

# SUMMARY OF FINANCIAL RESULTS

## FISCAL YEAR 2019

**Organization:** Big Brothers Big Sisters of the Bay Area

**Date:** January 10, 2020

---

Our organization received a “clean” or “unqualified” audit opinion for the fiscal year July 1, 2018, through June 30, 2019; this is the highest level of assurance an audit firm can issue. While a clean opinion is something for which we strive, the opinion alone does not tell stakeholders much about “how” Big Brothers Big Sisters of the Bay Area (“BBBSBA”) is doing financially. Therefore, we would like to call attention to a few key financial indicators that give a clearer picture of the organization’s financial health.

### **Operating Results**

One of the most important indicators of financial health is the organization’s ability to break-even or generate an operating surplus each year. Our total unrestricted revenues exceeded our total expenses in 2 of the past three years. The organization had a surplus of \$308,467 in fiscal year 2019, a deficit of -\$579,419 in fiscal year 2018, and a surplus of \$284,246 in fiscal year 2017. The deficit in fiscal year 2018 indicates the financial effects of the 2017 merger between BBBSBA and North Bay; in the weeks running up to the dissolution of the North Bay, they continued to receive donations during a time that BBBSBA had assumed responsibilities for their expenses. The operating deficit in fiscal year 2018 was funded by the asset transfer as a result of the merger, and through a line of credit.

### **Investment of Resources**

We have an allocation plan that we use to distribute expenses across the three functional categories: program, management and general (M&G), and fundraising. Our allocation methodology is driven by staff level of effort. Direct expenses are charged to the appropriate program or function. Shared costs – such as rent, utilities, and insurance – are then allocated to each of the functions based on the staff level of effort percentages. As a result of this process, our Statement of Functional Expenses shows that program expense makes up 68.2% of our total expenses. M&G expense makes up 9.7% of our total expenses and fundraising expense making up the remaining 22.1% of the total. This approach to calculating and presenting expenses on a functional basis is consistent with the presentation in prior years.

### **Availability of Liquid Reserves**

An organization's Liquid Unrestricted Net Assets (LUNA) – also referred to as "operating reserves" – is the portion of unrestricted net assets that can be converted to cash relatively easily. It is a measure of funds available to an organization for guarding against downturns, pursuing new opportunities, and providing working capital in times of low cash flow. LUNA is the portion of Unrestricted Net Assets not designated by the Board of Directors for a particular purpose, or otherwise invested in fixed assets.

As of our most recent financial statements, Big Brothers Big Sisters of the Bay Area had \$312,238 of LUNA, enough to cover approximately 1.5 months of operating expenses. This amount is below the 3-6 month recommended benchmark; however, our LUNA has increased over the past year. In December 2018, the Board of Directors for the organization approved a motion to sell the property at 1618 Second Street, San Rafael, converting the fixed asset into a liquid asset that will provide operational reserves for the organization. That property was sold in June 2019.

Although our permanently restricted net assets amount to \$49,695 as of the end of the fiscal year, we recognize that these funds are not available for internal borrowing.

### **Plans for the Future**

Based on the financial metrics described above, Big Brothers Big Sisters of the Bay Area is currently in a stable financial position and will focus on the following areas to build our organizational sustainability for the future:

- For the current fiscal year, we plan to generate an operating surplus to continue to stabilize our cashflow post-merger.
- For the upcoming fiscal year, we will be assessing year one of our multi-year strategic plan to determine the financial, programmatic and fundraising goals and strategies for the newly expanded BBBSBA to ensure we are well-positioned to continue to serve the Bay Area now and into the future.
- We will also be forming an Investment Committee in order to managed our reserves going forward.

**BIG BROTHERS BIG SISTERS OF THE BAY AREA, INC.**

**SAN FRANCISCO, CALIFORNIA**

**FINANCIAL STATEMENTS**

**JUNE 30, 2019**

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5
Statements of Cash Flows	6
Notes to the Financial Statements	7-16

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Big Brothers Big Sisters of the Bay Area, Inc.  
San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of Big Brothers Big Sisters of the Bay Area, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses and cash flows for the year 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 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 opinions.

