

**BIG BROTHERS BIG SISTERS
INDEPENDENCE REGION**

FINANCIAL STATEMENTS

**WITH REPORTING REQUIREMENTS FOR
*GOVERNMENT AUDITING STANDARDS***

**DECEMBER 31, 2017 AND 2016
(with supplementary information)**

BIG BROTHERS BIG SISTERS INDEPENDENCE REGION

Contents

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements	
Statements of financial position as of December 31, 2017 and 2016	3
Statements of activities and changes in net assets for the years ended December 31, 2017 and 2016	4
Statements of functional expenses for the years ended December 31, 2017 and 2016	6
Statements of cash flows for the years ended December 31, 2017 and 2016	7
Notes to financial statements	8
Reporting Requirements for <i>Government Auditing Standards</i>	
Independent auditors' report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	19
Supplementary Information	
Schedule of outcome (unaudited)	21

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Big Brothers Big Sisters Independence Region

Report on the Financial Statements

We have audited the accompanying financial statements of Big Brothers Big Sisters Independence Region (the "Organization"), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for each of the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 Organization'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 Organization'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 on the previous page present fairly, in all material respects, the financial position of Big Brothers Big Sisters Independence Region as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for each of the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying nonaccounting information shown on the schedule of outcome on page 21, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. The nonaccounting information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2018 on our consideration of Big Brothers Big Sisters Independence Region's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Big Brothers Big Sisters Independence Region's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "EisnerAmper LLP". The signature is written in a cursive, flowing style.

EISNERAMPER LLP
Philadelphia, Pennsylvania
March 21, 2018

BIG BROTHERS BIG SISTERS INDEPENDENCE REGION

Statements of Financial Position

	December 31	
	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 755,081	\$ 955,302
Contributions, pledges and grants receivable	1,588,832	1,713,375
Investments	2,732,177	2,935,077
Prepaid expenses	24,980	18,782
Total current assets	5,101,070	5,622,536
Property and equipment:		
Land	10,000	10,000
Building and leasehold improvements	304,843	268,346
Furniture, fixtures and equipment	201,589	163,223
	516,432	441,569
Less accumulated depreciation	361,567	318,501
Net property and equipment	154,865	123,068
Other assets:		
Contributions, pledges, and grants receivable, net	19,645	45,522
Deposits and other assets	10,636	10,636
Escrow, unemployment fund	14,248	19,450
Total other assets	44,529	75,608
	\$ 5,300,464	\$ 5,821,212
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	\$ 138,223	\$ 155,550
Deferred revenue	-	29,000
Deferred rent	93,315	90,653
Total liabilities	231,538	275,203
Commitments		
NET ASSETS		
Unrestricted:		
Operations	4,073,075	4,350,182
Board designated	350,000	350,000
	4,423,075	4,700,182
Temporarily restricted	609,901	809,877
Permanently restricted	35,950	35,950
Total net assets	5,068,926	5,546,009
	\$ 5,300,464	\$ 5,821,212

BIG BROTHERS BIG SISTERS INDEPENDENCE REGION

Statement of Activities and Changes in Net Assets Year Ended December 31, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenues and support:				
Government funding	\$ 1,492,630	\$ -	\$ -	\$ 1,492,630
Foundations, corporate and other support	1,325,250	676,843	-	2,002,093
Contributions	915,364	225,000	-	1,140,364
Special events, net of direct benefit to donors of \$459,847	877,241	-	-	877,241
In-kind contribution	467,741	-	-	467,741
Net assets released from restrictions	1,101,819	(1,101,819)	-	-
	<u>6,180,045</u>	<u>(199,976)</u>	<u>-</u>	<u>5,980,069</u>
Operating expenses:				
Program services:				
Mentoring services	5,103,829	-	-	5,103,829
Mentor Independence Region	197,221	-	-	197,221
Supporting services:				
Management and general	576,740	-	-	576,740
Fundraising	987,288	-	-	987,288
	<u>6,865,078</u>	<u>-</u>	<u>-</u>	<u>6,865,078</u>
Decrease in net assets from operations	<u>(685,033)</u>	<u>(199,976)</u>	<u>-</u>	<u>(885,009)</u>
Nonoperating activities:				
Net realized and unrealized gain on investments	338,574	-	-	338,574
Interest and dividend income	69,352	-	-	69,352
Increase in net assets from nonoperating activities	<u>407,926</u>	<u>-</u>	<u>-</u>	<u>407,926</u>
Change in net assets	<u>(277,107)</u>	<u>(199,976)</u>	<u>-</u>	<u>(477,083)</u>
Net assets at beginning of year	<u>4,700,182</u>	<u>809,877</u>	<u>35,950</u>	<u>5,546,009</u>
Net assets at end of year	<u>\$ 4,423,075</u>	<u>\$ 609,901</u>	<u>\$ 35,950</u>	<u>\$ 5,068,926</u>

