

**DeiBrocco &  
Associates, PLLC**

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**SHELBY COUNTY BOOKS  
FROM BIRTH, INC.**

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**FINANCIAL STATEMENTS AS OF JUNE 30, 2015  
AND 2014 AND FOR THE YEARS THEN ENDED  
AND INDEPENDENT AUDITORS' REPORT**

**SHELBY COUNTY BOOKS FROM BIRTH, INC.**

**TABLE OF CONTENTS**

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	<b><u>PAGE</u></b>
<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>FINANCIAL STATEMENTS AS OF JUNE 30, 2015 AND 2014 AND FOR THE YEARS THEN ENDED:</b>	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Statement of Functional Expenses for the Year Ended June 30, 2015	6
Statement of Functional Expenses for the Year Ended June 30, 2014	7
Notes to Financial Statements	8

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# DelBrocco & Associates, PLLC

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Shelby County Books From Birth, Inc.

We have audited the accompanying financial statements of Shelby County Books from Birth, Inc. which are comprised of the statement of financial position as of June 30, 2015 and 2014 and the related statements of activities, 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 of 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 Shelby County Books from Birth, Inc. as of June 30, 2015 and 2014 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.

*Al Bracco & Associates, PLLC*

September 11, 2015  
Memphis, TN

**SHELBY COUNTY BOOKS FROM BIRTH, INC.**

**STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2015 AND 2014**

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<b><u>ASSETS</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
<b>CURRENT:</b>		
Cash and equivalents - unrestricted	\$ 628,957	\$ 666,581
Cash equivalents - temporarily restricted	420,367	397,298
Total cash and equivalents	<u>1,049,324</u>	<u>1,063,879</u>
Grants receivable - current portion	50,000	100,000
Pledges receivable - net	100,000	1,500
Prepaid expenses	<u>43,060</u>	<u>20,683</u>
Total current assets	<u>1,242,384</u>	<u>1,186,062</u>
<b>PROPERTY AND EQUIPMENT:</b>		
Furniture and equipment	8,031	8,442
Less accumulated depreciation	<u>7,530</u>	<u>7,686</u>
Property and equipment - net	<u>501</u>	<u>756</u>
<b>OTHER ASSETS -</b>		
Grants receivable - long-term portion, net	<u>48,833</u>	<u>98,173</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 1,291,718</u></b>	<b><u>\$ 1,284,991</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT:</b>		
Accounts payable	\$ 3,023	\$ 4,650
Accrued payroll	7,546	5,241
Accrued expenses	<u>1,180</u>	<u>850</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>11,749</u>	<u>10,741</u>
<b>NET ASSETS:</b>		
Unrestricted	408,310	753,096
Temporarily restricted	<u>871,659</u>	<u>521,154</u>
Total net assets	<u>1,279,969</u>	<u>1,274,250</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 1,291,718</u></b>	<b><u>\$ 1,284,991</u></b>

See accompanying notes to financial statements and independent auditors' report.

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**SHELBY COUNTY BOOKS FROM BIRTH, INC.**

**STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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<b><u>CHANGES IN UNRESTRICTED NET ASSETS</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
<b>REVENUES:</b>		
Donations	\$ 305,340	\$ 760,803
Fundraising events	28,521	61,393
Investment	4,802	935
Total revenues	<u>338,663</u>	<u>823,131</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS -</b>		
Satisfaction of program restrictions	<u>616,742</u>	<u>862,674</u>
Total unrestricted revenues	<u>955,405</u>	<u>1,685,805</u>
<b>EXPENSES:</b>		
Program services	1,145,238	1,031,890
Management and general	40,458	45,574
Fundraising	114,494	54,071
Total expenses	<u>1,300,191</u>	<u>1,131,535</u>
<b>DECREASE IN UNRESTRICTED NET ASSETS</b>	<u>(344,786)</u>	<u>554,270</u>
<b><u>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</u></b>		
Private grants	450,000	300,000
In-kind - book purchases	517,247	594,116
Total temporarily restricted grant revenue	<u>967,247</u>	<u>894,116</u>
Net assets released from restrictions	<u>(616,742)</u>	<u>(862,674)</u>
<b>INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS</b>	<u>350,505</u>	<u>31,442</u>
<b>INCREASE IN NET ASSETS</b>	5,719	585,712
<b>NET ASSETS, BEGINNING OF PERIOD</b>	<u>1,274,250</u>	<u>688,538</u>
<b>NET ASSETS, END OF PERIOD</b>	<u>\$ 1,279,969</u>	<u>\$ 1,274,250</u>

