

ARKANSAS IMAGINATION LIBRARY

FINANCIAL STATEMENTS

For the Year Ended December 31, 2018

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COBB AND SUSKIE, LTD.

CERTIFIED PUBLIC ACCOUNTANTS

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Michael L. Cobb

Anne Suskie Pinyan

Independent Auditors' Report

Board of Directors
Arkansas Imagination Library
401 Scott St
Little Rock, Arkansas 72201

We have audited the accompanying financial statements of Arkansas Imagination Library (a nonprofit organization) which comprise the statement of financial position as of December 31, 2018, and the related statements of activities 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.

Auditors' 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 of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arkansas Imagination Library, as of December 31, 2018, and changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Cobb and Surkie, P.C.

Certified Public Accountants
October 25, 2019

ARKANSAS IMAGINATION LIBRARY
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018

ASSETS

	<u>2018</u>
<u>CURRENT ASSETS</u>	
Cash	\$ 128,629
Investments	<u>752,947</u>
Total Current Assets	<u>881,576</u>
Total Assets	<u>\$ 881,576</u>

LIABILITIES AND NET ASSETS

<u>CURRENT LIABILITIES</u>	
Accounts Payable	<u>\$ 10,417</u>
Total Current Liabilities	<u>10,417</u>
<u>NET ASSETS</u>	
Without Donor Restriction	<u>871,159</u>
Total Liabilities and Net Assets	<u>\$ 881,576</u>

The accompanying notes are an integral part of these financial statements.

ARKANSAS IMAGINATION LIBRARY
 STATEMENTS OF ACTIVITIES
 FOR THE YEARS ENDED DECEMBER 31, 2018

	<u>Without Donor Restrictions</u>
<u>REVENUE AND SUPPORT</u>	
Grants	304,518
Total Revenue and Support	304,518
 <u>EXPENSES</u>	
Program	89,247
Supporting Services:	
General and Administrative	31,895
Fundraising	-
Total Expenses	121,142
 Revenue in Excess of (Under) Expenses	 183,376
 <u>OTHER INCOME (LOSS)</u>	
Net Investment Income (Loss)	(40,111)
 INCREASE (DECREASE) IN NET ASSETS	 143,265
 NET ASSETS AT BEGINNING OF YEAR	 727,894
 NET ASSETS AT END OF YEAR	 \$ 871,159

The accompanying notes are an integral part of these financial statements.

ARKANSAS IMAGINATION LIBRARY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>Support Services:</u>			<u>Total Expenses</u>
	<u>Program and Support</u>	<u>Management and General</u>	<u>Fundraising</u>	
Office Expense	\$ 142	\$ 47	\$ -	\$ 189
Contract Labor	46,875	15,625	-	62,500
Payroll	35,483	11,828	-	47,311
Payroll Processing Fees	-	1,271	-	1,271
Survey	408	-	-	408
Travel	1,845	-	-	1,845
Professional Services	-	1,800	-	1,800
Meals	812	-	-	812
Rent	2,520	840	-	3,360
Marketing/Promotion	1,162	387	-	1,549
Miscellaneous	-	97	-	97
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenses	<u>\$ 89,247</u>	<u>\$ 31,895</u>	<u>\$ -</u>	<u>\$ 121,142</u>

The accompanying notes are an integral part of these financial statements.

ARKANSAS IMAGINATION LIBRARY
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>2018</u>
<u>CASH FLOWS FROM OPERATIONS</u>	
Increase (Decrease) In Net Assets	\$ 143,265
Adjustments Needed to Reconcile to Net Cash Provided by Operations:	
Unrealized Loss on Investments	40,111
Change in Current Assets and Liabilities:	
Increase (Decrease) in Other Payables	<u>5,209</u>
Net Cash Inflows (Outflows) from Operations	<u>188,585</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>	
Purchase of Investments	<u>(793,058)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>	
	<u>-</u>
Net Increase (Decrease) in Cash	(604,473)
Cash at Beginning of Year	<u>733,102</u>
Cash at End of Year	<u>\$ 128,629</u>
<u>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</u>	
Cash Paid During the Year for Interest	<u>\$ 0</u>

The accompanying notes are an integral part of these financial statements.

ARKANSAS IMAGINATION LIBRARY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

- (a) Organization

Arkansas Imagination Library (the Organization) is incorporated as an Arkansas domestic nonprofit organization in 2017. The organization is an affiliate of Dolly Parton's Imagination Library, a book giving program that mails free books to children from birth to age five in participating communities. The Organization is economically dependent on donations and grants more fully explained in Note 6. The accompanying financial statements do not include any other affiliates of Dolly Parton Imagination Library.
- (b) Basis of Presentation

The statements were prepared on the accrual basis in accordance with generally accepted accounting principles (GAAP) for nonprofit organizations included in the Financial Accounting Standards Codifications (FASB ASC).
- (c) Cash Equivalents

Arkansas Imagination Library considers all short-term investments with maturities at acquisition of three months or less to be cash equivalents.
- (d) Investments

The investment consists of a certificate of deposit and marketable securities. Interest income is recorded as earned. Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in donor net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.
- (e) Revenue Recognition

Revenues consist primarily of grants and donations. Revenue is further described in Note 6.