See notes to financial statements

BIG BROTHERS BIG SISTERS INDEPENDENCE REGION

Statement of Activities and Changes in Net Assets Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Operating revenues and support:				
Government funding	\$ 1,627,453	\$ -	\$ -	\$ 1,627,453
Foundations, corporate and other support	1,682,153	940,670	-	2,622,823
Contributions	847,791	22,216	-	870,007
Special events, net of direct benefit to donors of \$247,520	871,256	-	-	871,256
Net assets released from restrictions	<u>725,413</u>	<u>(725,413)</u>	<u>-</u>	<u>-</u>
	<u>5,754,066</u>	<u>237,473</u>	<u>-</u>	<u>5,991,539</u>
Operating expenses:				
Program services:				
Mentoring services	4,390,560	-	-	4,390,560
Mentoring Resource Center	185,411	-	-	185,411
Supporting services:				
Management and general	567,531	-	-	567,531
Fundraising	<u>1,131,971</u>	<u>-</u>	<u>-</u>	<u>1,131,971</u>
	<u>6,275,473</u>	<u>-</u>	<u>-</u>	<u>6,275,473</u>
Increase (decrease) in net assets from operations	<u>(521,407)</u>	<u>237,473</u>	<u>-</u>	<u>(283,934)</u>
Nonoperating activities:				
Net realized and unrealized gain on investments	149,272	-	-	149,272
Gain on sale of vehicles	19,500	-	-	19,500
Interest and dividend income	68,263	-	-	68,263
Excess of net assets acquired in acquisition of Big Brothers Big Sisters of Burlington, Camden and Gloucester Counties	<u>159,562</u>	<u>10,085</u>	<u>-</u>	<u>169,647</u>
	<u>396,597</u>	<u>10,085</u>	<u>-</u>	<u>406,682</u>
Change in net assets	(124,810)	247,558	-	122,748
Net assets at beginning of year	<u>4,824,992</u>	<u>562,319</u>	<u>35,950</u>	<u>5,423,261</u>
Net assets at end of year	<u>\$ 4,700,182</u>	<u>\$ 809,877</u>	<u>\$ 35,950</u>	<u>\$ 5,546,009</u>

BIG BROTHERS BIG SISTERS INDEPENDENCE REGION

Statements of Functional Expenses

	Year Ended December 31									
	2017					2016				
	Program Services		Supporting Services			Program Services		Supporting Services		Total Expenses
	Mentoring Services	Mentor Independence Region	Management and General	Fundraising	Mentoring Services	Mentoring Resource Center	Management and General	Fundraising		
Employee related expenses	\$ 3,750,711	\$ 146,980	\$ 374,131	\$ 676,998	\$ 4,948,820	\$ 3,421,377	\$ 137,267	\$ 367,296	\$ 758,952	\$ 4,684,892
Professional fees	94,126	10,088	98,338	81,081	283,633	39,865	19,759	122,876	104,875	287,375
Facilities expenses	442,387	17,336	44,128	79,850	583,701	480,605	19,282	51,594	106,612	658,093
Equipment and office expenses	111,619	4,374	11,134	20,147	147,274	62,109	2,492	6,668	13,777	85,046
Contributed software	325,219	12,744	32,440	58,702	429,105	-	-	-	-	-
Travel, conferences and meetings	88,149	2,999	9,029	22,357	122,534	75,740	2,740	10,648	15,605	104,733
Insurance	42,545	1,667	4,244	7,679	56,135	51,978	2,085	5,580	11,531	71,174
Marketing and fund development	2,268	905	40	33,431	36,644	11,751	1,679	-	75,049	88,479
Program and recruitment activities	214,165	-	-	-	214,165	220,411	-	-	-	220,411
Bad debt expense	-	-	-	-	-	-	-	-	38,677	38,677
Depreciation	32,640	128	3,256	7,043	43,067	26,724	107	2,869	6,893	36,593
	<u>\$ 5,103,829</u>	<u>\$ 197,221</u>	<u>\$ 576,740</u>	<u>\$ 987,288</u>	<u>\$ 6,865,078</u>	<u>\$ 4,390,560</u>	<u>\$ 185,411</u>	<u>\$ 567,531</u>	<u>\$ 1,131,971</u>	<u>\$ 6,275,473</u>

