

Nashville Diaper Connection

Financial Statements
For the Years Ended December 31, 2022 and 2021

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Independent Auditor's Report

Board of Directors
Nashville Diaper Connection

Opinion

We have audited the financial statements of Nashville Diaper Connection, Inc. (the Organization), which comprise the statements of financial position as of December 31, 2022 and 2021, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2022 and 2021, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Blankenship CPA Group, PLLC

Blankenship CPA Group, PLLC
Brentwood, Tennessee
June 15, 2023

Nashville Diaper Connection
Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
Assets		
Cash	\$ 184,809	\$ 37,417
Grants and contributions receivable, net	235,888	243,532
Inventory	107,098	74,496
Prepaid expenses	14,004	-
Operating lease right of use assets	292,834	-
Property and equipment, net	66,456	36,181
Total assets	\$ 901,089	\$ 391,626
Liabilities and Net Assets		
Liabilities		
Line of credit	\$ 50,000	\$ 82,000
Accrued liabilities	12,285	10,199
Deferred revenues	20,000	-
Operating lease liabilities	302,353	-
Note payable	18,729	26,585
Total liabilities	403,367	118,784
Net assets		
Without donor restrictions	236,678	3,605
With donor restrictions	261,044	269,237
Total net assets	497,722	272,842
Total liabilities and net assets	\$ 901,089	\$ 391,626

Nashville Diaper Connection
Statement of Activities
For the Year Ended December 31, 2022

	Without donor restrictions	With donor restrictions	Total
Support and Revenues			
Contributions of cash and other financial assets			
Grants	\$ 246,722	\$ 196,551	\$ 443,273
Individuals and corporations	141,925	-	141,925
Sponsors and partners	365,463	64,493	429,956
Contributions of nonfinancial assets	116,669	-	116,669
Loss on disposal of property and equipment	(4,408)	-	(4,408)
Net assets released from restrictions	<u>269,237</u>	<u>(269,237)</u>	<u>-</u>
Total support and revenues	1,135,608	(8,193)	1,127,415
Expenses			
Program services	838,624	-	838,624
Management and general	38,937	-	38,937
Fundraising	<u>24,974</u>	<u>-</u>	<u>24,974</u>
Total expenses	902,535	-	902,535
Change in net assets	233,073	(8,193)	224,880
Net assets, beginning of year	<u>3,605</u>	<u>269,237</u>	<u>272,842</u>
Net assets, end of year	\$ 236,678	\$ 261,044	\$ 497,722

Nashville Diaper Connection
Statement of Activities
For the Year Ended December 31, 2021

	Without donor restrictions	With donor restrictions	Total
Support and Revenues			
Contributions of cash and other financial assets			
Grants	\$ 91,542	\$ 228,331	\$ 319,873
Individuals and corporations	113,836	-	113,836
Sponsors and partners	133,240	40,906	174,146
Contributions of nonfinancial assets	106,719	-	106,719
Net assets released from restrictions	253,874	(253,874)	-
Total support and revenues	699,211	15,363	714,574
Expenses			
Program services	666,149	-	666,149
Management and general	60,868	-	60,868
Fundraising	31,042	-	31,042
Total expenses	758,059	-	758,059
Change in net assets	(58,848)	15,363	(43,485)
Net assets, beginning of year	62,453	253,874	316,327
Net assets, end of year	\$ 3,605	\$ 269,237	\$ 272,842

Nashville Diaper Connection
Statement of Functional Expenses
For the Year Ended December 31, 2022

	Program services	Management and general	Fundraising	Total
Personnel	\$ 246,103	\$ 16,889	\$ 16,889	\$ 279,881
Diapers	416,282	-	-	416,282
Advertising	1,884	-	-	1,884
Depreciation	10,130	695	695	11,520
Information technology	10,653	731	731	12,115
Insurance	8,589	589	589	9,767
Interest	1,367	5,337	-	6,704
Occupancy	103,715	5,762	5,762	115,239
Office supplies	3,705	254	254	4,213
Postage and shipping	5,284	54	54	5,392
Printing and copying	8,335	-	-	8,335
Professional fees	-	8,463	-	8,463
Repairs and maintenance	7,988	-	-	7,988
Truck and travel	8,576	-	-	8,576
Volunteers	4,550	-	-	4,550
Other	1,463	163	-	1,626
	\$ 838,624	\$ 38,937	\$ 24,974	\$ 902,535

Nashville Diaper Connection
Statement of Functional Expenses
For the Year Ended December 31, 2021

