

DIAPER BANK OF NORTH CAROLINA

REVIEWED
FINANCIAL STATEMENTS

DECEMBER 31, 2020

Diaper Bank of North Carolina

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Mark S. Danes, CPA, PLLC

Certified Public Accountant and Consultant

Independent Accountant's Report

Board of Directors and Management
Diaper Bank of North Carolina
Durham, North Carolina

We have reviewed the accompanying financial statements of Diaper Bank of North Carolina (the Organization) (a not-for-profit organization), which comprise the statement of financial position as of December 31, 2020 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Organization management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with *Statements on Standards for Accounting and Review Services* promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Correction of Error

As described in Note 10 to the financial statements, net assets at December 31, 2019 have been decreased by \$37,122 related to an increase in accrued expenses. Our conclusion is not modified with respect to these matters.

Mark S. Danes, CPA, PLLC

August 4, 2021

Diaper Bank of North Carolina
Statement of Financial Position
December 31, 2020

Assets		
Cash and cash equivalents	\$	329,538
Accounts receivable		2,934
Inventory		1,514,924
Property and Equipment		
Vehicles		88,696
Furniture and equipment		4,849
Less accumulated depreciation		(31,487)
		<u>62,058</u>
Total assets	\$	<u>1,909,454</u>
Liabilities and Net Assets		
Accounts payable	\$	470
Foregivable loan		38,200
Long-term debt		52,622
		<u>91,292</u>
Total liabilities		<u>91,292</u>
Net Assets		
Without donor restrictions		1,818,162
With donor restrictions		-
		<u>1,818,162</u>
Total net assets		<u>1,818,162</u>
Total liabilities and net assets	\$	<u>1,909,454</u>

See accompanying notes to financial statements.

Diaper Bank of North Carolina
Statement of Activities
For the Year Ended December 31, 2020

Without donor restrictions

Support and Revenue	
Grants and contributions	\$ 2,750,404
Special events - net	56,797
Other revenue	144
Total support, revenue and reclassifications	<u>2,807,345</u>
Expenses	
Program services	2,611,198
Management and general	116,685
Fundraising	31,514
Total expenses	<u>2,759,397</u>
Change in net assets	<u>47,948</u>
Beginning net assets - restated	<u>1,770,214</u>
Ending net assets	<u>\$ 1,818,162</u>

See accompanying notes to financial statements.

Diaper Bank of North Carolina
Statement of Functional Expenses
For the Year Ended December 31, 2020

	Program	Management and General	Fundraising	Total
Program supplies	\$ 2,386,994	\$ -	\$ -	\$ 2,386,994
Salaries, wages and benefits	122,602	61,301	20,434	204,337
Occupancy	57,256	28,628	9,543	95,427
Travel	13,131	449	-	13,580
Depreciation	12,101	-	-	12,101
Office expenses	8,392	1,386	342	10,120
Insurance	3,311	2,208	-	5,519
Professional fees	-	10,514	-	10,514
Meetings	-	6,875	-	6,875
Interest	-	3,772	-	3,772
Advertising	3,025	-	756	3,781
Information technology	858	-	286	1,144
Miscellaneous expenses	3,528	1,552	153	5,233
	<u>\$ 2,611,198</u>	<u>\$ 116,685</u>	<u>\$ 31,514</u>	<u>\$ 2,759,397</u>

See accompanying notes to financial statements.

Diaper Bank of North Carolina
Statement of Cash Flows
For the Year Ended December 31, 2020

Cash Flows From Operating Activities	
Change in net assets	\$ 47,948
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities	
Donated assets received	(2,188,074)
Donations of inventory to others	2,381,147
Depreciation expense	12,101
Changes in assets and liabilities	
Accounts receivable	(1,594)
Inventory	(40,411)
Deposits	3,740
Accounts payable	(42,002)
Net cash provided by (used in) operating activities	<u>172,855</u>
Cash Flows From Financing Activities	
Proceeds from long-term debt	38,200
Payments on long-term debt	(12,497)
Net cash provided by (used in) financing activities	<u>25,703</u>
Net increase (decrease) in cash and cash equivalents	198,558
Cash and cash equivalents at beginning of year	<u>130,980</u>
Cash and cash equivalents at end of year	<u>\$ 329,538</u>
Supplemental Disclosures	
Cash paid for interest	<u>\$ 3,772</u>
Cash paid for income taxes	<u>\$ -</u>

See accompanying notes to financial statements.