ARKANSAS IMAGINATION LIBRARY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

(f) Net Assets

In accordance with ASU 2016-14, effective for fiscal years beginning after December 31, 2017, net assets are reported in two distinct classifications:

Net assets without donor restrictions

Net assets with donor restrictions

There were no net assets with donor restrictions at December 31, 2018.

(g) Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law and is classified as other than a private foundation.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the year ended December 31, 2018.

(h) Functional Expenses

The Organization allocates its expenses on a functional basis among its various programs and supporting services. Expenses that can be identified with a specific program or support service are recorded directly according to their natural expenditure classification.

ARKANSAS IMAGINATION LIBRARY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES (CONTINUED)

(i) Fair Value Measurements

Arkansas Imagination Library determines the fair values of its financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis based on a fair value hierarchy of three levels of inputs that may be used to measure fair value, which are as follows:

- | | |
|---------|---|
| Level 1 | Quoted prices in active markets for identical assets. Level 1 assets include equity securities that are traded in an active exchange market, as well as certain U.S. Treasury securities that are highly liquid and are actively traded in over-the-counter markets. |
| Level 2 | Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments. This category generally includes U.S. government and agency mortgage-backed debt securities and corporate debt securities. |
| Level 3 | Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include items where the determination of fair value requires significant management judgment or estimation. |

(j) Basis of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ARKANSAS IMAGINATION LIBRARY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 2: INVESTMENTS

Investments are stated at fair value and are summarized as of December 31, 2018, as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Certificates of Deposit	\$ 50,000	\$ 50,000	\$ -
Mutual Funds	322,993	280,947	(42,046)
Corporate Debt Securities	154,287	152,809	(1,478)
U.S. Government Obligations	90,228	90,080	(148)
Corporate Equities	196,564	179,111	(17,453)
Total	<u>\$ 814,072</u>	<u>\$ 752,947</u>	<u>\$ (61,125)</u>

NOTE 3: INVESTMENT INCOME

Investment income for the year ended December 31, 2018 consisted of the following:

Unrealized Gain (Loss) on Investments	\$ (61,125)
Realized Gain (Loss) on Investments	10,092
Interest and Dividend	17,292
Fees	<u>(6,370)</u>
Net Investment Income (Loss)	<u>\$ (40,111)</u>

NOTE 4: FAIR VALUE DISCLOSURES

As discussed in Note 1, the Organization defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. For additional information, refer to Note 1, "*Summary of Significant Accounting Policies.*"

The following tables reflect assets that are measured and carried at fair value on a recurring basis as of December 31, 2018.

ARKANSAS IMAGINATION LIBRARY
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 4: FAIR VALUE DISCLOSURES (CONTINUED)

The following tables reflect assets that are measured and carried at fair value on a recurring basis as of December 31, 2018.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Assets At Fair Value</u>
Investments:				
Certificates of Deposit	\$ 50,000	\$ -	\$ -	\$ 50,000
Mutual Funds	280,947	-	-	280,947
Corporate Debt Securities	-	152,809	-	152,809
U.S. Government Obligations	-	90,080	-	90,080
Corporate Equities	<u>179,111</u>	<u>-</u>	<u>-</u>	<u>179,111</u>
Total	<u>\$ 510,058</u>	<u>\$ 242,889</u>	<u>\$ -</u>	<u>\$ 752,947</u>

NOTE 5: COMMITMENTS

On August 17, 2017 the Organization entered a one year lease for office space at \$280 per month. The lease was renewed September 25, 2018 at \$280 per month for a period of 18 months. Minimum lease commitments subsequent by year subsequent to December 31, 2018 are as follows:

2019	\$ 3,360
2020	-
2021	-
2022	-
2023 and Thereafter	<u>-</u>
	<u>\$ 3,360</u>

Rent expenses for the year ended December 31, 2018 was \$3,360.

NOTE 6: CONCENTRATION OF REVENUE

Grant revenue of \$304,518 for the year ended December 31, 2018, consisted of the following:

Curry Foundation	\$ 250,000
Arkansas Community Foundation	<u>54,518</u>
Total	<u>\$ 304,518</u>

ARKANSAS IMAGINATION LIBRARY
 NOTES TO FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

NOTE 7: LIQUIDITY MANAGEMENT

The Organization's financial assets available for general expenditures within one year of the statement of financial position are as follows:

Cash and cash equivalents		\$ 128,629
Investments		<u>752,947</u>
Total		<u>\$ 881,576</u>

The Organization has a goal to maintain cash balances on hand to meet 365 days of ordinary business expenses (exclusive of depreciation). The Organization has a policy to structure its financial assets to be available as general expenditures, liabilities, and other obligations come due. As part of its liquidity management, the Organization invests other cash in interest bearing money market accounts and mutual investment funds.

Expenses for the year ended December 31, 2018 were as follows:

Program		
Supporting Services:	\$ 89,247	
Management and General	31,895	
Fundraising	<u>-</u>	
Total	<u>\$ 121,142</u>	

NOTE 8: SUBSEQUENT EVENTS

Arkansas Imagination Library did not have any recognized or nonrecognized subsequent events occur after December 31, 2018, the date of the statement of financial position. Subsequent events and transactions have been evaluated for potential recognition or disclosure through October 25, 2019, the date the financial statements were available to be issued.