>
Total expenses	<u>2,874,782</u>	<u>3,686,802</u>
Change in unrestricted net assets	(88,751)	363,325
Unrestricted net assets, beginning of year	<u>775,890</u>	<u>412,565</u>
Unrestricted net assets, end of year	<u>\$ 687,139</u>	<u>\$ 775,890</u>
<u>Changes in Temporarily Restricted Net Assets</u>		
Contributions	\$ -	\$ 10,000
Net assets released from restrictions	<u>(58,426)</u>	<u>(121,902)</u>
Change in temporarily restricted net assets	(58,426)	(111,902)
Temporarily restricted net assets, beginning of year	<u>58,426</u>	<u>170,328</u>
Temporarily restricted net assets, end of year	<u>\$ -</u>	<u>\$ 58,426</u>
Total change in net assets	<u>\$ (147,177)</u>	<u>\$ 251,423</u>

See accompanying notes to financial statements.

NATIONAL DIAPER BANK NETWORK, INC.

Statement of Functional Expenses

For the year ended June 30, 2016

	<u>Program</u> <u>Services</u>	<u>Management</u> <u>& General</u>	<u>Fundraising</u>	<u>Total</u>
Operating expenses:				
In-kind expenses	\$ 1,928,806	\$ -	\$ -	\$ 1,928,806
Salaries and wages	398,238	65,199	93,159	556,596
Grants to others	120,597	-	-	120,597
Professional services	31,537	21,768	27,798	81,103
Travel and conferences	68,939	5,978	253	75,170
Programs	22,562	11,339	18,447	52,348
Occupancy	18,175	2,975	4,252	25,402
Bad debts	11,000	-	-	11,000
Insurance	8,457	1,385	1,978	11,820
Total operating expenses	<u>2,608,311</u>	<u>108,644</u>	<u>145,887</u>	<u>2,862,842</u>
Other expenses:				
Depreciation and amortization	<u>8,543</u>	<u>1,399</u>	<u>1,998</u>	<u>11,940</u>
Total expenses	<u>\$ 2,616,854</u>	<u>\$ 110,043</u>	<u>\$ 147,885</u>	<u>\$ 2,874,782</u>

See accompanying notes to financial statements.

NATIONAL DIAPER BANK NETWORK, INC.

Statement of Functional Expenses

For the year ended June 30, 2015

	<u>Program</u>	<u>Management</u>		
	<u>Services</u>	<u>& General</u>	<u>Fundraising</u>	<u>Total</u>
Operating expenses:				
In-kind expenses	\$ 2,884,039	\$ -	\$ -	\$ 2,884,039
Salaries and wages	398,889	55,986	39,629	494,504
Grants to others	100,039	-	-	100,039
Professional services	33,147	28,605	12,956	74,708
Travel and conferences	44,047	6,023	947	51,017
Programs	9,368	12,220	9,298	30,886
Occupancy	16,940	2,377	1,683	21,000
Bad debts	12,500	-	-	12,500
Insurance	4,979	699	495	6,173
Total operating expenses	<u>3,503,948</u>	<u>105,910</u>	<u>65,008</u>	<u>3,674,866</u>
Other expenses:				
Depreciation and amortization	<u>9,628</u>	<u>1,351</u>	<u>957</u>	<u>11,936</u>
Total expenses	<u>\$ 3,513,576</u>	<u>\$ 107,261</u>	<u>\$ 65,965</u>	<u>\$ 3,686,802</u>

See accompanying notes to financial statements.

NATIONAL DIAPER BANK NETWORK, INC.

Statements of Cash Flows

For the years ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ (147,177)	\$ 251,423
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation	1,628	1,624
Decrease (increase) in accounts receivable	24,118	(180,274)
Decrease in unconditional promises to give	48,426	46,902
(Increase) in prepaid expenses	(5,941)	(5,490)
Decrease in other assets	10,312	10,313
Increase (decrease) in accounts payable and accrued expenses	25,816	(7,074)
Increase in accrued salaries and taxes	4,443	5,835
(Decrease) in deferred revenue	<u>-</u>	<u>(46,000)</u>
Total adjustments	<u>108,802</u>	<u>(174,164)</u>
Net cash (used) provided by operating activities	<u>(38,375)</u>	<u>77,259</u>
Cash flows from investing activities:		
Net cash provided (used) by investing activities	<u>-</u>	<u>-</u>
Cash flows from financing activities:		
Net cash provided (used) by financing activities	<u>-</u>	<u>-</u>
Net (decrease) increase in cash and cash equivalents	(38,375)	77,259
Cash and cash equivalents, beginning of year	<u>621,145</u>	<u>543,886</u>
Cash and cash equivalents, end of year	<u>\$ 582,770</u>	<u>\$ 621,145</u>

See accompanying notes to financial statements.