See accompanying notes to financial statements and  
independent auditors' report.

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**SHELBY COUNTY BOOKS FROM BIRTH, INC.**

**STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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	<b><u>2015</u></b>	<b><u>2014</u></b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Increase in net assets	\$ 5,719	\$ 585,712
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation	635	571
Cash provided (used) by changes in assets and liabilities:		
Pledges receivable	840	(168,900)
Prepaid expenses	(22,377)	17,409
Accounts payable	(1,627)	4,367
Accrued expenses	2,305	
Accrued payroll	330	386
Net cash provided (used) by operating activities	<u>(14,175)</u>	<u>439,545</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES -</b>		
Proceeds from disposal of property and equipment	(380)	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<u>NIL</u>	<u>NIL</u>
<b>INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	(14,555)	439,545
<b>CASH AND EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>1,063,879</u>	<u>624,334</u>
<b>CASH AND EQUIVALENTS, END OF PERIOD</b>	<u>\$ 1,049,324</u>	<u>\$ 1,063,879</u>

**SUPPLEMENTAL DISCLOSURE OF CASH  
FLOW INFORMATION:**

Cash paid for Interest	\$ Nil	\$ Nil
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See accompanying notes to financial statements and independent auditors' report.

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SHELBY COUNTY BOOKS FROM BIRTH, INC.

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Accounting	\$ 2,880	\$ 10,560	\$ 5,760	\$ 19,200
Advertising	5,615		2,407	8,022
Automobile	204		87	291
Board meeting	458	192	65	715
Book purchases - grant funded	994,112			994,112
Book purchases - postal repurchase	15,500			15,500
CFGM management fees		2,009		2,009
Communications	2,363	675	338	3,375
Computer	3,744	1,070	535	5,349
Employee benefits	7,814	1,563	6,251	15,627
Fundraising events			20,880	20,880
Gifts	1,097	313	157	1,567
Insurance	1,191	340	170	1,702
Meals	646	185	92	923
Office supplies	921	333	132	1,386
Postage	5,470	1,563	781	7,814
Rent	6,720	1,920	960	9,600
Salaries	87,902	17,580	70,322	175,804
Seminars	1,153	329	165	1,647
Taxes - payroll	6,589	1,318	5,271	13,177
Taxes - other		262		262
Travel	416	119	59	594
Total functional expenses before depreciation	1,144,794	40,331	114,431	1,299,556
Depreciation	445	127	64	635
<b>TOTAL FUNCTIONAL EXPENSES - 2015</b>	<b>\$ 1,145,238</b>	<b>\$ 40,458</b>	<b>\$ 114,494</b>	<b>\$ 1,300,191</b>