BIG BROTHERS BIG SISTERS INDEPENDENCE REGION

Statements of Cash Flows

	Year Ended December 31	
	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ (477,083)	\$ 122,748
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	43,067	36,593
Bad debt expense	-	38,677
Realized and unrealized gain on investments	(338,574)	(149,272)
Gain on sale of vehicles	-	(19,500)
Donated computer software	(38,366)	-
Donated securities	(12,504)	(2,076)
Proceeds from sale of donated securities	-	2,042
Excess of net assets acquired over cash received in acquisition of Big Brothers Big Sisters of Burlington, Camden and Gloucester Counties	-	(34,092)
(Increase) decrease in assets:		
Contributions, pledges, and grants receivable	150,420	465,026
Prepaid expenses	(6,198)	6,597
Escrow, unemployment fund	5,202	(3,715)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(17,328)	(14,871)
Deferred revenue	(29,000)	(11,299)
Deferred rent	2,662	30,614
	<u>(717,702)</u>	<u>467,472</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities:		
Proceeds from sale of vehicles	-	19,500
Purchase of property and equipment	(36,497)	(15,130)
Proceeds from sale of investments	1,120,956	711,763
Purchase of investments	(566,978)	(671,812)
	<u>517,481</u>	<u>44,321</u>
Net cash provided by investing activities		
Change in cash and cash equivalents	(200,221)	511,793
Cash and cash equivalents at beginning of year	<u>955,302</u>	<u>443,509</u>
Cash and cash equivalents at end of year	<u>\$ 755,081</u>	<u>\$ 955,302</u>

BIG BROTHERS BIG SISTERS INDEPENDENCE REGION

Notes to Financial Statements December 31, 2017 and 2016

NOTE A - ORGANIZATION

The mission of Big Brothers Big Sisters Independence Region (the "Organization") is to improve the lives of children and strengthen communities through professionally supported, one-to-one mentoring relationships.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Basis of presentation:

The financial statements of the Organization have been prepared utilizing the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Effective January 1, 2016, Big Brothers Big Sisters Southeastern Pennsylvania acquired Big Brothers Big Sisters of Burlington, Camden and Gloucester Counties. The combined entity is now known as Big Brothers Big Sisters Independence Region to reflect the newly-expanded geographic area. Through this affiliation, the entities seek to achieve economies of scale and other synergies through integrating their services. Following is a summary of the assets and liabilities of Big Brothers Big Sisters of Burlington, Camden and Gloucester Counties as of December 31, 2015 that, as of January 1, 2016, is included in Big Brothers Big Sister Independence Region's financial statements under the terms of the acquisition agreement:

ASSETS

Cash and cash equivalents	\$ 135,555
Receivable	77,961
Prepaid expense	2,822
Deposits	<u>2,900</u>

Total assets \$ 219,238

LIABILITIES

Accounts payable and accrued expenses	\$ 9,292
Deferred income	<u>40,299</u>

Total liabilities 49,591

NET ASSETS

Unrestricted	159,562
Temporarily restricted	<u>10,085</u>

Total net assets 169,647

Total liabilities and net assets \$ 219,238

BIG BROTHERS BIG SISTERS INDEPENDENCE REGION

Notes to Financial Statements December 31, 2017 and 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[2] Use of estimates:

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

[3] Cash and cash equivalents:

Cash and cash equivalents include all cash balances and highly liquid investments with initial maturities of three months or less. The Organization places its temporary cash investments with high credit quality financial institutions. At times, such funds may be in excess of the Federal Deposit Insurance Corporation insurance limit. Management believes that it is not exposed to any significant credit risks on its cash accounts.

