

**BIG BROTHERS BIG SISTERS  
OF PUGET SOUND**

FINANCIAL REPORT

AUGUST 31, 2018

**C O N T E N T S**

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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 statement of financial position as of August 31, 2018, and the related statement of activities, functional expenses, and cash flows for the eight-month period 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 audit. We conducted our audit 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 August 31, 2018, and the changes in its net assets and its cash flows for the eight-month period then ended in accordance with accounting principles generally accepted in the United States.

*Peterson Sullivan LLP*

February 19, 2019

**BIG BROTHERS BIG SISTERS OF PUGET SOUND**

STATEMENT OF FINANCIAL POSITION

August 31, 2018

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 882,313
Pledges and grants receivable, net of allowance	146,323
Other receivables	8,157
Prepaid expenses and other assets	<u>196,564</u>
Total current assets	1,233,357
Investments	865,449
Property and Equipment, net	<u>1,010,442</u>
Total assets	<u><u>\$ 3,109,248</u></u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable	\$ 55,305
Deferred auction sponsorships	102,000
Accrued expenses and other liabilities	<u>168,667</u>
Total current liabilities	325,972
Net Assets	
Without donor restrictions	
Undesignated	1,794,350
Board-designated	<u>865,449</u>
Total without donor restrictions	2,659,799
With donor restrictions	<u>123,477</u>
Total net assets	<u>2,783,276</u>
Total liabilities and net assets	<u><u>\$ 3,109,248</u></u>

See Notes to Financial Statements

## BIG BROTHERS BIG SISTERS OF PUGET SOUND

### STATEMENT OF ACTIVITIES

For the Eight-Month Period Ended August 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Grants and donor contributions	\$ 338,132	\$ 357,905	\$ 696,037
United Way		50,000	50,000
In-kind contributions	74,404		74,404
Special events	176,655	5,000	181,655
Investment income	3,078		3,078
Revenue from sales of donated household goods	717,919		717,919
Other revenue	15,650		15,650
Net assets released from donor restrictions	707,656	(707,656)	
Total support and revenue	2,033,494	(294,751)	1,738,743
Direct costs of special events	(131,878)		(131,878)
Direct costs of sales of donated household goods	(510,511)		(510,511)
	1,391,105	(294,751)	1,096,354
Expenses			
Program services	1,249,219		1,249,219
Fundraising	245,893		245,893
Management and general	154,152		154,152
Total expenses	1,649,264		1,649,264
<b>Change in net assets</b>	<b>(258,159)</b>	<b>(294,751)</b>	<b>(552,910)</b>
Net Assets, beginning of year	2,917,958	418,228	3,336,186
Net Assets, end of year	\$ 2,659,799	\$ 123,477	\$ 2,783,276

See Notes to Financial Statements

**BIG BROTHERS BIG SISTERS OF PUGET SOUND**

STATEMENT OF FUNCTIONAL EXPENSES

For the Eight-Month Period Ended August 31, 2018

	<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 \$35,156	\$ 948,754	\$ 254,980	\$ 110,278	\$ 1,314,012
Professional fees	45,544	7,868	24,114	77,526
In-kind expenses	59,329	13,850	949	74,128
Occupancy costs	43,555	5,356	2,858	51,769
Event food and rentals		46,510		46,510
Technology and equipment costs	17,190	12,698	2,912	32,800
Depreciation	21,349	4,726	2,528	28,603
Insurance	17,689	1,600	3,742	23,031
Printing and publications	13,238	2,206	818	16,262
National/regional dues	14,834	95	350	15,279
Conferences and meetings	10,367	2,963	951	14,281
Telephone	10,160	1,124	854	12,138
Travel, auto, and meals	11,066	865	152	12,083
Participant expenses	11,794			11,794
Volunteer screening and expenses	10,082		25	10,107
Event materials and supplies		7,710		7,710
Office supplies and expense	5,555	1,143	885	7,583
Contract services		7,235		7,235
Credit card processing fees		3,973	1,363	5,336
Postage	1,742	1,300	239	3,281
Staff training	1,193	99	364	1,656
Bad debt recovery		(4,475)		(4,475)
Miscellaneous	5,778	5,945	770	12,493
	<u>1,249,219</u>	<u>377,771</u>	<u>154,152</u>	<u>1,781,142</u>
Less: special event expenses		<u>131,878</u>		<u>131,878</u>
Total expenses included in expense section on the statement of activities	<u>\$ 1,249,219</u>	<u>\$ 245,893</u>	<u>\$ 154,152</u>	<u>\$ 1,649,264</u>

