

**BIG BROTHERS BIG SISTERS
OF PUGET SOUND**

FINANCIAL REPORT

DECEMBER 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Big Brothers Big Sisters of Puget Sound
Seattle, Washington

We have audited the accompanying financial statements of Big Brothers Big Sisters of Puget Sound, which comprise the statements of financial position as of December 31, 2017 and 2016, 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; 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Big Brothers Big Sisters of Puget Sound as of December 31, 2017 and 2016, 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.

Peterson Sullivan LLP

May 25, 2018

BIG BROTHERS BIG SISTERS OF PUGET SOUND

STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

ASSETS	2017	2016
Current Assets		
Cash and cash equivalents	\$ 1,028,314	\$ 742,948
Pledges and grants receivable, current portion, net of allowance	401,621	409,395
Other receivables	17,304	17,767
Prepaid expenses and other assets	129,593	120,121
Total current assets	1,576,832	1,290,231
Investments	862,644	859,007
Pledges and Grants Receivable, noncurrent portion, net of discount	51,729	14,831
Property and Equipment, net	1,030,443	1,070,298
Total assets	<u>\$ 3,521,648</u>	<u>\$ 3,234,367</u>
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 51,888	\$ 48,301
Accrued expenses and other liabilities	133,574	115,238
Total current liabilities	185,462	163,539
Net Assets		
Unrestricted		
Undesignated	2,055,314	1,771,828
Board-designated	862,644	859,007
Total unrestricted	2,917,958	2,630,835
Temporarily restricted	418,228	439,993
Total net assets	3,336,186	3,070,828
Total liabilities and net assets	<u>\$ 3,521,648</u>	<u>\$ 3,234,367</u>

See Notes to Financial Statements

BIG BROTHERS BIG SISTERS OF PUGET SOUND

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and Revenue						
Grants and donor contributions	\$ 674,965	\$ 736,757	\$ 1,411,722	\$ 594,920	\$ 823,985	\$ 1,418,905
United Way		150,000	150,000		50,000	50,000
In-kind contributions	121,257		121,257	58,612		58,612
Auction and other special events	1,136,863		1,136,863	973,205		973,205
Investment income	7,948		7,948	5,594		5,594
Revenue from sales of donated household goods	899,697		899,697	801,311		801,311
Other revenue	7,678		7,678	10,352		10,352
Net assets released from donor restrictions	908,522	(908,522)		829,307	(829,307)	
Total support and revenue	3,756,930	(21,765)	3,735,165	3,273,301	44,678	3,317,979
Direct costs of auction and other special events	(426,553)		(426,553)	(330,980)		(330,980)
Direct costs of sales of donated household goods	(733,512)		(733,512)	(617,584)		(617,584)
	2,596,865	(21,765)	2,575,100	2,324,737	44,678	2,369,415
Expenses						
Program services	1,738,924		1,738,924	1,524,032		1,524,032
Fundraising	287,630		287,630	291,765		291,765
Management and general	283,188		283,188	243,812		243,812
Total expenses	2,309,742		2,309,742	2,059,609		2,059,609
Change in net assets	287,123	(21,765)	265,358	265,128	44,678	309,806
Net Assets, beginning of year	2,630,835	439,993	3,070,828	2,365,707	395,315	2,761,022
Net Assets, end of year	<u>\$ 2,917,958</u>	<u>\$ 418,228</u>	<u>\$ 3,336,186</u>	<u>\$ 2,630,835</u>	<u>\$ 439,993</u>	<u>\$ 3,070,828</u>

See Notes to Financial Statements

BIG BROTHERS BIG SISTERS OF PUGET SOUND

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total</u>
Salaries, benefits, and payroll taxes, including 401(k) expense of \$43,379	\$ 1,319,044	\$ 348,230	\$ 189,049	\$ 1,856,323
Event food and rentals		138,373		138,373
Professional fees	57,695	6,751	38,670	103,116
In-kind expenses	80,626	13,332	23,587	117,545
Contract services		70,761		70,761
Occupancy costs	59,193	7,551	3,930	70,674
Technology and equipment costs	33,685	19,665	4,366	57,716
Depreciation	30,744	8,128	4,169	43,041
Insurance	24,783	2,716	5,951	33,450
Event materials and supplies		37,644		37,644
Printing and publications	27,887	3,986	1,259	33,132
Volunteer screening and expenses	20,607		216	20,823
National/regional dues	21,016		75	21,091
Telephone	16,322	2,150	1,364	19,836
Travel, auto, and meals	14,002	1,512	398	15,912
Conferences, conventions, and meetings	6,875	3,322	3,867	14,064
Office supplies and expense	11,520	1,874	2,531	15,925
Staff training	2,344	150	499	2,993
Bad debt expense		32,009		32,009
Interest and bank fees		5,749	2,013	7,762
Postage	2,178	1,546	375	4,099
Miscellaneous	10,403	8,734	869	20,006
	<u>1,738,924</u>	<u>714,183</u>	<u>283,188</u>	<u>2,736,295</u>
Less: special event expenses		<u>426,553</u>		<u>426,553</u>
Total expenses included in expense section on the statement of activities	<u>\$ 1,738,924</u>	<u>\$ 287,630</u>	<u>\$ 283,188</u>	<u>\$ 2,309,742</u>