[4] Revenue recognition:

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions of assets other than cash are recorded at their estimated fair value at the date of donation. Conditional promises to give are not included as revenue until such time as the conditions are substantially met. Revenue from government grants is recognized as expenditures are made. Special event revenue is recognized when the event takes place. Deferred revenue consists of amounts received in advance for an event to be held in the next fiscal year. Amounts will be recognized as revenue when such event occurs.

[5] Contributions, pledges and grants receivable:

Contributions receivable include individual, corporate and foundation amounts. The Organization records promises to give at the estimated present value of the future cash flows, net of an allowance for doubtful accounts. The allowance is based on prior years' experience and management's analysis of specific promises made, collectability and historical trends in collection. All contributions are available for unrestricted use unless specifically restricted by the donor.

[6] Investments:

Investments in marketable securities with readily determinable fair values and all investments in debt and equity securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets and are net of investment expenses of \$11,584 and \$11,204 for the years ended December 31, 2017 and 2016, respectively. At the Board's discretion, funds may be transferred from the investment accounts to be used for general operating expenses and/or for budgeted program expenses. The Organization transferred \$600,000 and \$100,000 of the investment balance during the years ended December 31, 2017 and 2016, respectively.

BIG BROTHERS BIG SISTERS INDEPENDENCE REGION

Notes to Financial Statements December 31, 2017 and 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[7] Property and equipment and depreciation:

Property and equipment are stated at cost less accumulated depreciation. Renewals and betterments are added to the property accounts while ordinary maintenance and repairs are expensed currently. Upon sale or retirement of an asset, the cost and related accumulated depreciation are removed from the accounts and the resultant gain or loss, if any, is included in the statements of activities and changes in net assets. Donated equipment is capitalized at its approximate fair value as of the date of the donation.

Depreciation is provided using straight-line as well as accelerated methods over the estimated useful lives of the related assets, ranging from three to thirty-nine years. Depreciation for the years ended December 31, 2017 and 2016 was \$43,067 and \$36,593, respectively.

Management evaluates the recoverability of long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. Long-lived assets were tested for impairment as of December 31, 2017 and 2016, and in the opinion of management, there was no impairment. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

[8] Classification of net assets:

The Organization's net assets have been grouped into the following three classes:

- ***Unrestricted***

Unrestricted net assets are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors. As of December 31, 2017 and 2016, the Board has designated \$350,000 to be used toward program activities in subsequent years.

- ***Temporarily Restricted***

Temporarily restricted net assets represent those resources that have been restricted by donors for time and specific purposes. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying statements of activities and changes in net assets as net assets released from restrictions.

- ***Permanently Restricted***

Permanently restricted net assets are subject to donor-imposed stipulations that the assets be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

[9] Functional expenses:

Expenses are charged to program services based on direct expenditures incurred. Any expenditure not directly chargeable has been allocated among program and supporting services classifications on the basis of time records and estimates made by the Organization's management.

BIG BROTHERS BIG SISTERS INDEPENDENCE REGION

Notes to Financial Statements December 31, 2017 and 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[10] In-kind contributions:

Included in operating revenues and support for the year ended December 31, 2017 is \$467,471 in contributed computer equipment and software licenses. The contribution included \$38,366 of computer server software that has been capitalized and the remaining \$429,105 is included as contributed software on the statement of functional expenses.

[11] New accounting pronouncements:

In February 2016, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. The ASU's core principle is to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the statement of financial condition and disclosing key information. ASU 2016-02 will be effective for fiscal years beginning after December 15, 2019, with early adoption permitted. Management is evaluating the effect that this new guidance will have on its financial statements and related disclosures.