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 Bay Area, Inc. as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2B, Big Brothers Big Sisters of the Bay Area, Inc. adopted the Financial Accounting Standards Board's Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities* as of and for the year ended June 30, 2019. The requirements of the Accounting Standards Update have been applied retrospectively to all years presented. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Organization's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 15, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*R.J. Ricciardi, Inc.*

R.J. Ricciardi, Inc.  
Certified Public Accountants

San Rafael, California  
November 27, 2019

Big Brothers Big Sisters of the Bay Area, Inc.  
STATEMENTS OF FINANCIAL POSITION  
 June 30, 2019  
 (With Comparative Totals for June 30, 2018)

	2019	2018
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 908,443	\$ 219,075
Grants and pledges receivable, net	260,679	125,002
Prepaid expenses and other current assets	35,803	80,262
Total current assets	1,204,925	424,339
Non-current assets:		
Restricted cash and cash equivalents	49,695	49,552
Grants and pledges receivable, net	-	14,543
Fixed assets, net of accumulated depreciation	48,967	760,360
Total non-current assets	98,662	824,455
Total assets	\$ 1,303,587	\$ 1,248,794
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 54,620	\$ 88,561
Accrued payroll	64,946	77,297
Accrued vacation	120,596	111,832
Notes payable, current portion	-	4,914
Total current liabilities	240,162	282,604
Non-current liabilities:		
Notes payable, net of current portion	-	211,232
Total non-current liabilities	-	211,232
Total liabilities	240,162	493,836
Net assets:		
Net assets without donor restrictions	690,205	488,088
Net assets with donor restrictions	373,220	266,870
Total net assets	1,063,425	754,958
Total liabilities and net assets	\$ 1,303,587	\$ 1,248,794

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

Big Brothers Big Sisters of the Bay Area, Inc.  
STATEMENTS OF ACTIVITIES  
For the Year Ended June 30, 2019  
(With Comparative Totals for the Year Ended June 30, 2018)

	Without Donor Restrictions	With Donor Restrictions	Total 2019	Total 2018
Revenues:				
Public support and grants	\$ 1,050,381	\$ 469,557	\$ 1,519,938	\$ 1,107,346
Government grants	-	-	-	71,483
Special events, net	813,973	-	813,973	732,801
In-kind contributions	136,246	-	136,246	139,410
Other income	-	126	126	670
Gain on sale of fixed assets	367,921	-	367,921	-
Net assets released from restrictions	<u>363,333</u>	<u>(363,333)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>2,731,854</u>	<u>106,350</u>	<u>2,838,204</u>	<u>2,051,710</u>
Expenses:				
Program services:				
Mentoring	<u>1,724,338</u>	<u>-</u>	<u>1,724,338</u>	<u>1,762,842</u>
Supportive services:				
Management and general	245,886	-	245,886	291,338
Fundraising	<u>559,513</u>	<u>-</u>	<u>559,513</u>	<u>576,949</u>
Total supportive services	<u>805,399</u>	<u>-</u>	<u>805,399</u>	<u>868,287</u>
Total expenses	<u>2,529,737</u>	<u>-</u>	<u>2,529,737</u>	<u>2,631,129</u>
Change in net assets	202,117	106,350	308,467	(579,419)
Net assets, beginning of period	488,088	266,870	754,958	490,951
Net assets transfer	<u>-</u>	<u>-</u>	<u>-</u>	<u>843,426</u>
Net assets, end of period	<u>\$ 690,205</u>	<u>\$ 373,220</u>	<u>\$ 1,063,425</u>	<u>\$ 754,958</u>

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

Big Brothers Big Sisters of the Bay Area, Inc.  
STATEMENTS OF FUNCTIONAL EXPENSES  
For the Year Ended June 30, 2019  
(With Comparative Totals for the Year Ended June 30, 2018)