NATIONAL DIAPER BANK NETWORK, INC.

Notes to Financial Statements

June 30, 2016 and 2015

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of activities

National Diaper Bank Network, Inc. (the Organization) is a not-for-profit corporation established under the laws of the State of Connecticut and operates as a human services organization with administrative offices in New Haven, Connecticut. The Organization's mission is to raise awareness of the need for diapers and to build the capacity of diaper banks throughout the country by creating a national network of community partners. The Organization works to accomplish this goal through three primary activities:

- *Raising awareness* - bring national attention to the issue of diaper needs through education and outreach to the general public and national leaders.
- *Providing technical assistance* - assist local communities in starting diaper banks and help build the capacity of existing diaper banks.
- *Diaper distribution and funding* - coordinate the distribution of diapers and funding from national donors to regional and local diaper banks for distribution to families in need.

Basis of presentation

The accompanying financial statements have been prepared on the accrual method of accounting in accordance with generally accepted accounting principles as accepted in the United States (referred to as GAAP).

Income tax status

The Organization has received exemption from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(a)(vi).

Management has reviewed the Organization's reporting and believe they have not taken tax positions that are more likely than not to be determined to be incorrect by the Internal Revenue Service and therefore no adjustments or disclosures are required.

The Organization's informational returns for fiscal years ended after June 30, 2012 remain open to inspection by the Internal Revenue Service.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

For the purpose of the statements of cash flows, the Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted and unrestricted revenue and support - revenue recognition

In accordance with FASB ASC 958-605-25, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or the nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When the restriction expires (when a time restriction expires or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Grants

Grants are generally considered to be exchange transactions in which the grantor requires the performance of specified activities.

Entitlement to cost reimbursement grants is based on the expenditure of funds in accordance with grant restrictions and, therefore, revenue is recognized to the extent of grant expenditures. Entitlement to performance based grants is based on the attainment of specific performance goals and, therefore, revenue is recognized to the extent of performance achieved. Grant receipts in excess of revenues recognized are presented as deferred grant revenue in the accompanying statements of financial position.

NATIONAL DIAPER BANK NETWORK, INC.

Notes to Financial Statements

June 30, 2016 and 2015

Net assets

To ensure observance of limitations and restrictions placed on the use of resources available to the Organization, the limitations and restrictions are maintained in the following net asset categories.

Unrestricted

Net assets that are not subject to explicit donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors. During both fiscal years 2016 and 2015, the Board recognized \$100,000 in a fund designated for future sustainability. This has no donor restrictions.

Temporarily restricted

Temporarily restricted net assets represent contributions and other resources that are restricted by the donor either as to purpose or as to time of expenditure. Included in temporarily restricted net assets are contributions to be used for program expenses.

Temporarily restricted net assets include unconditional promises to give until the funds are received, at which point they are then reclassified to unrestricted. These assets represent a pledge receivable as well as contributions restricted for programs. Temporarily restricted net assets were \$0 and \$58,426 for the years ended June 30, 2016 and 2015, respectively.

Permanently restricted

Permanently restricted net assets represent contributions that are so restricted that neither the passage of time nor actions by the Organization can fulfill the restriction.

The Organization had no permanently restricted net assets at June 30, 2016.

Property and equipment

The Organization follows the practice of capitalizing all property and equipment with a cost exceeding \$1,500. Depreciation is computed using the straight-line method over the estimated useful lives of 5 years. There are no planned major maintenance activities.

If a grant is completed or terminated, assets purchased with grant funds must be returned to the funding agency, if requested.

Other assets

Other assets represent organizational costs of \$14,240 and website costs of \$37,325. They are amortized over their estimated useful life of 5 years. Amortization expense for the years ended June 30, 2016 and 2015 was \$10,312 and \$10,313, respectively.

Donated goods and services

For the years ended June 30, 2016 and 2015, the Organization received in-kind transportation costs in the amount of \$321,468 and \$480,673, respectively and in-kind goods in the amount of \$1,607,338 and \$2,403,367, respectively. The Organization recognizes donated services if they create or enhance non-financial assets or require specialized skills and would typically be purchased if not provided by donation. General volunteer services do not meet this criteria for recognition in the financial statements.

Collaborative agreements

The Organization had an agreement with a vendor that served as a conduit for the Organization to receive donated goods from its major donor. The Organization, as part of this agreement, made the bulk of the diapers available to the diaper bank members and the rest to other organizations using the vendor's platform. The Organization also utilized this vendor for distribution and transportation to make deliveries as needed. Management has decided to let this contract expire and this agreement was not renewed in fiscal year 2015.