Diaper Bank of North Carolina
Notes to Financial Statements
December 31, 2020

Note 1 - Nature of Activities

Diaper Bank of North Carolina (The Organization) is a nonprofit organization formed in 2013. With the assistance of partnering organizations, it distributes diapers and other hygiene products to low-income families. The Organization currently serves 16 counties across the state of North Carolina.

The Organization derives its revenue primarily from private foundation grants and contributions from the general public. It is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and has been classified as an organization that is not a private foundation under section 509(a)(2). It would be responsible for unrelated business income taxes, if any.

Note 2 - Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. 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 may be permanent in nature, whereby the donors have stipulated the funds be maintained in perpetuity.

General Expenditures

The Organization considers the costs related to its normal activities to be general expenditures unless such costs are limited by the donors for specified, restricted purposes. Accordingly, the related resources for the latter have been excluded in the quantitative information detailing the financial assets available to meet general expenditures within one year.

Statement of Cash Flows

For the purposes of the statement of cash flows, highly liquid investments with original maturities of three months or less are considered cash equivalents.

Diaper Bank of North Carolina
Notes to Financial Statements
December 31, 2020

Note 2 - Summary of Significant Accounting Policies (Continued)

Accounts Receivable, Promises to Give and Revenue Recognition

Revenue from grants that are deemed to be exchange transactions are recognized at the time the reimbursable expenses are incurred. Contributions are recognized when the donor makes a promise to give the Organization that is, in substance, unconditional.

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Receivables and promises to give are stated at the amount management expects to collect from balances outstanding at year end. The Organization uses the allowance method to determine uncollectible receivables and promises to give. The allowance is based on prior years' experience and management's analysis of specific amounts outstanding at year end.

Inventory

Inventory consists primarily of diapers and other personal care products for children and adults. It is stated at fair value on the first-in, first-out basis. Practically all of the inventory has been donated to the Organization.

Property and Equipment

It is the Organization's policy to capitalize property and equipment with an original cost or donated value of \$500 or more and an estimated useful life of more than one year. Purchased property and equipment are recorded at cost. Donated property and equipment are recorded as revenue at their estimated fair value as of the date of the contribution. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Depreciation is computed over the straight-line method over the estimated useful lives of the assets (3 to 7 years). Expenditures for repairs and maintenance are charged to expense as incurred. The cost of major renewals and betterments are capitalized and depreciated over their useful lives. Upon disposition of property and equipment, the related asset and accumulated depreciation accounts are removed and any gain or loss is reflected in the statement of activities for the period.

Uncertain Tax Positions

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. It should be noted that the prior three tax years remain subject to examination by major tax jurisdictions.

Diaper Bank of North Carolina
Notes to Financial Statements
December 31, 2020

Note 2 - Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited. Such allocations are determined by management on an equitable basis.

The allocation of staffing expenses is based on time and effort studies of the Organization's employees. The remaining categories on the statement of functional expenses are allocated based on approximate direct usage.

New Accounting Pronouncement

In 2016, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2016-02, Leases*. ASU 2016-02 changes how an entity reports and measures all leases of property, plant, and equipment. The ASU is effective for annual periods beginning after December 15, 2021. Management is evaluating the impact the update will have on the Organization's financial statements.

Note 3 - Concentrations

The Organization's accounts at various financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 and may at times exceed the federally insured limits. At December 31, 2020, cash deposits exceeded FDIC limits by \$78,797. The Organization has never experienced any losses in such accounts.