	Program	Supportive Services			Total 2019	Total 2018
	Services	Management		Subtotal		
	Mentoring	and General	Fundraising			
Expenses:						
Salaries and wages	\$ 1,100,994	\$ 101,163	\$ 316,656	\$ 417,819	\$ 1,518,813	\$ 1,499,790
Payroll taxes	81,844	7,014	22,208	29,222	111,066	109,836
Employee benefits	130,141	11,925	35,328	47,253	177,394	177,730
Business expenses	7,314	4,158	43,230	47,388	54,702	51,134
Contract services	3,491	63,259	2,909	66,168	69,659	174,626
In-kind professional services	-	32,357	29,250	61,607	61,607	52,352
Occupancy	190,277	4,862	23,088	27,950	218,227	199,151
In-kind facility rent	28,350	-	-	-	28,350	22,686
Depreciation	31,335	1,157	5,731	6,888	38,223	18,246
Equipment rental and maintenance	9,518	310	1,022	1,332	10,850	10,122
Office maintenance	2,249	109	241	350	2,599	8,016
Facilities and equipment	-	9,153	-	9,153	9,153	418
Printing	457	3	11,755	11,758	12,215	14,216
Office supplies	9,921	137	831	968	10,889	25,305
Telephone and internet	27,720	910	4,484	5,394	33,114	35,799
Program supplies	14,419	-	-	-	14,419	12,880
In-kind supplies	-	-	45,915	45,915	45,915	52,364
Operations expenses	10,880	369	2,349	2,718	13,598	29,844
Insurance	21,016	6,603	3,836	10,439	31,455	40,924
Interest expense	16,558	625	2,995	3,620	20,178	7,839
Travel	15,781	563	4,329	4,892	20,673	28,911
Meetings and conferences	5,803	594	413	1,007	6,810	10,950
Payments to affiliates	16,270	615	2,943	3,558	19,828	17,990
Bad debt expense	-	-	-	-	-	30,000
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30,000</u>
Total expenses	<u>\$ 1,724,338</u>	<u>\$ 245,886</u>	<u>\$ 559,513</u>	<u>\$ 805,399</u>	<u>\$ 2,529,737</u>	<u>\$ 2,631,129</u>

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

Big Brothers Big Sisters of the Bay Area, Inc.  
STATEMENTS OF CASH FLOWS  
For the Year Ended June 30, 2019  
(With Comparative Totals for the Year Ended June 30, 2018)

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ 308,467	\$ (579,419)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	38,223	18,246
Gain on sale of fixed assets	(367,921)	-
Changes in certain assets and liabilities:		
Grants and pledges receivable, net	(121,134)	208,832
Prepaid expenses and other current assets	44,459	38,019
Accounts payable and accrued liabilities	(33,941)	6,959
Accrued payroll	(12,351)	22,860
Accrued vacation	8,764	40,216
Net cash provided (used) by operating activities	(135,434)	(244,287)
Cash flows from investing activities:		
Purchase of fixed assets	-	(65,480)
Proceeds from sale of fixed assets	1,041,091	-
Net cash provided (used) by investing activities	1,041,091	(65,480)
Cash flows from financing activities:		
Proceeds from line of credit	200,000	150,000
Payments on line of credit	(200,000)	(150,000)
Payments on notes payable	(216,146)	(3,936)
Net cash provided (used) by financing activities	(216,146)	(3,936)
Net increase (decrease) in cash during the period	689,511	(313,703)
Cash balance, beginning of period	268,627	240,392
Cash and cash equivalents from net assets transfer*	-	341,938
Cash balance, end of period	\$ 958,138	\$ 268,627
Summary of cash and cash equivalents at end of period:		
Cash and cash equivalents	\$ 908,443	\$ 219,075
Restricted cash and cash equivalents	49,695	49,552
Total cash and cash equivalents at end of period	\$ 958,138	\$ 268,627
Supplemental disclosures of cash flow information:		
Interest paid	\$ 20,178	\$ 7,839
Noncash activities:		
Acquisition of assets and liabilities through merger:		
*Cash and cash equivalents		\$ 341,938
Grants and pledges receivable, net		14,000
Prepaid expenses and other current assets		27,328
Fixed assets, net of accumulated depreciation		707,206
Accounts payable and accrued liabilities		(26,964)
Notes payable		(220,082)
Net assets		\$ 843,426