	Program services	Management and general	Fundraising	Total
Personnel	\$ 218,576	\$ 20,590	\$ 20,590	\$ 259,756
Diapers	355,551	-	-	355,551
Advertising	-	-	5,457	5,457
Depreciation	13,830	141	141	14,112
Information technology	8,481	800	800	10,081
Insurance	8,096	763	763	9,622
Interest	1,487	3,369	-	4,856
Occupancy	22,318	2,789	2,789	27,896
Office supplies	4,437	418	418	5,273
Postage and shipping	896	84	84	1,064
Printing and copying	6,699	-	-	6,699
Professional fees	-	30,767	-	30,767
Repairs and maintenance	7,887	-	-	7,887
Truck and travel	7,562	-	-	7,562
Volunteers	5,666	629	-	6,295
Other	4,663	518	-	5,181
	\$ 666,149	\$ 60,868	\$ 31,042	\$ 758,059

Nashville Diaper Connection
Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

	2022	2021
Cash, beginning of year	\$ 37,417	\$ 43,292
Cash flows from operating activities		
Change in net assets	224,880	(43,485)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	11,520	14,112
Noncash lease expense	9,520	-
Loss on disposal of property and equipment	4,408	-
Change in:		
Grants and contributions receivable, net	7,644	(77,575)
Inventory	(32,602)	14,659
Prepaid expenses	(14,004)	-
Accrued liabilities	2,086	10,199
Deferred revenues	20,000	-
Net cash provided (used) by operating activities	233,452	(82,090)
Cash flows from investing activities		
Payments for property and equipment	(46,204)	(32,370)
Cash flows from financing activities		
Change in line of credit	(32,000)	82,000
Proceeds from note payable	-	32,770
Payments on note payable	(7,856)	(6,185)
Net cash provided (used) by financing activities	(39,856)	108,585
Net change in cash	147,392	(5,875)
Cash, end of year	\$ 184,809	\$ 37,417

Nashville Diaper Connection
Notes to Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 1. Organization and Nature of Activities

Nashville Diaper Connection (the Organization) is a Tennessee not-for-profit corporation with the mission to ensure that every baby in Nashville has enough diapers to remain clean, dry, and healthy. Our diaper bank provides emergency and supplemental supplies of infant/toddler diaper for our most vulnerable neighbors. The Organization is a member of the National Diaper Bank Network. The Organization's support consists of funds received from government units, corporate partners, foundations, and individuals.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Organization have been prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP), which requires the Organization to report 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 are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Income Taxes

The Organization is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and the tax laws of the state of Tennessee.

Inventory

Inventory consists of diapers and is stated at the lower-of-cost or net realizable value on an average cost basis. Inventory sources include both purchased as well as donated diapers. Ending inventory is primarily valued at the estimated fair value of the donated diapers thus making a cost flow assumption that the purchased diapers are distributed first.

Property and Equipment

The Organization's policy to capitalize all property and equipment over \$1,000. Property and equipment acquisitions are recorded at cost. Donations of property and equipment are recorded as revenues at their estimated fair value. Such donations are reported as unrestricted revenues unless the donor has restricted the donated asset to a specific purpose. When depreciable assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain (except on trade-in) or loss is included in the statements of activities for the period. A gain on trade-in is applied to reduce the cost of the new acquisition. Depreciation is provided over the estimated useful lives of the assets ranging from three to five years and is computed on a straight-line method.

Nashville Diaper Connection
Notes to Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 2. Summary of Significant Accounting Policies

Leases

Financial Accounting Standards Board, Accounting Standards Codification Topic 842, *Leases*, requires lessees to recognize most leases on their balance sheets as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires disclosure of key quantitative and qualitative information for leasing arrangements. Leases are classified as finance leases or operating leases depending on the financial characteristics and term of the lease with classification affecting the pattern of expense recognition in the income statement.

The Organization determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the Organization obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purposes the assets is used during the term of the contract. The Organization also considers whether its service arrangements include the right to control the use of an asset.

The Organization made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease. The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Organization made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred.

The Organization has made an accounting policy election to use the risk-free rate as the discount rate if the rate implicit in the lease is not readily determinable. The risk-free rate is the rate of a zero coupon US Treasury instrument for the same period as the time of the lease term.

Adoption of the Topics 842 resulted in the recording of additional ROU assets and lease liabilities related to the Organization's operating lease of \$ 388,149 at January 1, 2022. The adoption of the new lease standard did not materially impact the change in net assets or the cash flows and did not result in a cumulative-effect adjustment.

Nashville Diaper Connection
Notes to Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 2. Summary of Significant Accounting Policies

Contributions of Cash and Other Financial Assets and Fees

Contributions, sponsorships, grants, and fees received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature 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, depending on the nature of restriction. 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 statements of activities as net assets released from restrictions.

Contributions of Nonfinancial Assets

Various volunteers donate many hours to the Organization's program services. These contributed services are not reflected in the financial statements because the activities do not meet the necessary criteria for recognition under US GAAP. Property, equipment, materials inventory, and other assets received as donations are recorded and reflected in the accompanying financial statements at their estimated fair values at the date of contribution based upon information provided by third-party providers.