Note 4 - Contingencies

Financial assistance from various awarding agencies is subject to special audit. Such audits could result in claims against the Organization for disallowed costs or noncompliance with grantor restrictions. Management is not aware of any disallowable costs or instances of noncompliance with grantor restrictions. Consequently, no provision has been made for liabilities, if any, that may arise from such audits.

Note 5 - Forgivable Loan from the Small Business Administration

In the Spring of 2020, the Organization received a forgivable loan of \$38,200 with an interest rate of 1% under the Paycheck Protection Program implemented by the Small Business Administration (SBA) with support from the U.S. Department of the Treasury.

Based on the SBA criteria and the loan agreement, the Organization expects the loan to be fully forgiven. If repayment of this loan becomes necessary, it will occur ratably over 60 months beginning in February 2022.

Diaper Bank of North Carolina
Notes to Financial Statements
December 31, 2020

Note 6 - Long-Term Debt

Long-term debt consists of the following at December 31, 2020: Note from a bank bearing interest at 6.25%, with monthly installments of \$1,529, including interest, with a final payment of principal and interest due in December 2024, secured by a vehicle. Future maturities of debt are \$15,678; \$16,687; \$18,023 and \$2,234 for calendar years 2021 through 2024, respectively.

Note 7 - Operating Leases / Related Party Transactions

In June 2018, the Organization entered into lease arrangement for a period of five years and three months for warehouse space in Winston-Salem, North Carolina. The lease calls for initial monthly payments of \$1,613 that will increase by 2% each year. A straight-line recognition of expenses to account for the rent escalations is not considered necessary.

In November 2018, the Organization entered into lease arrangement for a period of two years beginning January 1, 2019 for warehouse space in Wilmington, North Carolina with monthly payments of \$1,500.

In November 2020, the Organization signed a lease for warehouse space with a limited liability company (LLC) that is owned by a member of the Board of Directors of the Organization. The terms call for monthly payments of \$5,771 through October 2025 and month-to-month thereafter.

Total expense in 2020 for these arrangements was \$90,616. Future minimum lease payments at December 31, 2020 for lease agreements are as follows:

2021	\$ 89,520
2022	89,926
2023	90,339
2024	69,252
2025	57,710
	<u>57,710</u>
	<u>\$ 396,747</u>

Note 8 - Donated Services

Many individuals volunteer their time and perform a variety of tasks that assist the Organization with its programs and supporting activities. Management estimates that the Organization receives approximately 940 volunteer hours for the year ended December 31, 2020. These donated services have not been reflected in the accompanying financial statements since they do not meet the criteria for recognition under U.S. GAAP.

Note 9 - Subsequent Events

The PPP loan from the SBA mentioned in Note 5 above was formally forgiven in February 2021.

In accordance with U.S. GAAP, the Organization has evaluated all events subsequent to the statement of financial position date of December 31, 2020 through August 4, 2021, which is the date these financial statements were available to be issued, and has determined that there are no other subsequent events that require disclosure.

Diaper Bank of North Carolina
Notes to Financial Statements
December 31, 2020

Note 10 - Restatement of Beginning Net Assets

An error resulting in an overstatement of previously reported net assets was discovered during the current reporting period. Specifically, it was determined that accrued payroll expenses had been understated at December 31, 2019. Accordingly, a reduction of \$37,122 has been made to beginning net assets in the accompanying financial statements.

The effect of this restatement on the previously issued statement of activities for 2019 is an increase in expenses of \$37,122.

Note 11 - Availability and Liquidity

The following represents the Organization's financial assets at December 31, 2020:

Financial assets at year end:

Cash and cash equivalents	\$ 329,538
Accounts receivable	<u>2,934</u>
Total financial assets	332,472

Less amounts not available to be used within one year:

Net assets with donor restrictions	<u>-</u>
Financial assets available to meet general expenditures over the next twelve months	<u><u>\$ 332,472</u></u>

The Organization's goal is generally to maintain financial assets to meet 182 days of operating expenses (approximately \$72,000). As part of the Organization's liquidity management plan, cash in excess of daily requirements is invested in a money market account with a higher interest rate.