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

Big Brothers Big Sisters of the Bay Area, Inc.  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2019

NOTE 1 - GENERAL

A. Organization

Big Brothers Big Sisters of the Bay Area, Inc. (the Organization), incorporated in 1971 as a California nonprofit public benefit organization headquartered in San Francisco, California. The Organization'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 Organization serves the counties of Alameda, Contra Costa, Marin, San Francisco, San Mateo, Santa Clara, Napa, Solano, and Sonoma through community-based and workplace-based mentoring. The Organization provides training, support and match monitoring to ensure both the child and the volunteer have a positive experience.

B. Programs

**Community-Based Mentoring** – Provides professionally supported one-to-one mentoring relationships between screened adult mentors with enrolled children from age six through eighteen. The volunteer and child participate through independently scheduled activities on days and times convenient to both, spending on average, six to eight hours per month together.

**Workplace-Based Mentoring** – Youth are matched in professionally supported one-to-one mentorship relationships with adult volunteers who are employees of a partnering company. The volunteer and child participate through structured program activities designed and facilitated by Big Brothers Big Sisters of the Bay Area at the company's location.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The financial statements and records of the Organization are prepared on the accrual basis of accounting and, therefore, include all support and revenues when earned and all expenses when incurred, regardless of whether the support and revenues or expenses were received or paid as of the end of the period. Grants are recognized as support when earned in accordance with the terms of each grant or agreement.

B. Basis of Presentation

On August 18, 2016, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

The financial statements are presented in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958 and the provisions of the American Institute of Certified Public Accountants (AICPA) *Audit and Accounting Guide for Not-for-Profit Organizations*. (ASC) 958-205 is effective for the Organization for the fiscal year ended June 30, 2019.

Big Brothers Big Sisters of the Bay Area, Inc.  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation (continued)

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

Net Assets without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.

Net Assets with Donor Restrictions - Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

C. Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and Functional Expenses. Certain costs have been allocated among the programs and supporting services benefited. All shared expenses are classified to a shared cost pool and allocated programs, management and general, and fundraising at the end of each month. The percentage used to allocate expenses is based on employee time allocation. Joint costs are allocated on an individual basis between fundraising and direct programs depending on the nature of the expense.

D. Cash and Cash Equivalents

For purposes of reporting the statement of cash flows, cash and cash equivalents include cash on deposit with financial institutions and highly liquid investments such as certificates of deposit with a maturity of three months or less.

E. Grants and Pledges Receivable

The Organization does not maintain an allowance on grants and awards receivable or on donations and pledges receivable as reimbursements from these funding sources are likely to be received. Accounts receivable allowances are based on management's assessment of uncollectible balances at the end of the respective period. Balances still outstanding after management has used reasonable collection efforts are written off to bad debts. For the year ended June 30, 2019, a valuation allowance was not considered necessary.

F. Fixed Assets

Property and equipment is recorded at cost when purchased or, if contributed, at the estimate fair market value at the date of donation. The Organization's policy is to capitalize items costing more than \$1,500. Depreciation is computed using the straight-line method over the asset's estimated useful life. Expenditures for maintenance and repairs are charged to expense as incurred.

Big Brothers Big Sisters of the Bay Area, Inc.  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Revenue Recognition

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions depending on the existence or nature of donor restrictions. Restricted contributions are reported as an increase in net assets with donor restrictions. When the restriction is met on a contribution received, the amount is shown as a reclassification from net assets with donor restrictions to net assets without donor restrictions.