Allowance for bad debts

The Organization has specific contractual agreements to support their accounts receivable. Receivables are written off when losses become probable. Management has determined an allowance of \$11,000 and \$12,500 for doubtful receivables was required for June 30, 2016 and 2015, respectively.

Functional expense allocation

The majority of expenses can generally be directly identified with the program or supporting service to which they relate and are charged accordingly. Other expenses by function are allocated to the components of these services based on allocation factors determined by management, and these allocation factors may change from year to year.

NATIONAL DIAPER BANK NETWORK, INC.

Notes to Financial Statements

June 30, 2016 and 2015

Advertising and marketing costs

The Organization's policy is to expense all non-direct-response advertising in the period in which the costs are incurred. Any advertising costs which are to benefit a future period are capitalized and expensed the first time the advertising takes place. Advertising and marketing costs for the years ended June 30, 2016 and 2015 were \$19,327 and \$11,831, respectively.

Evaluation of subsequent events

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

NOTE 2

CONCENTRATIONS

The Organization maintains their cash balances with various financial institutions. Such deposits at times have exceeded federal depository limits; however, the Organization believes its cash deposits are not subject to significant credit risk.

A substantial portion of the Organization's revenue is derived from donated goods received from one vendor. There is a signed contract evidencing this agreement. The Organization believes, due to the long-term nature of the agreement, there is nominal risk to the Organization.

NOTE 3

UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are recognized at fair value using the present value of estimated future cash flows for pledges that are receivable in excess of one year and have been discounted at 3.25%.

Unconditional promises to give at June 30 are presented as follows:

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ -	\$50,000
Receivable in one to five years	<u>-</u>	<u>-</u>
Total unconditional promises to give	-	50,000
Less: discount to net present value	<u>(-)</u>	<u>(1,574)</u>
Net unconditional promises to give	<u>\$ -</u>	<u>\$48,426</u>

NOTE 4

FAIR VALUE MEASUREMENTS

FASB ASC 820, *Fair Value Measurements*, governs the application of accounting principles generally accepted in the United States of America that require fair value measurements of the Organization's assets and liabilities. Fair value as defined in ASC 820 is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 established a three tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs and to establish classification of fair value measurements for disclosure purposes. Various inputs are used in determining the value of the financial instruments as noted below:

- *Level 1* - quoted prices in active markets for identical inputs.
- *Level 2* - other significant observable inputs.
- *Level 3* - significant unobservable inputs (including the Organization's own assumptions in determining fair value).

NOTE 5

PROPERTY AND EQUIPMENT

Components of property and equipment are as follows:

	<u>2016</u>	<u>2015</u>
Equipment	\$ 8,130	\$ 8,130
Less: accumulated depreciation	<u>(7,364)</u>	<u>(5,736)</u>
Total	<u>\$ 766</u>	<u>\$ 2,394</u>

The financial statements reflect depreciation expense of \$1,628 and \$1,624 for the years ended June 30, 2016 and 2015, respectively.

NOTE 6

LEASE OBLIGATIONS

Leased facilities

The Organization leases office space in New Haven, Connecticut under a lease agreement that ends in October 2018. The Organization is required to pay certain annual operating costs such as maintenance and insurance. The lease contains restrictions as to the use of the properties, subletting and acceleration clauses based on future criteria.

NATIONAL DIAPER BANK NETWORK, INC.

Notes to Financial Statements

June 30, 2016 and 2015

Leased facilities, continued

The Organization's lease agreement with 129 Church Street, LLC expired on November 30, 2014.

Rent expense amounted to \$25,402 and \$21,000 for the years ended June 30, 2016 and 2015, respectively.

Future lease commitments under this agreement are as follows:

2017	\$25,400
2018	25,700
2019	8,600

NOTE 7

PARTNER CONTRACTS

During 2015 the Organization changed how they bill their partners and consequently when they recognize the revenue. Currently the revenue is recognized as the diapers are delivered and the invoice is generated. During fiscal year 2014 the revenue was recognized as the contract was amortized and accounted for in deferred revenue. This change impacted the timing of revenue recognition for fiscal year 2015.

NOTE 8

RELATED PARTY TRANSACTIONS

For the year ended June 30, 2016 the Organization entered into a lease agreement with Foundry Square, LLC, a related party to the Executive Director. Rent payments to related party were \$16,800 for the year ended June 30, 2016. The payments were based on market studies and were Board approved.