In August 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 amends the presentation and disclosures to help not-for-profit organizations provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 includes qualitative and quantitative requirements in the following areas: a) net asset classes, b) investment return, c) expenses, d) liquidity and availability of resources, and e) presentation of operating cash flows. The new standard will be effective for fiscal years beginning after December 15, 2017, with early adoption permitted. The adoption of ASU 2016-14 will require reclassification of net asset classes and additional disclosures related to liquidity and availability of resources.

NOTE C - CONTRIBUTIONS, PLEDGES AND GRANTS RECEIVABLE

Contributions, pledges, and grants receivable, which are receivable in more than one year, are discounted at a risk-free rate of return appropriate for the expected term of the promise to give, and approximate the net present value of the estimated future cash flows. In determining fair value, the Organization considers the creditworthiness of the donors, the Organization's past collection experience and its procedures to collect promises to give.

Contributions, pledges, and grants receivable as of December 31, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Less than one year	\$ 1,588,832	\$ 1,736,612
One year to five years	20,500	63,975
Total receivables	1,609,332	1,800,587
Less total discounts to net present value	855	1,753
Less allowance for uncollectable receivables	<u>-</u>	<u>39,937</u>
Total net receivables	<u>\$ 1,608,477</u>	<u>\$ 1,758,897</u>

Pledges which are receivable in more than one year are discounted at rates ranging from 1.75% to 5%.

BIG BROTHERS BIG SISTERS INDEPENDENCE REGION

Notes to Financial Statements December 31, 2017 and 2016

NOTE D - INVESTMENTS

The Organization's investment activity for the years ended December 31, 2017 and 2016 is summarized as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Excess of Fair Value Over Cost</u>
For the year ended December 31, 2017:			
Balance at end of year	<u>\$ 2,259,591</u>	<u>\$ 2,732,177</u>	\$ 472,586
Balance at beginning of year	<u>\$ 2,715,401</u>	<u>\$ 2,935,077</u>	219,676
Increase in unrealized gain			252,910
Net realized gain for year			<u>85,664</u>
Total net gain on investments			<u>\$ 338,574</u>
	<u>Cost</u>	<u>Fair Value</u>	<u>Excess of Fair Value Over Cost</u>
For the year ended December 31, 2016:			
Balance at end of year	<u>\$ 2,715,401</u>	<u>\$ 2,935,077</u>	\$ 219,676
Balance at beginning of year	<u>\$ 2,751,776</u>	<u>\$ 2,825,722</u>	73,946
Increase in unrealized gain			145,730
Realized net gain for year			<u>3,542</u>
Total net gain on investments			<u>\$ 149,272</u>

BIG BROTHERS BIG SISTERS INDEPENDENCE REGION

Notes to Financial Statements December 31, 2017 and 2016

NOTE E - FAIR VALUE MEASUREMENTS

In determining fair value, the Organization uses various approaches, including market, income and/or cost approaches. The Organization uses a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy and the Organization's related classification of investments are described below:

Level 1 – Values are based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, or inputs that are derived principally from or corroborated by observable market data. There were no Level 2 investments as of December 31, 2017 or 2016.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. There were no Level 3 investments as of December 31, 2017 or 2016.

The financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying assets and liabilities.

The following is a description of the valuation methodologies used for assets measured at fair value, which have not changed from those used as of December 31, 2016.

Mutual funds – Valued at the net asset value of shares held by the Organization at year-end.

Common stocks and exchange-traded funds – Valued at the closing price reported on the active market on which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

BIG BROTHERS BIG SISTERS INDEPENDENCE REGION

Notes to Financial Statements December 31, 2017 and 2016

NOTE E - FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables set forth, by level, the Organization's investment assets at fair value, within the fair value hierarchy, as of December 31, 2017 and 2016:

	Investment Assets at Fair Value as of			
	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Common stocks:				
Energy	\$ 5,983	\$ -	\$ -	\$ 5,983
Mutual funds:				
Bond funds:				
Limited term	126,357	-	-	126,357
High yield	235,305	-	-	235,305
Foreign bonds	381,425	-	-	381,425
Equity funds:				
Strategy	276,261	-	-	276,261
International	121,537	-	-	121,537
Large growth	152,117	-	-	152,117
Total mutual funds	1,293,002	-	-	1,293,002
Exchange-traded funds:				
Emerging markets	323,706	-	-	323,706
Large value	299,239	-	-	299,239
Large core	250,069	-	-	250,069
Large growth	100,216	-	-	100,216
Energy	85,989	-	-	85,989
Financial	97,110	-	-	97,110
Health care	43,407	-	-	43,407
Technology	233,456	-	-	233,456
Total exchange-traded funds	1,433,192	-	-	1,433,192
Total investment assets at fair value	\$ 2,732,177	\$ -	\$ -	\$ 2,732,177

BIG BROTHERS BIG SISTERS INDEPENDENCE REGION

Notes to Financial Statements December 31, 2017 and 2016

NOTE E - FAIR VALUE MEASUREMENTS (CONTINUED)

	Investment Assets at Fair Value as of			Total
	December 31, 2016			
	Level 1	Level 2	Level 3	
Common stocks:				
Energy	\$ 903	\$ -	\$ -	\$ 903
Health care	5,069	-	-	5,069
Industrials	11	-	-	11
Total common stocks	5,983	-	-	5,983
Mutual funds:				
Bond funds:				
Limited term	232,121	-	-	232,121
High yield	228,991	-	-	228,991
Foreign bonds	561,713	-	-	561,713
Equity funds:				
Strategy	131,114	-	-	131,114
International	95,059	-	-	95,059
Large growth	127,236	-	-	127,236
Total mutual funds	1,376,234	-	-	1,376,234
Exchange-traded funds:				
Emerging markets	286,689	-	-	286,689
Large value	415,947	-	-	415,947
Large core	237,701	-	-	237,701
Large growth	110,797	-	-	110,797
Energy	136,743	-	-	136,743
Financial	127,865	-	-	127,865
Health care	107,177	-	-	107,177
Technology	129,941	-	-	129,941
Total exchange-traded funds	1,552,860	-	-	1,552,860
Total investment assets at fair value	\$ 2,935,077	\$ -	\$ -	\$ 2,935,077

Changes in fair value levels:

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. For the years ended December 31, 2017 and 2016, there were no transfers into or out of Levels 1, 2 or 3.

BIG BROTHERS BIG SISTERS INDEPENDENCE REGION

Notes to Financial Statements December 31, 2017 and 2016

NOTE F - LINE-OF-CREDIT

The Organization has a revolving line-of-credit to finance operations, which has a maximum borrowing availability of \$500,000, and bears interest at the bank's prime rate (prime was 4.5% as of December 31, 2017). Pursuant to the agreement, the Organization must maintain an average deposit and operating balance of \$250,000. There was no outstanding balance on this line-of-credit as of December 31, 2017 or 2016. The maturity date of the line-of-credit is September 30, 2018. This obligation is secured by substantially all assets of the Organization.

NOTE G - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets' activity for the years ended December 31, 2017 and 2016 is as follows:

	<u>Balance, January 1, 2017</u>	<u>Restricted Funds Received</u>	<u>Released from Restrictions</u>	<u>Balance, December 31, 2017</u>
Time restricted	\$ 72,347	\$ -	\$ 20,692	\$ 51,655
Purpose restricted:				
Mentoring services	737,530	816,843	1,052,794	501,579
Mentor Independence Region	<u>-</u>	<u>85,000</u>	<u>28,333</u>	<u>56,667</u>
	<u>\$ 809,877</u>	<u>\$ 901,843</u>	<u>\$ 1,101,819</u>	<u>\$ 609,901</u>
	<u>Balance, January 1, 2016</u>	<u>Restricted Funds Received</u>	<u>Released from Restrictions</u>	<u>Balance, December 31, 2016</u>
Time restricted	\$ 91,260	\$ 22,216	\$ 41,129	\$ 72,347
Purpose restricted:				
Mentoring services	<u>471,059</u>	<u>950,755</u>	<u>684,284</u>	<u>737,530</u>
	<u>\$ 562,319</u>	<u>\$ 972,971</u>	<u>\$ 725,413</u>	<u>\$ 809,877</u>

NOTE H - PERMANENTLY RESTRICTED NET ASSETS

Big Brothers Big Sisters Independence Region received permanently restricted net assets in the amount of \$35,950 as a result of a prior merger with Montgomery County Big Brothers Big Sisters Association, Inc. The earnings on these permanently restricted net assets are used for general operations.