See accompanying notes to financial statements and independent auditors' report

**SHELBY COUNTY BOOKS FROM BIRTH, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2014**

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total Expenses</b>
Accounting	\$ 2,959	\$ 10,849	\$ 5,918	\$ 19,725
Advertising	228		148	375
Board meeting	409		175	584
CFGM management fees	2,031	793	290	3,115
Communications		2,181		2,181
Computer	1,448	414	207	2,068
Consulting services	2,617	748	374	3,738
Contract services			31,999	31,999
Gala events	863	247	123	1,233
Gifts	917,470			917,470
Grant expense - books	1,688	482	241	2,412
Insurance	302	86	43	431
Office supplies	1,488	725	213	2,426
Postage	2,792	798	399	3,989
Relocation	214	61	31	306
Rent	6,720	1,920	960	9,600
Salaries	83,594	23,884	11,942	119,420
Seminars	139	40	20	198
Taxes - payroll	6,395	1,827	914	9,136
Taxes - other		367		367
Travel	134	38	19	191
Total functional expenses before depreciation	1,031,490	45,460	54,014	1,130,964
Depreciation	400	114	57	571
<b>TOTAL FUNCTIONAL EXPENSES - 2013</b>	<b>\$ 1,031,890</b>	<b>\$ 45,574</b>	<b>\$ 54,071</b>	<b>\$ 1,131,535</b>

See accompanying notes to financial statements and independent auditors' report

**SHELBY COUNTY BOOKS FROM BIRTH, INC.**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Organization is a not-for-profit corporation organized in June 2005 in Memphis, TN to implement the Imagination Library program in Shelby County, TN, in partnership with the Governor's Books from Birth Foundation (GBBF) and the initiative to make the Imagination Library through the Dollywood Foundation (Dollywood) available to all Tennessee children under the age of five at no charge to the families. The Organization is a local sponsoring affiliate and is responsible for child enrollment, customer service, fundraising and the portion of the cost of books delivered to enrolled children in Shelby County, TN not funded by GBBF. Dollywood initiates delivery of the age-appropriate books each month by mail to children in Shelby County, TN under age five who have registered for the program.

**Basis of Presentation**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board Statement of Financial Accounting Standards ASC 958-205, Presentation of Financial Statements. Under ASC 958-205, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

**Accounting and Reporting**

The Organization uses the accrual basis of accounting and follows the reporting practices as set forth by the American Institute of Certified Public Accountants and the Comptroller of the Treasury of the State of Tennessee for voluntary health and welfare organizations and accordingly, reflect all significant receivables, payables and other liabilities.

Contributions are recognized when the donor makes a promise to give to the Organization, that is, in substance, unconditional. Contributions restricted by the donor are reported as increases in unrestricted net assets in the fiscal period the contributions are recognized.

All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

**Cash Flows**

For purposes of financial statement presentation, the Company treats all demand deposits and investments with original maturities of less than 90 days as cash and equivalents.

**Fair Value of Financial Instruments**

The carrying amounts of the financial instruments of the Organization, consisting of cash and accounts receivable, approximate their fair value.

### **Contributions and Pledges**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Support restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires within the reporting period. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions upon expiration of the restriction.

Certain promises to give are to be received over future periods not exceeding five years. These unconditional contributions are recorded as income when pledged and have been discounted \$1,167 and \$1,827 at June 30, 2015 and 2014, respectively to net present value at 1.75% per annum at June 30, 2015 and 2014, respectively based upon anticipated payment dates.

The Organization evaluates the collectibility of pledges receivable and no allowance for uncollectible pledges is considered necessary at June 30, 2015 and 2014.

### **Property and Equipment**

Property and equipment are recorded at cost if purchased and at estimated fair market value if donated. Depreciation is provided using the straight-line method over the expected useful lives of the related assets. Useful lives range from five to seven years. Depreciation expense of \$635 and \$571 is included in the statement of activities for the years ended June 30, 2015 and 2014.

### **Donated Assets and Services**

In accordance with ASC 958, in-kind contributions must create or enhance nonfinancial assets, must be specialized in nature and must be provided by individuals possessing those skills. Volunteers periodically donate non-specialized services as administrative assistants, enrollment and customer service. No services were donated in the years ended June 30, 2015 and 2014 which resulted in recognition in the financial statements.

In-kind contributions of books from the Governor's Books From Birth Foundation of \$517,247 and \$594,116 for the years ended June 30, 2015 and 2014, represent a material portion of the costs of the books distributed to children in Shelby County, Tennessee.

