

ENGAGING ARKANSAS COMMUNITIES

January 31, 2022

Financial Statements – Cash Basis

With

Independent Auditor's Report



FROST, PLLC
Certified Public Accountants

Independent Auditor's Report

Board of Directors
Engaging Arkansas Communities
Little Rock, Arkansas

Opinion

We have audited the financial statements of Engaging Arkansas Communities, which comprise the statement of assets, liabilities, and net assets – cash basis as of January 31, 2022, and the related statements of support, revenue, and expenses – cash basis, and functional expenses – cash basis for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the assets, liabilities and net assets of Engaging Arkansas Communities as of January 31, 2022, and its support, revenue and expenses for the year then ended in accordance with the cash basis of accounting described in Note 1.b.

Basis for Opinion

We conducted our audit 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 Engaging Arkansas Communities and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1.b. of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting described in Note 1.b., and for determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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.

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 Engaging Arkansas Communities' 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 Engaging Arkansas Communities' 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.

Frost, PLLC

Certified Public Accountants

Statement of Assets, Liabilities, and Net Assets – Cash Basis

January 31, 2022

<u>Assets</u>	
Cash	\$ <u>100,618</u>
Total assets	\$ <u>100,618</u>
<u>Net Assets</u>	
Without donor restrictions	\$ <u>100,618</u>
Total net assets	\$ <u>100,618</u>

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

Statement of Support, Revenue, and Expenses – Cash Basis

For the Year Ended January 31, 2022

	Without Donor <u>Restrictions</u>
Support and revenue	
Grants	\$ 314,524
Contributions	<u>305</u>
Total support and revenue	<u>314,829</u>
Functional expenses	
Program services	112,241
Supporting services	
Management and general	103,301
Fundraising	<u>15</u>
Total functional expenses	<u>215,557</u>
Changes in net assets	99,272
Net assets - beginning of year	<u>1,346</u>
Net assets - end of year	<u>\$ 100,618</u>

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

Statement of Functional Expenses – Cash Basis

For the Year Ended January 31, 2022

	Program <u>Services</u>	<u>Supporting Services</u>		Total Functional <u>Expenses</u>
		<u>Management and General</u>	<u>Fundraising</u>	
Salaries and wages	\$ 36,528	\$ 44,081	\$ -	\$ 80,609
Advertising	9,723	4,653	-	14,376
Client	36,216	-	-	36,216
Supplies	27,666	10,736	-	38,402
Facility and equipment	758	38,853	-	39,611
Miscellaneous	<u>1,350</u>	<u>4,978</u>	<u>15</u>	<u>6,343</u>
Total functional expenses	<u>\$ 112,241</u>	<u>\$ 103,301</u>	<u>\$ 15</u>	<u>\$ 215,557</u>

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

Notes to Financial Statements – Cash Basis

January 31, 2022

1. Summary of Significant Accounting Policies

- a. **Nature of activities** – The purpose of Engaging Arkansas Communities (the “Organization”) is to provide new strategies and innovative approaches to sexual health testing, prevention of sexually transmitted infections, and linking Arkansas communities into treatment and care with a specific focus on marginalized and underserved communities.
- b. **Basis of presentation** – The accompanying financial statements have been prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under the cash basis of accounting, revenue is recognized when received and expenses are recognized when paid.
- c. **Financial statement presentation** – The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets resulting from contributions where use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization or net assets resulting from contributions whose use is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization are considered to be net asset with donor restrictions.
- d. **Estimates** – The preparation of financial statements in conformity with the cash basis of accounting requires management to make estimates and assumptions that affect certain 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 support, revenue and expenses during the reporting period. Actual results could differ from those estimates.
- e. **Revenue recognition** – The Organization recognizes revenue when cash is received.
- f. **Contributions** – Grants and other contributions of cash and other assets are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor 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.

Gifts of land, buildings, and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expiration of donor restrictions when the donated or acquired long-lived assets are placed in service.

Contributions of donated services that create or enhance nonfinancial assets, or that require specialized skills, are provided by individuals possessing specialized skills and would typically need to be purchased if not provided by donation are recorded at their fair values in the period received.

Notes to Financial Statements – Cash Basis

January 31, 2022

1. Summary of Significant Accounting Policies (cont.)

- g. **Functional expenses** – Expenses are charged to programs based on direct expenditures incurred. Any expenditure not directly chargeable is allocated to program services and supporting services based on management’s estimates.
- h. **Advertising** – The Organization charges the cost of advertising to expense as incurred. Advertising expense was \$14,376 for the year ended January 31, 2022.
- i. **Income taxes** – The Organization is classified as a tax-exempt organization under Internal Revenue Code Section 501(c)(3) and a similar state statute. Accordingly, no provision for federal or state income taxes has been made.

The Organization’s policy with respect to evaluating uncertain tax positions is based upon whether management believes it is more likely than not the uncertain tax positions will be sustained upon review by the taxing authorities, then the Organization shall initially and subsequently measure the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The tax positions must meet the more-likely-than-not recognition threshold with consideration given to the amounts and probabilities of the outcomes that could be realized upon settlement using the facts, circumstances, and information at the reporting date. The Organization will reflect only the portion of the tax benefit that will be sustained upon resolution of the position and applicable interest on the portion of the tax benefit not recognized. Based upon management’s assessment, there are no uncertain tax positions expected to have a material impact on the Organization’s financial statements.

The Organization is subject to U.S. federal and state tax examinations by tax authorities for years beginning in 2020. The Organization’s federal and state tax returns are not currently under examination. The Organization recognizes interest and penalties related to unrecognized tax benefits in income tax expense. During the year ended January 31, 2022, the Organization did not recognize any interest or penalties. The Organization did not have any interest or penalties accrued at January 31, 2022.

2. Liquidity and Availability of Resources

As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

At January 31, 2022, the Organization has \$100,618 of cash available within one year of the statement of assets, liabilities, and net assets – cash basis date to meet the need for general expenditures. None of the cash is subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the statement of assets, liabilities, and net assets – cash basis date.

Notes to Financial Statements – Cash Basis

January 31, 2022

3. **Commitments**

The Organization leases seven office spaces from unrelated parties under varying contractual operating leases. Future minimum rental commitments under the terms of these contractual operating leases are as follows:

2023	\$	49,382
2024		32,712
2025		14,587
2026		4,440
2027		<u>4,070</u>
	\$	<u>105,191</u>

Rent expense of \$9,301 is included in facility and equipment under management and general supporting services on the accompanying statement of functional expenses – cash basis for the year ended January 31, 2022.

4. **Concentration Risk**

Cash is maintained with financial institutions, in which deposits are insured by the Federal Deposit Insurance Corporation. At January 31, 2022, the Organization had no uninsured balances.

A material part of the Organization's support is derived from two significant grantors, which represents 47% and 24%, respectively, of the Organization's total support and revenue for the year ended January 31, 2022.

A material part of the Organization's support is derived from two individual state contract fees, which represents 27% and 2%, respectively, of the Organization's total support and revenue for the year ended January 31, 2022.

5. **Subsequent Events Evaluation Date**

The Organization evaluated the events and transactions subsequent to its January 31, 2022 statement of assets, liabilities, and net assets – cash basis date and determined there were no significant events to report through March 16, 2023, which is the date the Organization issued its financial statements.