

**BIG BROTHERS BIG SISTERS  
OF THE GREATER TWIN CITIES**

**FINANCIAL STATEMENTS**

**YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Big Brothers Big Sisters of the Greater Twin Cities  
Saint Paul, Minnesota

We have audited the accompanying financial statements of Big Brothers Big Sisters of the Greater Twin Cities, which comprise the balance sheets as of September 30, 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 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 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 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 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 opinion.

Board of Directors  
Big Brothers Big Sisters of the Greater Twin Cities

***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 the Greater Twin Cities as of September 30, 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 of America.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Minneapolis, Minnesota  
February 1, 2018

**BIG BROTHERS BIG SISTERS OF THE GREATER TWIN CITIES  
BALANCE SHEETS  
SEPTEMBER 30, 2017 AND 2016**

	2017	2016
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 2,648,960	\$ 977,668
Short-Term Investments	-	1,802,743
Grants Receivable	117,802	122,040
Pledges Receivable, Net	621,543	967,855
Prepaid Expenses and Accrued Interest	123,893	107,955
Total Current Assets	3,512,198	3,978,261
<b>OTHER ASSETS</b>		
Investments	1,953,956	1,761,587
Property and Equipment, Net	94,369	70,647
Community Foundation Holdings	12,226	11,435
Pledges Receivable, Net	89,983	186,335
Security Deposit	5,000	5,000
Total Other Assets	2,155,534	2,035,004
Total Assets	\$ 5,667,732	\$ 6,013,265
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 85,123	\$ 68,192
Accrued Expenses	198,155	201,012
Deferred Rent and Lease Incentive Liability	23,011	26,089
Deferred Revenue	5,000	-
Current Portion of Capital Lease Obligation	2,851	5,228
Total Current Liabilities	314,140	300,521
<b>LONG-TERM LIABILITIES</b>		
Long-Term Portion of Capital Lease Obligation	-	2,851
Total Liabilities	314,140	303,372
<b>NET ASSETS</b>		
Unrestricted:		
Undesignated	1,949,333	2,180,889
Board-Designated - Better Futures Campaign	2,041,891	1,770,173
Total Unrestricted	3,991,224	3,951,062
Temporarily Restricted	1,286,718	1,683,972
Permanently Restricted	75,650	74,859
Total Net Assets	5,353,592	5,709,893
Total Liabilities and Net Assets	\$ 5,667,732	\$ 6,013,265

See accompanying Notes to Financial Statements.

**BIG BROTHERS BIG SISTERS OF THE GREATER TWIN CITIES**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<b>SUPPORT AND REVENUE</b>				
Support:				
Contributions	\$ 2,432,270	\$ 348,985	\$ -	\$ 2,781,255
Contributions In-Kind	52,642	-	-	52,642
Special Event Revenue	292,583	-	-	292,583
National Affiliation Pass-Through Contributions	331,919	-	-	331,919
United Way - Allocation Support	95,000	285,000	-	380,000
United Way - Designated Gifts	80,293	-	-	80,293
Total Support	<u>3,284,707</u>	<u>633,985</u>	<u>-</u>	<u>3,918,692</u>
Used Goods Transactions:				
Third Party Fundraising Revenue	848,931	-	-	848,931
Clothing and Other Goods Sales	5,138,391	-	-	5,138,391
Less: Cost of Goods Sold	<u>(4,985,868)</u>	<u>-</u>	<u>-</u>	<u>(4,985,868)</u>
Total Used Goods Transactions	1,001,454	-	-	1,001,454
Other Revenue:				
Grants	407,438	-	-	407,438
Interest and Dividend Income	49,417	6,825	-	56,242
Miscellaneous	138	-	-	138
Total Other Revenue	<u>456,993</u>	<u>6,825</u>	<u>-</u>	<u>463,818</u>
Total Support and Revenue before Releases	4,743,154	640,810	-	5,383,964
Net Assets Released from Restrictions	<u>1,038,064</u>	<u>(1,038,064)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	5,781,218	(397,254)	-	5,383,964
<b>EXPENSES</b>				
Program Services	3,198,796	-	-	3,198,796
Support Services:				
Management and General	986,556	-	-	986,556
Fundraising	720,914	-	-	720,914
Third-Party Fundraising Expense	848,931	-	-	848,931
Volunteer Recruitment	140,181	-	-	140,181
Total Expenses	<u>5,895,378</u>	<u>-</u>	<u>-</u>	<u>5,895,378</u>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	(114,160)	(397,254)	-	(511,414)
<b>NONOPERATING CHANGE IN NET ASSETS</b>				
Endowment Contributions	-	-	-	-
Unrealized Investment Gains	154,013	-	-	154,013
Realized Investment Gains (Losses)	(91)	-	-	(91)
Gain on Disposal of Assets	400	-	-	400
Change in Community Foundation Holdings	-	-	791	791
Total Nonoperating Change in Net Assets	<u>154,322</u>	<u>-</u>	<u>791</u>	<u>155,113</u>
<b>CHANGE IN NET ASSETS</b>	40,162	(397,254)	791	(356,301)
Net Assets - Beginning of Year	<u>3,951,062</u>	<u>1,683,972</u>	<u>74,859</u>	<u>5,709,893</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 3,991,224</u>	<u>\$ 1,286,718</u>	<u>\$ 75,650</u>	<u>\$ 5,353,592</u>