BIG BROTHERS BIG SISTERS INDEPENDENCE REGION

Notes to Financial Statements December 31, 2017 and 2016

NOTE I - UNCERTAINTY IN INCOME TAXES

The Internal Revenue Service has classified the Organization as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("Code"); as an organization, contributions to which are deductible under Section 170(c) of the Code; and as an organization that is not a private foundation as defined in Section 509(a) of the Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken and recognize a tax liability, if the Organization has taken an uncertain tax position that more likely than not would not be sustained upon examination by a government authority. Management has analyzed the tax positions taken by the Organization and has concluded that as of December 31, 2017 and 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

The Organization recognizes accrued interest and penalties associated with uncertain tax positions, if any, as part of management and general expenses. There were no income tax related interest and penalties recorded for either of the years ended December 31, 2017 or 2016.

NOTE J - LEASE OBLIGATIONS

The Organization leases its facilities under operating leases with various terms expiring through 2023. Payments range from approximately \$1,000 per month to approximately \$23,000 per month over the terms of the leases. Rental expense for the years ended December 31, 2017 and 2016 was \$380,177 and \$373,243, respectively. Scheduled future minimum lease payments for leases with terms in excess of one year as of December 31, 2017 are as follows:

<u>Year Ending December 31</u>	
2018	\$ 255,327
2019	258,356
2020	263,873
2021	269,389
2022	274,906
Thereafter	<u>45,971</u>
	<u>\$ 1,367,822</u>

The Organization has obtained a bank letter-of-credit in the amount of \$100,000 in support of a lease for office space. This letter-of-credit expires on February 17, 2019 and is in favor of the Organization's landlord.

NOTE K - RETIREMENT PLAN

The Organization has a 403(b) defined-contribution retirement plan that covers all eligible employees. Employees may contribute to a voluntary tax-deferred annuity program up to the amount allowed by the Code. The Organization contributed \$21,330 and \$18,606 in matching contributions for the years ended December 31, 2017 and 2016, respectively.

BIG BROTHERS BIG SISTERS INDEPENDENCE REGION

Notes to Financial Statements December 31, 2017 and 2016

NOTE L - FUNCTIONALIZED EXPENSE CLASSIFICATIONS

During each fiscal year, the Organization's expenses, as reported on a functional basis, were as follows:

	<u>2017</u>	<u>2016</u>
Program services:		
Mentoring	\$ 5,103,829	\$ 4,390,560
Mentor Independence Region	<u>197,221</u>	<u>185,411</u>
Total program services	5,301,050	4,575,971
Management and general	576,740	567,531
Fundraising (includes direct benefit to donors of \$459,847 in 2017 and \$247,520 in 2016)	<u>1,447,135</u>	<u>1,379,491</u>
	<u>\$ 7,324,925</u>	<u>\$ 6,522,993</u>

NOTE M - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through March 21, 2018, which is the date the financial statements were available to be issued.

**REPORTING REQUIREMENTS FOR
GOVERNMENT AUDITING STANDARDS**



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Big Brothers Big Sisters Independence Region

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Big Brothers Big Sisters Independence Region, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 21, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Big Brothers Big Sisters Independence Region's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Big Brothers Big Sisters Independence Region's internal control. Accordingly, we do not express an opinion on the effectiveness of Big Brothers Big Sisters Independence Region's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Big Brothers Big Sisters Independence Region's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Big Brothers Big Sisters Independence Region's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Big Brothers Big Sisters Independence Region's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Big Brothers Big Sisters Independence Region's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

The logo for EisnerAmper LLP is written in a cursive, handwritten-style font. The letters are black and the overall appearance is that of a signature or a stylized brand mark.

EISNERAMPER LLP
Philadelphia, Pennsylvania
March 21, 2018