See Notes to Financial Statements

BIG BROTHERS BIG SISTERS OF PUGET SOUND

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2016

	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total</u>
Salaries, benefits, and payroll taxes, including 401(k) expense of \$30,045	\$ 1,201,167	\$ 349,701	\$ 184,237	\$ 1,735,105
Event food and rentals		100,455		100,455
Professional fees	41,268	5,460	25,726	72,454
In-kind expenses	32,398	19,499	3,534	55,431
Contract services		53,706		53,706
Occupancy costs	42,383	7,105	3,999	53,487
Technology and equipment costs	24,829	16,318	2,984	44,131
Depreciation	31,429	7,596	4,305	43,330
Insurance	19,714	2,487	6,125	28,326
Event materials and supplies		24,234		24,234
Printing and publications	19,263	3,489	1,216	23,968
Volunteer screening and expenses	20,944	11	473	21,428
National/regional dues	20,035		75	20,110
Telephone	14,534	2,045	1,309	17,888
Travel, auto, and meals	16,318	1,223	336	17,877
Conferences, conventions, and meetings	7,918	3,848	3,092	14,858
Office supplies and expense	9,086	1,459	2,201	12,746
Staff training	10,599		50	10,649
Bad debt expense		9,973		9,973
Interest and bank fees		5,911	2,383	8,294
Postage	2,491	1,845	385	4,721
Miscellaneous	9,656	6,380	1,382	17,418
	<u>1,524,032</u>	<u>622,745</u>	<u>243,812</u>	<u>2,390,589</u>
Less: special event expenses		<u>330,980</u>		<u>330,980</u>
Total expenses included in expense section on the statement of activities	<u>\$ 1,524,032</u>	<u>\$ 291,765</u>	<u>\$ 243,812</u>	<u>\$ 2,059,609</u>

See Notes to Financial Statements

BIG BROTHERS BIG SISTERS OF PUGET SOUND

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 265,358	\$ 309,806
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	62,235	62,596
Loss (gain) on investments	247	(2,276)
Donated stock		(19,316)
Bad debt expense	32,009	9,973
Changes in operating assets and liabilities		
Receivables	(60,670)	(152,355)
Prepaid expenses and other assets	(9,472)	(8,002)
Accounts payable	3,587	(12,774)
Accrued expenses and other liabilities	<u>18,336</u>	<u>43,775</u>
Net cash flows from operating activities	311,630	231,427
Cash Flows from Investing Activities		
Additions to property and equipment	(22,380)	(88,110)
Purchase of investments (including reinvested interest)	<u>(3,884)</u>	<u>(116,494)</u>
Net cash flows from investing activities	<u>(26,264)</u>	<u>(204,604)</u>
Net change in cash and cash equivalents	285,366	26,823
Cash and Cash Equivalents, beginning of year	<u>742,948</u>	<u>716,125</u>
Cash and Cash Equivalents, end of year	<u>\$ 1,028,314</u>	<u>\$ 742,948</u>
Supplementary Information		
Interest paid in cash during the year	<u>\$ 222</u>	<u>\$ 214</u>

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Significant Accounting Policies

Organization

Big Brothers Big Sisters of Puget Sound ("BBBSPS" or "the Organization") is a nonprofit organization that provides children facing adversity with strong and enduring, professionally-supported one-to-one relationships that change their lives for the better forever. BBBSPS is an affiliate of Big Brothers Big Sisters of America ("BBBSA"). The Organization's service area includes King, Pierce, Jefferson, Kitsap, and Clallam Counties in the state of Washington; it currently has offices in King and Pierce Counties.