See accompanying Notes to Financial Statements.

2016

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 2,287,419	\$ 945,979	\$ -	\$ 3,233,398
46,012	-	-	46,012
363,302	-	-	363,302
44,528	-	-	44,528
118,750	356,250	-	475,000
119,455	-	-	119,455
<u>2,979,466</u>	<u>1,302,229</u>	<u>-</u>	<u>4,281,695</u>
775,818	-	-	775,818
3,178,423	-	-	3,178,423
<u>(3,045,695)</u>	<u>-</u>	<u>-</u>	<u>(3,045,695)</u>
908,546	-	-	908,546
404,308	-	-	404,308
46,994	6,069	-	53,063
2,071	-	-	2,071
<u>453,373</u>	<u>6,069</u>	<u>-</u>	<u>459,442</u>
4,341,385	1,308,298	-	5,649,683
<u>1,719,772</u>	<u>(1,719,772)</u>	<u>-</u>	<u>-</u>
6,061,157	(411,474)	-	5,649,683
2,972,929	-	-	2,972,929
869,668	-	-	869,668
853,485	-	-	853,485
775,818	-	-	775,818
184,748	-	-	184,748
<u>5,656,648</u>	<u>-</u>	<u>-</u>	<u>5,656,648</u>
404,509	(411,474)	-	(6,965)
-	-	200	200
116,477	-	-	116,477
9	-	-	9
-	-	-	-
-	-	76	76
<u>116,486</u>	<u>-</u>	<u>276</u>	<u>116,762</u>
520,995	(411,474)	276	109,797
<u>3,430,067</u>	<u>2,095,446</u>	<u>74,583</u>	<u>5,600,096</u>
<u>\$ 3,951,062</u>	<u>\$ 1,683,972</u>	<u>\$ 74,859</u>	<u>\$ 5,709,893</u>

**BIG BROTHERS BIG SISTERS OF THE GREATER TWIN CITIES  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED SEPTEMBER 30, 2017**

	Program Services	Support Services			Total Support Services	Total
		Management and General	Fund Raising	Volunteer Recruitment		
Salaries	\$ 1,796,809	\$ 468,451	\$ 427,394	\$ 76,105	\$ 971,950	\$ 2,768,759
Employee Benefits	278,286	54,253	50,961	8,016	113,230	391,516
Payroll Taxes	131,237	33,802	30,036	5,682	69,520	200,757
Total Payroll Expense	<u>2,206,332</u>	<u>556,506</u>	<u>508,391</u>	<u>89,803</u>	<u>1,154,700</u>	<u>3,361,032</u>
Professional Fees	280,698	209,494	900,750	22,098	1,132,342	1,413,040
Background Investigations	36,038	2,253	-	-	2,253	38,291
Supplies	181,648	13,093	806	3,170	17,069	198,717
Special Event Expenses	-	-	62,652	-	62,652	62,652
Postage and Delivery	3,017	627	7,248	114	7,989	11,006
Communications	17,478	7,673	639	627	8,939	26,417
Equipment and Maintenance	48,332	13,757	6,206	2,979	22,942	71,274
Occupancy	235,747	43,337	26,437	8,522	78,296	314,043
Advertising and Marketing	3,699	51,678	728	2,618	55,024	58,723
Printing and Publications	10,895	6,337	14,681	525	21,543	32,438
Local Travel and Meetings	32,378	26,879	2,716	2,853	32,448	64,826
Training, Seminars, and Conventions	12,430	15,715	9,399	1,864	26,978	39,408
Dues and Subscriptions	1,622	12,281	7,282	1,363	20,926	22,548
Scholarships	30,754	-	-	-	-	30,754
Interest	327	59	37	12	108	435
Insurance	48,632	8,911	5,370	1,789	16,070	64,702
Miscellaneous	1,847	9,520	11,324	94	20,938	22,785
National BBBS Dues	18,272	3,295	2,086	688	6,069	24,341
Total Expense Before Depreciation	<u>3,170,146</u>	<u>981,415</u>	<u>1,566,752</u>	<u>139,119</u>	<u>2,687,286</u>	<u>5,857,432</u>
Depreciation Expense	<u>28,650</u>	<u>5,141</u>	<u>3,093</u>	<u>1,062</u>	<u>9,296</u>	<u>37,946</u>
Total Expenses	<u>\$ 3,198,796</u>	<u>\$ 986,556</u>	<u>\$ 1,569,845</u>	<u>\$ 140,181</u>	<u>\$ 2,696,582</u>	<u>\$ 5,895,378</u>
Percent of Total Expenses	54.3%	16.7%	26.6%	2.4%	45.7%	100.0%