### **Functional Allocation of Expenses**

The costs of providing the various programs and other activities of the Organization have been summarized on a functional basis in the statement of activities. Accordingly, management has allocated certain costs among the programs and supporting services benefited.

### **Income Taxes**

The Corporation is a publicly supported organization as described in section 509(a)(1) and as such is generally exempt from the Federal and State income taxation under section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under section 509(a)(2).

The Organization anticipates filing its federal income tax return on January 15, 2016.

The benefits or obligations arising from uncertain tax positions, if any, are required to be recognized in the financial statements for positions that are considered more likely than not of being sustained based on the technical merits of the position upon audit by the taxing authorities. There are no uncertain tax benefits or obligations reflected in the accompanying financial statements as of June 30, 2015.

The Company has identified its Federal income tax return and its and Tennessee annual report as major tax jurisdictions, as defined. For all jurisdictions, the periods subject to examination are the years ending June 30, 2012 through 2015.

### **Estimates**

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenues and expenses during the reported period. Actual results could differ from those estimates.

## **2. INVESTMENTS**

ASC 820 Fair Value and Measurement Disclosures establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) measurements and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under SFAS No. 157 are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Investments at June 30, 2014, which are considered level 2, consist of money market funds and certificates of deposit.

The Organization has an agreement with the Community Foundation of Greater Memphis, Inc. (Community Foundation) creating non-profit designated funds to benefit the charitable work of the Organization. The Community Foundation agreed to the Organization's restriction that the income and assets of the funds are to be granted to or used for the Organization's benefit. The Community Foundation is required by Treasury regulations to monitor the Organization and redirect the resources in the funds to other charitable purposes consistent with those of the Organization if the Community Foundation's Board determines the Organization's restrictions are unnecessary, incapable of fulfillment, or are inconsistent with the charitable needs of the community. The Community Foundation has acknowledged that such circumstances do not presently exist.

The Organization has designated advisors to the Community Foundation regarding the administration and distribution of the funds' assets. The aggregate amount recognized in the statement of financial position is shown as investments that are in pooled accounts in the Community Foundation and are carried at cost adjusted for actual and unrealized gains or losses which are credited or charged to the account and increase or decrease the monies available for use by the Organization at that time.

Investments are carried as available for sale at market value with realized and unrealized gains and losses reflected in the statement of activities. The cost and market values of the components of investments are as follows at June 30, 2015:

	<u>COST</u>	<u>FAIR VALUE</u>
Community Foundation of Greater Memphis - Balanced Fund	\$ <u>420,367</u>	\$ <u>420,367</u>

### 3. LEASE COMMITMENTS

The Organization entered into a lease agreement in the year ended June 30, 2013 for operating facilities in Memphis, TN with a basic monthly rental of \$800 which expires in June 30, 2016. Facilities expense of \$9,600 were incurred in each of the years ended June 30, 2015 and 2014, respectively.

The minimum basic rental commitments in years succeeding June 30, 2015 are \$9,600 in the year ended June 30, 2016.

### 4. MAJOR CONTRIBUTORS

The Organization received approximately 74% of revenues and support, including in-kind, from three major contributors in the year ended June 30, 2015.

The Organization received approximately 70% of revenues and support, including in-kind, from three major contributors in the year ended June 30, 2014.

**5. CASH AND EQUIVALENTS**

Cash and equivalents consist of cash deposits generally maintained in a commercial bank in a non-interest bearing account which is insured under the Federal Deposit Insurance Corporation (FDIC) in aggregate up to \$250,000.

A total of the insured and uninsured cash balances at June 30, 2015 is as follows:

Total cash and cash equivalents on deposit with commercial banks	\$ 663,831
Portion insured by FDIC	<u>250,000</u>
Uninsured cash and cash equivalents	<u>\$ 413,831</u>

**6. SUBSEQUENT EVENTS**

The Organization has evaluated events and transactions that occurred between July 1, 2015 and September 11, 2015, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

See independent auditors' report

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