Mentoring program funding is provided through donor contributions, grants from foundations, corporations, governments, BBBSA, and special events. In addition, BBBSPS operates a Donation Center, which receives donated household goods and resells them. The net proceeds of the resold goods are used to fund mentoring programs.

Financial Statement Presentation

BBBSPS reports 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. BBBSPS has no permanently restricted net assets, so this class of net assets is not shown on the financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

Temporarily Restricted Net Assets

Temporarily restricted net assets consist of unexpended contributions restricted for particular purposes or time periods. Temporarily restricted net assets are transferred to unrestricted net assets as expenditures are incurred for the restricted purpose or as time restrictions are met.

Temporarily restricted net assets consist of the following at December 31:

	2017	2016
Time restrictions	\$ 20,000	\$ 20,000
Mentoring programs	320,385	364,933
Other projects	77,843	55,060
	<u>\$ 418,228</u>	<u>\$ 439,993</u>

Board-Designated Net Assets

BBBSPS maintains a board-designated reserve fund, the objective of which is to help ensure the long-term financial stability of BBBSPS operations. The reserve fund is held and directed separately from operating funds. The reserve fund is invested in funds at the discretion of the Finance Committee of the Board, consistent with the Organization's investment policy. As of December 31, 2017 and 2016, the reserve fund was invested in cash, money market funds, and certain bond funds.

Fair Value Measurements

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

- Level 1: Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3: Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and money market funds with original maturities of three months or less (except those presented as investments). At times, BBBSPS may have deposits in excess of federally insured limits.

Investments

Investments are recorded at fair value using Level 1 inputs determined by the quoted market price of these securities traded on national exchanges. Cash and money market funds held with the investments are presented as part of investments in these financial statements.

Property and Equipment

Purchased property and equipment are stated at cost. Donated property and equipment are recorded at estimated fair value at the date of gift. Depreciation is recorded on the straight-line method over estimated useful lives of the assets ranging from 3 to 39 years. BBBSPS capitalizes property and equipment with a cost of \$1,000 or more and a useful life of one year or more.

Pledges and Grants Receivable

Pledges receivable consist of unconditional promises to give and are recognized when the pledge is made. Pledges that are expected to be received within one year of the financial statement date are valued at net realizable value (the face amount of the pledge less an allowance based on collectibility). Pledges that are expected to be received more than one year after the financial statement date are reflected at the present value of their estimated future cash flows after any allowance for uncollectible amounts, using a risk-adjusted discount rate applicable to the years in which the promises are received. Management has established a discount of \$935 and \$169 on long-term pledges as of December 31, 2017 and 2016, respectively. Management reviews the collectibility of receivables on a periodic basis and determines the appropriate amount of any allowance. BBBSPS charges off receivables to the allowance when management determines that a receivable is not collectible. Management has established an allowance for uncollectible receivables of \$6,018 and \$7,909 as of December 31, 2017 and 2016, respectively. The allowance is netted with the pledges and grants receivable, current portion balance on the statements of financial position.

Receivables from BBBSA and two organizations accounted for 57% of pledges and grants receivable at December 31, 2017. Receivables from BBBSA and one other organization accounted for 69% of pledges and grants receivable at December 31, 2016.

Grants and Donor Revenue

Contributions are recognized as revenue at the date received or unconditionally promised and are recorded as unrestricted or restricted support depending on the existence and nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions or promises to give that are subject to donor-imposed conditions are not recognized as revenue until the period when the conditions are met.

The Organization received contributions from BBBSA totaling \$343,581 and \$439,135 in 2017 and 2016, respectively. These amounts represented 24% and 31%, respectively, of grants and non-event donor contributions in those years.

Special Event Revenue

Throughout the year, the Organization hosts a number of events to raise funds for its operations. Revenue is recognized at the time of the event, except for any amounts solicited in conjunction with the event, which are given as unconditional contributions at the time of the gift.

In-Kind Contributions

BBBSPS recognizes donated services if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not donated.

Volunteers contribute thousands of hours of their time annually as Big Brothers and Big Sisters. Each volunteer Big Brother or Big Sister spends from four to twelve hours every month with his or her Little Brother or Little Sister. Management estimates that volunteers contributed in excess of 84,000 hours in 2017 and 78,000 hours in 2016. Volunteer mentor services contributed to BBBSPS do not meet criteria for financial statement recognition in conformity with accounting principles generally accepted in the United States and, therefore, are not reflected in the accompanying financial statements. The BBBSPS program model of using community volunteers to provide program services has an impact on the Organization's fundraising and administration percentage, which was 25% for 2017 based on the statement of activities. An approximate economic value for this volunteer time contributed in 2017 for Washington State is \$30.46 per hour using the most recent data released by the U.S. Bureau of Labor Statistics. Applying this rate, BBBSPS volunteer mentor services can be valued at \$2,558,640 for 2017. Including this economic value of donated mentor services as part of program expenses would result in the calculation of fundraising and administration expenses as a percentage of total organization expenses of 12% for 2017. The comparative result for 2016 would be 12% based on 78,000 hours of donated mentor services at a rate of \$30.04 per the U.S. Bureau of Labor Statistics. For 2016, an approximate economic value for this volunteer time would be valued at \$2,343,120.