**BIG BROTHERS BIG SISTERS OF THE GREATER TWIN CITIES  
STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED SEPTEMBER 30, 2016**

	Program Services	Support Services			Total Support Services	Total
		Management and General	Fund Raising	Volunteer Recruitment		
Salaries	\$ 1,797,565	\$ 415,704	\$ 522,372	\$ 119,558	\$ 1,057,634	\$ 2,855,199
Employee Benefits	265,244	42,429	52,534	15,079	110,042	375,286
Payroll Taxes	130,203	30,393	36,162	8,724	75,279	205,482
Total Payroll Expense	<u>2,193,012</u>	<u>488,526</u>	<u>611,068</u>	<u>143,361</u>	<u>1,242,955</u>	<u>3,435,967</u>
Professional Fees	161,647	202,637	816,464	1,761	1,020,862	1,182,509
Background Investigations	27,724	2,084	-	-	2,084	29,808
Special Event Expenses	-	-	91,669	-	91,669	91,669
Supplies	165,649	8,382	1,466	1,332	11,180	176,829
Postage and Delivery	4,277	1,081	7,350	49	8,480	12,757
Communications	14,199	1,322	743	1,088	3,153	17,352
Equipment and Maintenance	22,743	7,315	3,272	1,709	12,296	35,039
Occupancy	222,377	43,959	32,013	16,379	92,351	314,728
Advertising and Marketing	3,066	52,836	2,000	2,230	57,066	60,132
Printing and Publications	10,468	5,074	14,661	1,622	21,357	31,825
Local Travel and Meetings	29,704	16,685	3,583	6,919	27,187	56,891
Training, Seminars, and Conventions	18,611	10,123	3,939	871	14,933	33,544
Dues and Subscriptions	1,915	10,840	8,953	1,740	21,533	23,448
Scholarships	16,750	-	-	-	-	16,750
Interest	609	116	87	41	244	853
Insurance	42,770	8,271	6,064	3,051	17,386	60,156
Miscellaneous	4,014	4,069	21,220	265	25,554	29,568
National BBBS Dues	16,240	3,096	2,321	1,107	6,524	22,764
Total Expense Before Depreciation	<u>2,955,775</u>	<u>866,416</u>	<u>1,626,873</u>	<u>183,525</u>	<u>2,676,814</u>	<u>5,632,589</u>
Depreciation Expense	<u>17,154</u>	<u>3,252</u>	<u>2,430</u>	<u>1,223</u>	<u>6,905</u>	<u>24,059</u>
Total Expenses	<u>\$ 2,972,929</u>	<u>\$ 869,668</u>	<u>\$ 1,629,303</u>	<u>\$ 184,748</u>	<u>\$ 2,683,719</u>	<u>\$ 5,656,648</u>
Percent of Total Expenses	52.6%	15.4%	28.8%	3.3%	47.4%	100.0%