Functional Expenses

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

The expenses that are allocated include the following:

	Method of allocation
Personnel	Time and effort
Depreciation	Square footage
Information technology	Time and effort
Insurance	Estimated usage
Occupancy	Square footage
Office supplies	Estimated usage
Postage and shipping	Estimated usage
Truck and travel	Time and effort
Other	Time and effort

Nashville Diaper Connection
Notes to Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 3. Liquidity and Availability

The following represents the Organization's financial assets:

	2022	2021
Financial assets		
Cash	\$ 184,809	\$ 37,417
Grants and contributions receivable	<u>235,888</u>	<u>243,532</u>
Total financial assets at year-end	420,697	280,949
Less amounts not available to be used within one year		
Long-term portion of grants receivable	<u>(75,000)</u>	<u>(105,000)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$ 345,697	\$ 175,949

As part of its liquidity plan, the Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization receives year-round donations from supporters and makes specific appeals at strategic times of the year for specific projects. Cash flow is tracked through regular budget to actual comparisons, which are monitored, by management and the board of directors.

Note 4. Grants and Contributions Receivable

Grants and contributions receivable consist primarily of grants and pledges made for the Organization's programs. Scheduled expected collections of these receivables are as follows:

Year ending December 31,	
2023	\$ 168,917
2024	35,000
2025	<u>35,000</u>
	238,917
Less discounts to present value	<u>(3,029)</u>
Total	\$ 235,888

Note 5. Property and Equipment

Property and equipment consist of the following:

	2022	2021
Vehicles	\$ 71,685	\$ 39,170
Fixtures and equipment	8,191	6,502
Leasehold improvements	20,291	23,107
Less: accumulated depreciation	<u>(33,711)</u>	<u>(32,598)</u>
Property and equipment, net	\$ 66,456	\$ 36,181

Depreciation expense for 2022 and 2021 totaled \$11,520 and \$14,112, respectively.

Nashville Diaper Connection
Notes to Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 6. Line of Credit

The Organization has a \$100,000 line of credit with a local bank. The outstanding balance is \$50,000 and \$82,000 as of December 31, 2022 and 2021, respectively. The line calls for an interest rate at 2.50% over the bank's index rate with a floor of 4.00% (7.00% as of December 31, 2022) and expires November 30, 2023.

Note 7. Note Payable

Note payable consists of a bank loan to finance the purchase of a van. The note calls for monthly payments of \$770 at an interest rate of 5.95%. Final payment on the note is on February 1, 2025.

Scheduled principal repayments on the note payable are as follows:

Year ending December 31,	
2023	\$ 8,355
2024	8,866
2025	<u>1,508</u>
Total	\$ 18,729

Note 8. Leases

The Organization leases facility space under an operating lease agreement with a four-year term. Operating lease cost is recognized on a straight-line basis over the lease term. The total cost recognized under the lease agreement was \$99,519 for the year ended December 31, 2022.

Supplemental balance sheet information related to leases is as follows:

Operating leases	
Operating lease right-of-use assets	\$ 292,834
Operating lease liabilities	\$ 302,353
Weighted-average remaining lease term	
Operating leases	3.0 years
Weighted-average discount rate	
Operating leases	1.21%

Nashville Diaper Connection
Notes to Financial Statements
For the Years Ended December 31, 2022 and 2021

Note 8. Leases

Future undiscounted cash flows for the remaining years and a reconciliation to the lease liabilities recognized on the balance sheet are as follows:

Year ending December 31,	
2023	\$ 99,672
2024	102,660
2025	<u>105,487</u>
Total lease payments	307,819
Less imputed interest	<u>(5,466)</u>
Total present value of lease liabilities	\$ 302,353

Note 9. Net Assets

Net assets with donor restrictions are restricted for the following purposes:

	2022	2021
Time restricted, program grants	\$ 45,833	\$ 37,916
Program grants in receivables	<u>215,211</u>	<u>231,321</u>
	\$ 261,044	\$ 269,237

Note 10. Contributions of Nonfinancial Assets

The contributions diapers have been included in contributions, inventory, and expenses totaling \$116,669 and \$106,719 for 2022 and 2021, respectively. The Organization both purchases diapers and receives donations of diapers. These diapers are distributed in every major outreach effort of the Organization to fulfill its mission. The donated diapers are valued using an estimated retail value.

Note 11. Concentrations

Of the Organization's total revenues for 2022, approximately 10% and 31% represents funds received from diaper donations and one grant contract, respectively. For 2021, approximately 15% and 12% represents funds received from diaper donations and one grant contract, respectively of total revenue.

Note 12. Subsequent Events

The Organization has evaluated subsequent events through June 15, 2023 the date on which the financial statements were available to be issued.