H. Donated Goods and Services

Contributions in-kind are recognized as follows: Donated goods are recorded at their estimated fair market value on the date of donation. Donated services are recognized as contributions in accordance with FASB ASC 958, *Accounting for Contributions and Presentation of Financial Statements*, if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Volunteers also provided services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria under FASB ASC 958 were not met.

I. Use of Estimates

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those estimates.

J. Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Organization carries commercial insurance.

K. Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 27, 2019, the date the financial statements were available to be issued.

L. Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

Big Brothers Big Sisters of the Bay Area, Inc.  
NOTES TO THE FINANCIAL STATEMENTS  
 June 30, 2019

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

M. Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in *Topic 840, Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Organization is currently evaluating the impact of the pending adoption of the new standard on the financial statements.

NOTE 3 - INCOME TAXES

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is also exempt from California franchise taxes under Section 23701(d) of the Revenue and Taxation Code and, therefore, has made no provision for Federal or California income taxes. Contributors, donors and grantors may obtain tax benefits. In addition, the Organization has been determined by the Internal Revenue Service not to be a "private Organization" within the meaning of Section 509(a) of the Code.

The Organization adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Organization has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Organization's financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2019. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

NOTE 4 - CASH AND CASH EQUIVALENTS

The cash balances as of June 30 were as follows:

	2019	2018
Unrestricted:		
Wells Fargo Bank	\$ 576,006	\$ 208,861
First Republic Bank	332,179	9,814
Petty cash	258	400
Total	\$ 908,443	\$ 219,075
Restricted:		
Charles Schwab	\$ 49,695	\$ 49,552

Big Brothers Big Sisters of the Bay Area, Inc.  
NOTES TO THE FINANCIAL STATEMENTS  
 June 30, 2019

NOTE 4 - CASH AND CASH EQUIVALENTS (concluded)

The bank balances were insured under the \$250,000 blanket umbrella by the FDIC. The remaining bank balances were uninsured and held by the financial institutions in the Organization's name. It is the opinion of management that the solvency of the referenced financial institutions is not of particular concern at this time.

NOTE 5 - GRANTS AND PLEDGES RECEIVABLE

The Organization receives grants and pledges receivable from multiple donors. Grants and pledges receivable as of June 30 were as follows:

	2019	2018
Receivable in less than one year	\$ 260,679	\$ 125,002
Receivable in one to three years	-	15,000
Total grants and pledges receivable	260,679	140,002
Less discounts to net present value (discounted by 1.41%)	-	(457)
Total grants and pledges receivable	\$ 260,679	\$ 139,545
Current portion	\$ 260,679	\$ 125,002
Non-current portion	-	14,543
Total	\$ 260,679	\$ 139,545

NOTE 6 - FIXED ASSETS

Fixed assets as of June 30 were as follows:

	Years	2019	2018
Land	N/A	\$ 2,000	\$ 320,000
Building and building improvements	7-40	-	668,305
Software	2-3	40,199	135,686
Computer and office equipment	3-5	61,189	61,189
Furniture and fixtures	3-7	39,585	63,432
Total		142,973	1,248,612
Less accumulated depreciation		(94,006)	(488,252)
Fixed assets, net		\$ 48,967	\$ 760,360

Depreciation expense was \$38,223 and \$18,246 for the years ended June 30, 2019 and June 30, 2018, respectively.

NOTE 7 - ACCRUED VACATION

Accumulated unpaid employee vacation benefits are recognized as liabilities of the Organization. The amount of accumulated vacation was \$120,596 and \$111,832 as of June 30, 2019 and June 30, 2018, respectively.

Big Brothers Big Sisters of the Bay Area, Inc.  
NOTES TO THE FINANCIAL STATEMENTS  
 June 30, 2019

NOTE 8 - LINE OF CREDIT

In June 2017, the Organization obtained a line of credit with First Republic Bank in the amount of \$200,000 with an expiration date of June 14, 2018. The line of credit was renewed with First Republic Bank with a new expiration date of August 14, 2020. The interest on the used portion of this line is 1.00% over the prime rate. As of June 30, 2019 and June 30, 2018 there were no balances on the line of credit. Total interest paid on the line of credit was \$6,887 and \$1,195 for the years ended June 30, 2019 and June 30, 2018, respectively.