**BIG BROTHERS BIG SISTERS OF THE GREATER TWIN CITIES  
STATEMENTS OF CASH FLOWS  
YEARS ENDED SEPTEMBER 30, 2017 AND 2016**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ (356,301)	\$ 109,797
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation	37,946	24,059
Realized and Unrealized Gain on Investments	(153,922)	(116,486)
Gain on Disposal of Assets	(400)	-
Increase in Community Foundation Holdings	(791)	(76)
Permanently Restricted Contributions	-	(200)
Increase in Allowance for Uncollectible Pledges	(9,329)	12,573
(Increase) Decrease in Current Assets:		
Grants Receivable	4,238	(56,526)
Pledges Receivable	451,993	550,488
Prepaid Expenses and Accrued Interest	(15,938)	(64,783)
Increase (Decrease) in Current Liabilities:		
Accounts Payable	16,931	16,538
Accrued Expenses	(2,857)	(68,351)
Deferred Revenue	5,000	-
Deferred Rent	(3,078)	(8,587)
Net Cash Provided (Used) by Operating Activities	(26,508)	398,446
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds Received from Sale of Assets	700	-
Purchase of Property and Equipment	(61,968)	(26,099)
Proceeds Received from Sale of Investments	3,765,419	11,944
Purchase of Investments	(2,001,123)	(860,339)
Net Cash Provided (Used) by Investing Activities	1,703,028	(874,494)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal Payments on Capital Lease Obligations	(5,228)	(4,811)
Permanently Restricted Contributions Received	-	200
Net Cash Used by Financing Activities	(5,228)	(4,611)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,671,292	(480,659)
Cash and Cash Equivalents - Beginning of Year	977,668	1,458,327
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 2,648,960	\$ 977,668

**BIG BROTHERS BIG SISTERS OF THE GREATER TWIN CITIES  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities**

Big Brothers Big Sisters of the Greater Twin Cities (the Agency) is one of the largest affiliates of Big Brothers Big Sisters of America, the largest and longest operating mentoring program in the country. The Agency was incorporated in 2002 under the laws of the state of Minnesota as a nonprofit organization by consolidating Big Brothers Big Sisters of Greater Minneapolis and Big Brothers Big Sisters of Greater St. Paul, Inc., which had been serving the Twin Cities metro area since 1920. The Agency's mission is to provide children facing adversity with strong and enduring, professionally supported one-to-one relationships that change their lives for the better, forever.

The primary activity of the Agency is the creation of long-term friendships for children between the ages of 7 and 21 with committed, responsible adult volunteers to promote healthy child development. New mentoring relationships are made in the community-based program with youth ages 8 to 12 and in the site-based program with youth ages 7 to 18 (as littles and as high school mentors). The Agency is devoted to providing a caring adult in the life of every child who needs or wants one, through the framework of our core values of relationships, inclusion, personal growth, safety, and stewardship to:

- Build and support strong healthy relationships with community partners and for all mentors and youth.
- Maintain a culture that is inclusive of all youth, volunteers, and staff.
- Provide opportunities and experiences for all youth, volunteers, and staff that lead to enriching their lives.
- Make informed decisions and provide tools to ensure the safety of our staff and the youth and volunteers we serve.
- Use resources entrusted to us to create and support positive and strong mentoring relationships.

**Financial Statement Presentation**

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Agency and changes therein are classified and reported as follows:

Unrestricted –Net assets that are not subject to donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the board of directors.

Board-Designated –The board each year determines an appropriate balance given market conditions, operating requirements and Agency initiatives, and is held as reserve for future use. Some of the Better Futures Campaign net assets at the end of 2017 and 2016 are related to funds raised through the Better Futures Campaign that were unrestricted gifts, a drive to raise funds to enrich services to children, mentor more children, and build the infrastructure to sustain the agency's ability to further its mission in serving children.

**BIG BROTHERS BIG SISTERS OF THE GREATER TWIN CITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial Statement Presentation (Continued)**

Temporarily Restricted –Net assets subject to donor-imposed restrictions that will be met either by actions of the Agency and/or the passage of time.

Permanently Restricted –Net assets subject to donor-imposed restrictions that are to be maintained permanently by the Agency. Income and realized and unrealized gains are expendable to support the activities of the Agency.

Nonoperating activities represent permanently restricted and endowment contributions, realized and unrealized investment gains or losses, gains or losses on the disposal of fixed assets and the change in Community Foundation Holdings.

**Use of Estimates**

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Contributions**

The Agency reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as Net Assets Released from Restrictions. Contributions of long-lived assets are reported as restricted support only if restricted by the donor.

During the year ended September 30, 2016, the Agency entered into an agreement with a third party whereby the third party will accept donated goods and sell them on behalf of the Agency at certain locations across the Twin Cities. Revenue related to this contract has been included in contribution revenue on the statement of activities. Expenses of the third party to perform these services have been included in fundraising expense on the statement of activities and are included in professional fees on the statement of functional expenses. See further explanation of the third-party agreement in functional expenses note on page 13. The Agency received varying prices for the goods ranging from \$0.016 to \$0.035 per pound or \$0.020 per item, depending on the classification of the goods.

**Cash and Cash Equivalents**

Cash and cash equivalents of the Agency are maintained at a financial institution located in Minnesota. At times the account exceeds the federal deposit insurance limit of \$250,000.