See Notes to Financial Statements

## BIG BROTHERS BIG SISTERS OF PUGET SOUND

### STATEMENT OF CASH FLOWS

For the Eight-Month Period Ended August 31, 2018

Cash Flows from Operating Activities	
Change in net assets	\$ (552,910)
Adjustments to reconcile change in net assets to net cash flows from operating activities	
Depreciation	40,242
Loss on investments	429
Bad debt recovery	(4,475)
Changes in operating assets and liabilities	
Receivables	320,649
Prepaid expenses and other assets	(66,971)
Accounts payable	3,417
Accrued expenses and other liabilities	35,093
Deferred revenue	102,000
	<hr/>
Net cash flows from operating activities	(122,526)
Cash Flows from Investing Activities	
Additions to property and equipment	(20,241)
Purchase of investments (including reinvested interest)	(3,234)
	<hr/>
Net cash flows from investing activities	(23,475)
	<hr/>
<b>Net change in cash and cash equivalents</b>	<b>(146,001)</b>
Cash and Cash Equivalents, beginning of year	<hr/> 1,028,314
Cash and Cash Equivalents, end of year	<hr/> <hr/> \$ 882,313

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.

Beginning January 1, 2018, the Organization changed its financial reporting cycle from a calendar year end to a fiscal year ending August 31. Accordingly, the current-period financial statements reflect a short period: the eight months from January 1, 2018, through August 31, 2018, which is the transitional period to the new fiscal year. The first full fiscal year will run from September 1, 2018, to August 31, 2019. This change was made to better align the financial planning and reporting processes with the annual cycle of revenue and programmatic activities. Because of the Organization's typical seasonality in revenues, this short fiscal year was budgeted to, and does, show a net loss, which is comparable to other years at the eight-month point. Because a comparison of financial statements at August 31, 2018, to those at December 31, 2017, is only possible to a limited extent, the Organization elected not to present comparative statements for this short year.

#### **Financial Statement Presentation**

BBBSPS reports information regarding its financial position and activities according to two classes of net assets: with donor restrictions and without donor restrictions.

#### **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.

#### **Recent Accounting Pronouncement Adopted**

During the eight-month period ended August 31, 2018, the Organization adopted the provisions of Accounting Standards Update ("ASU") No. 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and availability of resources in the nonprofit sector and is intended to simplify and improve the classification of net assets as well as the information presented in financial statements and notes about liquidity, expenses, and investment and return. The Organization has adjusted the presentation of these statements accordingly.



### **Net Assets with Donor Restrictions**

Net assets with donor restrictions consist of unexpended contributions restricted for particular purposes or time periods. Net assets with donor restrictions are transferred to net assets without donor restrictions as expenditures are incurred for the restricted purpose or as time restrictions are met.

Net assets with donor restrictions consist of the following at August 31, 2018:

Time restrictions	\$	30,000
Mentoring programs		43,111
Other projects		50,366
		<hr/>
	\$	123,477
		<hr/> <hr/>

### **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 August 31, 2018, 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. There were no long-term pledges recorded at August 31, 2018.

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 \$1,615 as of August 31, 2018. The allowance is netted with the pledges and grants receivable balance on the statement of financial position.

At August 31, 2018, receivables from two organizations accounted for 61% of pledges and grants receivable.

### **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.

There were no donors with contributions above 10% of the Organization's total revenue in the eight-month period ended August 31, 2018.

### **Special Event Revenue**

Throughout the period, 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 4 to 12 hours every month with his or her Little Brother or Little Sister. Management estimates that volunteers contributed in excess of 56,000 hours for the eight-month period ended August 31, 2018. 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 24% for 2018 based on the statement of activities. An approximate economic value for this volunteer time contributed in 2018 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 \$1,705,760 for 2018. 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 2018.