In addition, the Donation Center receives donated household items and resells them. Revenue for these in-kind contributions of household items is recognized when the household items are sold.

Income Taxes

BBBSPS is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Functional Allocation of Expenses

The costs of providing the various programs and other services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services that received benefit.

Subsequent Events

BBBSPS has evaluated subsequent events through the date these financial statements were available to be issued, which was May 25, 2018.

Note 2. Investments

The purpose of the investments is to provide long-term financial support for BBBSPS, so the Organization has elected to present investments as a noncurrent asset.

Investments consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Cash and money market funds	\$ 795,489	\$ 792,731
Bond funds	67,155	66,276
	<u>\$ 862,644</u>	<u>\$ 859,007</u>

Investment income consists of the following at December 31:

	2017	2016
Interest and dividends	\$ 8,195	\$ 3,318
Gain (loss) on investments	(247)	2,276
Total investment income	<u>\$ 7,948</u>	<u>\$ 5,594</u>

Note 3. Pledges and Grants Receivable

Pledges and grants receivable were as follows at December 31:

	2017	2016
Receivable in less than one year	\$ 407,639	\$ 417,304
Receivable in one to five years	52,664	15,000
	460,303	432,304
Less: unamortized discount	(935)	(169)
Less: allowance for uncollectible receivables	(6,018)	(7,909)
	<u>\$ 453,350</u>	<u>\$ 424,226</u>

Pledges and grants receivable are recorded in the statements of financial position as follows at December 31:

	2017	2016
Pledges and grants receivable, current portion	\$ 401,621	\$ 409,395
Pledges and grants receivable, noncurrent portion	51,729	14,831
	<u>\$ 453,350</u>	<u>\$ 424,226</u>

Note 4. Property and Equipment

	2017	2016
Furniture and equipment	\$ 275,522	\$ 297,600
Improvements	471,271	471,271
Buildings	676,571	676,571
Land	298,429	298,429
	1,721,793	1,743,871
Less: accumulated depreciation	(691,350)	(673,573)
	<u>\$ 1,030,443</u>	<u>\$ 1,070,298</u>

Note 5. Line of Credit

Under a line of credit agreement with a bank, BBSPS may borrow up to \$500,000 with interest payable monthly at the bank's prime rate plus 1% but not less than 4.75% (resulting in a rate of 5.5% at December 31, 2017). The borrowings are collateralized by the BBSPS office building. The line of credit matures on February 15, 2019. The balance on the line of credit was zero at both December 31, 2017 and 2016.

Note 6. Commitments and Contingencies

BBSPS leases office space and equipment under operating lease agreements. Rent expense was \$127,754 and \$127,916 for the years ended December 31, 2017 and 2016, respectively. Future minimum lease payments under the agreements are as follows for the years ending December 31:

2018	\$	104,250
2019		74,672
2020		48,658
2021		39,900
2022		17,042
Thereafter		10,879
	\$	<u>295,401</u>

BBSPS is from time to time involved in various litigation and legal matters, which are defended and handled in the ordinary course of business. The costs of any claims with respect to these matters, if any, are reflected in the financial statements at the time such costs can reasonably be estimated.

Note 7. Donation Center

Direct costs of sales of donated household goods are shown as a reduction in total support and revenue in the statements of activities. The following is a detail of the direct costs of sales of donated household goods for the years ended December 31:

	<u>2017</u>	<u>2016</u>
Operating expenses		
Salaries, benefits, and payroll taxes	\$ 459,982	\$ 371,942
Truck expenses	103,822	100,749
Occupancy	28,373	46,051
Depreciation	19,194	19,266
Supplies	19,268	20,471
Revenue share	13,941	6,126
Miscellaneous	48,804	14,042
Insurance	13,030	13,198
Repair and maintenance	27,098	25,739
Total operating expenses	<u>\$ 733,512</u>	<u>\$ 617,584</u>