**BIG BROTHERS BIG SISTERS OF THE GREATER TWIN CITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2017 AND 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Grants and Pledges Receivable**

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional pledges and grants are not included as support until such time as the conditions are substantially met. Pledges and grants that are expected to be collected within one year are recorded at their net realizable value. Pledges and grants that are expected to be collected in future years are recorded at the present value of the amount expected to be collected. The discounts on those amounts are computed using an imputed interest rate applicable to the year in which the pledge is received. The Agency reserves for bad debts using the allowance method which is based on management judgment considering significant patterns of uncollectibility and historical information.

**Investments and Fair Value Measurements**

Investments in mutual funds and hedge funds are considered held for long term, and recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. Donated assets are recorded at fair value at the date of donation. The Agency records the change of ownership of securities on the day a trade is made. Investment income or loss and unrealized gains or losses are included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or by law.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. In addition, the Agency's investments include limited partnerships that are diversified funds of hedge funds, which are recorded at the fair value of the underlying assets in the limited partnerships. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statements.

The Agency at certain times throughout the year holds certificates of deposit at one institution, with interest rates of .19% and .29% and original maturities of 12 months or less. These certificates are brokered, recorded at fair value, and classified as short-term investments for the Agency in the prior year.

The Agency categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

**BIG BROTHERS BIG SISTERS OF THE GREATER TWIN CITIES  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017 AND 2016**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Investments and Fair Value Measurements (Continued)**

Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Agency has the ability to access. Level 1 assets of the Agency include certificates of deposit and mutual funds.

*Level 2* – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

*Level 3* – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability. Securities valued using Level 3 inputs include funds held on behalf of the Agency at a community foundation. The Agency's securities that are also valued using Level 3 inputs include fund of funds alternative investments.

**Property and Equipment**

Leasehold improvements, equipment, and furniture and fixtures are stated at cost (capitalization threshold of \$2,000) at the date of acquisition or fair market value at date of donation in the case of donated property. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted. Property and equipment is depreciated over the lives of the assets using the straight-line method. Furniture and equipment is depreciated over an estimated life of five years and computers and peripherals over an estimated life of three years. Leasehold improvements are amortized over the shorter of the life of the lease or the life of the asset.

**Advertising and Marketing**

Advertising and marketing costs are expensed when incurred.

**BIG BROTHERS BIG SISTERS OF THE GREATER TWIN CITIES  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Functional Expenses**

Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses, other than salaries and related expenses, which are not directly identifiable by program or supporting service, are allocated on the best estimates of management. Fundraising expense on the statement of functional expenses includes \$848,931 of third-party fundraising expense. The table below details the impact of the third-party fundraising expenses on the 2017 functional allocation of expenses including and excluding this amount.

	2017		2016	
	Total Expenses	Expenses Excluding Third-Party Fundraising	Total Expenses	Expenses Excluding Third-Party Fundraising
Program	54 %	63 %	54 %	63 %
Management and General	17 %	20 %	16 %	18 %
Fundraising	27 %	14 %	27 %	15 %
Volunteer Recruitment	2 %	3 %	3 %	4 %

**Tax Status**

The Agency is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and similar Minnesota Statutes. The Agency is not considered a private foundation and contributions to the Agency are considered tax deductible.

The Agency follows the standard for accounting for uncertainty in income taxes recognized in an organization's financial statements. The policy prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The Agency files as a tax-exempt organization.

**Revenue Recognition**

Contributions, including unconditional promises to give, are recognized in the period received. Conditional promises are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met.

**Donated Services and Assets**

Contributions of services are recognized 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 provided by donation. Contributions of tangible assets are recognized at fair market value when received.

**BIG BROTHERS BIG SISTERS OF THE GREATER TWIN CITIES  
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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Reclassification**

Certain amounts for the year ended September 30, 2016 have been reclassified to conform with the presentation of the September 30, 2017 amounts. Special event expenses were reclassified to be included in expenses rather than presented net of special event revenue. The reclassifications have no effect on net assets for the year ended September 30, 2016.

**Subsequent Events**

In preparing these financial statements, the Agency has evaluated events and transactions for potential recognition or disclosure through February 1, 2018, the date the financial statements were available to be issued. Subsequent to year-end, the Agency received a contribution of \$1,761,000 from one donor.

**NOTE 2 PLEDGES RECEIVABLE**

Unconditional promises to give are included in the financial statements as pledges receivable and revenue in the appropriate net asset category.