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.

### **Information Regarding Liquidity and Availability**

Financial assets available for general expenditure within one year of the date of the statement of financial position comprise the following:

Cash	\$ 882,313
Investments convertible to cash within one year	865,449
Accounts and donations receivable	<u>154,480</u>
Total financial assets	1,902,242
Less: those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions	
Restricted by donor with time or purpose restrictions	(119,300)
Add back: amounts available for use within one year	<u>77,846</u>
	(41,454)
Board designations:	
Amounts set aside for liquidity reserve	<u>(865,449)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 995,339</u></u>

The Organization regularly monitors liquidity required to meet its operating needs. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing programmatic activities as well as the services that support those activities to be general expenditures. BBBSPS receives contributions with donor restrictions, and financial assets not available to meet general expenditures within one year may include assets with donor restrictions that are not expected to be met within the following year.

The Organization's major fundraising event, its annual gala dinner and auction, is held in the fall after the fiscal year-end. The net auction revenue generated has supported over 31% of cash expenses incurred by BBBSPS during each of the last three fiscal years.

The Organization has a \$500,000 line of credit (see Note 5) that can be drawn upon in the event of an unanticipated liquidity need. In addition, the Organization maintains an operating reserve (see Note 2) which had a balance of \$865,449 at August 31, 2018, that is not included in the total financial assets available to meet cash needs within one year. This is a board-designated reserve with the objective of maintaining a minimum of three months' worth of operating cash needs in low-risk cash, cash equivalents and fixed-income securities to meet unexpected financial and liquidity needs. This reserve could be drawn upon with the approval of the governing board.

### **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 statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services that received benefit. Expenses that benefit more than one function are allocated using a reasonable basis for the particular expense being allocated. Major expenses that are allocated include office and occupancy expenses, information technology support and depreciation, which are allocated on the basis of personnel headcount, as well as some salaries and fringe and related expenses, which are allocated on the basis of estimates of time and effort.

### **Subsequent Events**

BBBSPS has evaluated subsequent events through the date these financial statements were available to be issued, which was February 19, 2019.

## **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 August 31, 2018:

Cash and money market funds	\$ 797,776
Bond funds	67,673
	<u>\$ 865,449</u>

Investment income consists of the following at August 31, 2018:

Interest and dividends	\$ 3,507
Loss on investments	(429)
Total investment income	<u>\$ 3,078</u>

### Note 3. Pledges and Grants Receivable

Pledges and grants receivable are as follows at August 31, 2018:

Receivable in less than one year	\$	147,938
Less: allowance for uncollectible receivables		<u>(1,615)</u>
	\$	<u><u>146,323</u></u>

### Note 4. Property and Equipment

Property and equipment consist of the following at August 31, 2018:

Furniture and equipment	\$	265,589
Improvements		471,271
Buildings		680,841
Land		<u>298,429</u>
		1,716,130
Less: accumulated depreciation		<u>(705,688)</u>
	\$	<u><u>1,010,442</u></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 6.0% at August 31, 2018). The borrowings are collateralized by the BBSPS office building. The line of credit matures on April 15, 2019. The balance on the line of credit was zero at August 31, 2018.

### Note 6. Commitments and Contingencies

BBSPS leases office space and equipment under operating lease agreements. Rent expense was \$87,197 for the eight-month period ended August 31, 2018. Future minimum lease payments under the agreements are as follows for the years ending August 31:

2019	\$	110,978
2020		84,774
2021		67,932
2022		54,726
2023		21,300
Thereafter		<u>2,967</u>
	\$	<u><u>342,677</u></u>

BBBSPS 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 statement of activities. The following is a detail of the direct costs of sales of donated household goods for the eight-month period ended August 31, 2018:

Salaries, benefits, and payroll taxes	\$	315,302
Truck expenses		78,160
Occupancy		30,106
Depreciation		11,639
Materials and supplies		23,203
Miscellaneous		23,993
Insurance		8,990
Repair and maintenance		19,118
		<hr/>
Total operating expenses	\$	<u>510,511</u>