Unconditional promises to give at September 30 are expected to be realized in the following periods:

	<u>2017</u>	<u>2016</u>
Pledges Receivable	\$ 755,811	\$ 1,199,017
Allowance for Uncollectible Pledges	(30,102)	(20,773)
Net Present Value Discount at 5%	(14,183)	(24,054)
Total	<u>\$ 711,526</u>	<u>\$ 1,154,190</u>
Amounts Due In:		
Less Than One Year	\$ 621,543	\$ 967,855
One to Five Years	89,983	186,335
Total	<u>\$ 711,526</u>	<u>\$ 1,154,190</u>



**BIG BROTHERS BIG SISTERS OF THE GREATER TWIN CITIES**  
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**NOTE 3 INVESTMENTS**

Investments consist of the following at September 30:

	2017	2016
Investments:		
Short-Term Investments:		
Certificates of Deposit	\$ -	\$ 1,802,743
Long-Term Investments:		
Stock Mutual Funds	1,104,253	1,119,432
Bond Mutual Funds	619,451	581,507
Real Estate Mutual Funds	229,199	47,394
Hedge Fund of Funds	1,053	6,286
Cash Held for Investment Purposes	-	6,968
Total Long-Term Investments	1,953,956	1,761,587
Total Investments	\$ 1,953,956	\$ 3,564,330

The Agency's investment in a hedge fund of funds is in liquidation. The balance in the hedge funds is recorded at its net asset value. The Agency has elected to receive full redemption which will occur over the next two years. As of September 30, 2017, the certificates of deposit were in the process of being renewed; however, the renewal had not been completed as of fiscal year-end.

**NOTE 4 FAIR VALUE MEASUREMENTS**

The following tables present the fair value hierarchy for the balances of the assets of the Agency measured at fair value on a recurring basis as of September 30, 2017 and 2016:

	2017			
	Level 1	Level 2	Level 3	Total
Certificates of Deposit	\$ -	\$ -	\$ -	\$ -
Stock Mutual Funds	1,104,253	-	-	1,104,253
Bond Mutual Funds	619,451	-	-	619,451
Real Estate Mutual Funds	229,199	-	-	229,199
Hedge Fund of Funds	-	-	1,053	1,053
Community Foundation Holdings	-	-	12,226	12,226
Total	\$ 1,952,903	\$ -	\$ 13,279	\$ 1,966,182
	2016			
	Level 1	Level 2	Level 3	Total
Certificates of Deposit	\$ 1,802,743	\$ -	\$ -	\$ 1,802,743
Stock Mutual Funds	1,119,432	-	-	1,119,432
Bond Mutual Funds	581,507	-	-	581,507
Real Estate Mutual Funds	47,394	-	-	47,394
Hedge Fund of Funds	-	-	6,286	6,286
Community Foundation Holdings	-	-	11,435	11,435
Total	\$ 3,551,076	\$ -	\$ 17,721	\$ 3,568,797

**BIG BROTHERS BIG SISTERS OF THE GREATER TWIN CITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)**

**Level 3 Assets and Liabilities**

The following tables provide a summary of changes in fair value of the Agency's Level 3 financial assets for the years ended September 30, 2017 and 2016:

	2017		
	Hedge Fund of Funds	Community Fund Holdings	Total
	Balance - Beginning of Year	\$ 6,286	\$ 11,435
Withdrawals	(5,233)	-	(5,233)
Realized Gain	-	-	-
Unrealized Loss	-	-	-
Change in Value of Community Foundation Holdings	-	791	791
Balance - End of Year	<u>\$ 1,053</u>	<u>\$ 12,226</u>	<u>\$ 13,279</u>

  

	2016		
	Hedge Fund of Funds	Community Fund Holdings	Total
	Balance - Beginning of Year	\$ 7,190	\$ 11,359
Withdrawals	(904)	-	(904)
Realized Gain	-	-	-
Unrealized Loss	-	-	-
Change in Value of Community Foundation Holdings	-	76	76
Balance - End of Year	<u>\$ 6,286</u>	<u>\$ 11,435</u>	<u>\$ 17,721</u>

**NOTE 5 PROPERTY AND EQUIPMENT**

Property and equipment consists of the following at September 30:

	2017	2016
Leasehold Improvements	\$ 73,432	\$ 73,432
Equipment	313,780	331,357
Furniture and Fixtures	233,294	233,294
Total Property and Equipment	<u>620,506</u>	<u>638,083</u>
Less: Accumulated Depreciation	<u>(526,137)</u>	<u>(567,436)</u>
Property and Equipment - Net	<u>\$ 94,369</u>	<u>\$ 70,647</u>

**BIG BROTHERS BIG SISTERS OF THE GREATER TWIN CITIES**  
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**NOTE 6 LINE OF CREDIT**

The Agency has a \$300,000 line of credit agreement with a financial institution. The line expires July 20, 2018 and is subject to renewal on an annual basis. The line requires interest at prime rate plus 0.5% with a floor of 4.5%. The Agency's assets are security for any principal amounts borrowed under the agreement. At September 30, 2017 and 2016, there was \$-0- outstanding on the line of credit.

**NOTE 7 CAPITAL LEASE**

The Agency has capital lease agreements for a postage machine and a copier. The cost of the equipment was \$23,380 as of September 30, 2017 and 2016. The accumulated depreciation as of September 30, 2017 and 2016 is \$21,228 and \$12,163, respectively. The following is a schedule of future minimum payments required under the leases:

<u>Year Ending September 30,</u>	<u>Amount</u>
2018	\$ 2,864
Less Amount Representing Interest	13
Present Value of Minimum Lease Payments	2,851
Less: Current Capital Lease Obligation	2,851
Net Long-Term Capital Lease Obligation	<u>\$ -</u>

**NOTE 8 OPERATING LEASES**

The Agency leases its office space under an operating lease which requires a monthly base rent, plus real estate taxes and operating expenses. The original lease expired in November 2008. In October 2007, the lease was amended to extend maturity to November 2016. In October 2013, the Agency again amended its lease to extend maturity to November 2020. Monthly base rent under the lease ranges from approximately \$13,526 to \$15,029.

For the years ended September 30, rental expenses were as follows:

	<u>2017</u>	<u>2016</u>
Base Rent Paid on a Straight-Line Basis	\$ 181,109	\$ 186,928
Real Estate Taxes and Operating Expenses	141,270	140,680
Other Equipment Lease Expense	600	600
Total	<u>\$ 322,979</u>	<u>\$ 328,208</u>

**BIG BROTHERS BIG SISTERS OF THE GREATER TWIN CITIES**  
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**NOTE 8 OPERATING LEASES (CONTINUED)**

The future payments on the leases as of September 30, 2017 are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2018	\$ 324,358
2019	327,965
2020	323,518
2021	54,104
Total	<u>\$ 1,029,945</u>

**NOTE 9 NET ASSETS**

**Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes at September 30:

	<u>2017</u>	<u>2016</u>
Program Restricted	\$ 885,359	\$ 1,086,388
Time Restricted	401,359	597,584
Total Temporarily Restricted Net Assets	<u>\$ 1,286,718</u>	<u>\$ 1,683,972</u>

Net assets released from restrictions were released for the following uses during the years ended September 30:

	<u>2017</u>	<u>2016</u>
Program Restricted	\$ 527,961	\$ 771,142
Time Restricted	510,103	948,630
Total Assets Released from Restriction	<u>\$ 1,038,064</u>	<u>\$ 1,719,772</u>

**Permanently Restricted Net Assets**

Permanently restricted net assets are restricted for the following purposes at September 30:

	<u>2017</u>	<u>2016</u>
Scholarships	\$ 21,740	\$ 21,740
Memorial Funds	36,484	36,484
Community Foundation Holdings	12,226	11,435
Other	5,200	5,200
Total Permanently Restricted Net Assets	<u>\$ 75,650</u>	<u>\$ 74,859</u>

**BIG BROTHERS BIG SISTERS OF THE GREATER TWIN CITIES  
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**NOTE 10 ENDOWMENT**

The Agency's endowment consists of six individual funds established for a variety of purposes. The endowment includes permanent endowments only. Net assets associated with endowment funds, including funds designated by the board of directors to function as an endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Application of Relevant Law**

The Agency follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA) which governs the use of donor-restricted endowment funds for a nonprofit organization.

The board of directors of the Agency has applied UPMIFA such that, absent donor stipulations to the contrary, donor-restricted endowment fund gifts are preserved at the fair value as of the date of gift. As a result of this application, the Agency classifies as permanently restricted net assets (1) the original value of the gifts to the permanent endowment, (2) the value of subsequent gifts to the permanent endowment, (3) accumulations made pursuant to the direction of the applicable donor gift investment at the time the accumulation is added to the fund, and (4) the portion of the investment return added to the funds to maintain its purchasing power.

Endowment net asset composition by type and changes in endowment net assets for the years ended September 30, 2017 and 2016 is as follows:

		2017			
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds		\$ -	\$ 21,113	\$ 63,424	\$ 84,537
		2016			
		Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment Funds		\$ -	\$ 14,288	\$ 63,424	\$ 77,712

**BIG BROTHERS BIG SISTERS OF THE GREATER TWIN CITIES  
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**NOTE 10 ENDOWMENT (CONTINUED)**

The following is a summary of endowment funds subject to UPMIFA for the years ended September 30, 2017 and 2016:

	2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment Investments - Beginning of Year	\$ -	\$ 14,288	\$ 63,424	\$ 77,712
Investment Income	-	6,825	-	6,825
Contributions	-	-	-	-
Endowment Investments - End of Year	<u>\$ -</u>	<u>\$ 21,113</u>	<u>\$ 63,424</u>	<u>\$ 84,537</u>
	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment Investments - Beginning of Year	\$ -	\$ 8,219	\$ 63,224	\$ 71,443
Investment Income	-	6,069	-	6,069
Contributions	-	-	200	200
Endowment Investments - End of Year	<u>\$ -</u>	<u>\$ 14,288</u>	<u>\$ 63,424</u>	<u>\$ 77,712</u>

**Fund with Deficiencies**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Agency to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. There were deficiencies of \$-0- as of September 30, 2017 and 2016.

**Investment Objectives and Strategies**

The Agency has adopted an investment policy to provide guidelines for investing endowment assets. Under this policy, the endowment assets are invested in a manner that is intended to manage for consistent total returns with a long-term growth objective, manage with a moderate level of risk, and maintain sufficient diversification of assets. To achieve these objectives, the Agency follows an asset diversification plan, sets performance benchmarks for investments managers, and has established various asset quality and limitations thresholds. An investment advisory committee regularly reviews investment diversification and performance.

**NOTE 11 RETIREMENT SAVINGS PLAN**

The Agency has a 403(b) retirement savings plan covering all eligible employees. The Agency makes discretionary contributions to the plan. Pension expense was \$54,033 and \$56,204 for the years ended September 30, 2017 and 2016, respectively.

**BIG BROTHERS BIG SISTERS OF THE GREATER TWIN CITIES**  
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**NOTE 12 CONCENTRATIONS**

The Agency received 39% and 51% of its operating support from two donors and three donors for the years ended September 30, 2017 and 2016, respectively.

The Agency's pledges receivable are from a limited number of individuals and organizations. As of September 30, 2017 and 2016, 26% and 51% of pledges, were from one and two donors, respectively.

The Agency's government grants receivables are from a limited number of governmental agencies.

**NOTE 13 IN-KIND DONATIONS AND SERVICES**

The Agency records various types of in-kind support, including certain professional services, materials, and equipment. The amounts reflected in the accompanying financial statements as in-kind support are offset by like amounts included in expenses or increase in property and equipment.

The Agency has recognized contributions for the following, with like amounts included in expenses or property and equipment for the years ended September 30:

	<u>2017</u>	<u>2016</u>
In-Kind Donations and Services:		
Event Tickets	\$ 42,730	\$ 28,816
Gala Décor	-	10,340
Gift Certificates	841	2,980
Investment Analysis	2,500	10,000
Services	15,646	13,612
Food and Beverage	500	6,327
Supplies	6,748	4,947
Other	876	2,866
Total In-Kind Donations and Services	<u>\$ 69,841</u>	<u>\$ 79,888</u>
In-Kind Expense Allocation:		
Program Services	\$ 46,455	\$ 33,146
Management and General	6,187	12,866
Fundraising	17,199	33,876
Total In-Kind Expense Allocation	<u>\$ 69,841</u>	<u>\$ 79,888</u>

In-kind contributions relating to special events in the amount of \$17,199 and \$33,876 are included in net special event revenue for the years ended September 30, 2017 and 2016, respectively.

**BIG BROTHERS BIG SISTERS OF THE GREATER TWIN CITIES**  
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**NOTE 14 VOLUNTEER SERVICES**

The Agency receives a significant amount of services from many unpaid volunteers who support the Agency's primary programmatic activities and supporting services. No amounts have been recognized in the accompanying statement of activities because the criteria for recognition of such volunteer effort have not been satisfied. However, volunteers are integral in carrying out the mission of the Agency.

**NOTE 15 RELATED PARTY TRANSACTIONS**

Annual dues paid to Big Brothers Big Sisters of America (BBBSA) were \$24,341 and \$22,764 during the years ended September 30, 2017 and 2016, respectively. For the years ended September 30, 2017 and 2016, the Agency received funding from BBBSA of \$331,919 and \$44,528, respectively, in the form of pass-through contributions. Pass-through contribution funding is awarded annually from BBBSA to various Big Brothers Big Sisters agencies across the nation.

Board members contributed \$109,521 and \$347,308 during the years ended September 30, 2017 and 2016, respectively.