NOTE 9 - NOTES PAYABLE

In October 2017, the Organization acquired a loan from First Republic Bank from the merger (see Note 19). The loan (secured by real property) was for \$220,500 with principal and interest due over a ten year period at an initial interest rate of 4.00%, payable in monthly installments of \$1,171 through September 2022. In October 2022, the interest rate will change to 3.90% and the monthly installments will change to \$1,161 through August 2027 with a final payment of \$159,160. The loan was paid off early in May 2019 when the real property was sold.

Total interest paid on the loan was \$13,291 and \$6,644 for the years ended June 30, 2019 and June 30, 2018, respectively.

NOTE 10 - SPECIAL EVENTS, NET

During the year ended June 30, 2019, special events were as follows:

	<u>The Big Event</u>	<u>Evening of Inspiration</u>	<u>All Others</u>	<u>Total</u>
Contributions/sponsors	\$ 400,707	\$ 93,200	\$ 181,461	\$ 675,368
Ticket sales	166,300	23,880	17,740	207,920
Auction sales	<u>125,900</u>	<u>25,450</u>	<u>15,340</u>	<u>166,690</u>
Gross revenue	692,907	142,530	214,541	1,049,978
Less expenses	<u>(146,567)</u>	<u>(23,042)</u>	<u>(66,396)</u>	<u>(236,005)</u>
Special events, net	<u>\$ 546,340</u>	<u>\$ 119,488</u>	<u>\$ 148,145</u>	<u>\$ 813,973</u>

During the year ended June 30, 2018, special events were as follows:

	<u>The Big Event</u>	<u>Evening of Inspiration</u>	<u>All Others</u>	<u>Total</u>
Contributions/sponsors	\$ 334,369	\$ 77,364	\$ 221,350	\$ 633,083
Ticket sales	124,571	8,500	50,703	183,774
Auction sales	<u>159,700</u>	<u>54,600</u>	<u>10,277</u>	<u>224,577</u>
Gross revenue	618,640	140,464	282,330	1,041,434
Less expenses	<u>(146,554)</u>	<u>(66,267)</u>	<u>(95,812)</u>	<u>(308,633)</u>
Special events, net	<u>\$ 472,086</u>	<u>\$ 74,197</u>	<u>\$ 186,518</u>	<u>\$ 732,801</u>

Big Brothers Big Sisters of the Bay Area, Inc.  
NOTES TO THE FINANCIAL STATEMENTS  
 June 30, 2019

NOTE 11 - IN-KIND CONTRIBUTIONS

The Organization received and recognized in the Statement of Activities the following in-kind contributions as of June 30:

	2019	2018
Professional services	\$ 61,607	\$ 52,352
Facility rent	28,350	22,686
Special event donations and program supplies	46,289	64,372
Total	\$ 136,246	\$ 139,410

NOTE 12 - AFFILIATION DUES

The Organization is an affiliate of the Big Brothers Big Sisters National Network who provides technical and fundraising assistance in exchange for affiliation dues. The amount paid for affiliation dues for the years ended June 30, 2019 and June 30, 2018 was \$19,828 and \$17,990, respectively.

NOTE 13 - NET ASSETS WITHOUT DONOR RESTRICTIONS

Net assets without donor restrictions as of June 30 were as follows:

	2019	2018
Net assets without donor restrictions - undesignated	\$ 361,205	\$ 488,088
Net assets without donor restrictions - board designated	329,000	-
Total	\$ 690,205	\$ 488,088

Net assets without donor restrictions were designated by the Board for supported projects.

NOTE 14 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of June 30, 2019 were available for the following purposes:

	Beginning Balance	Contributions and Earnings	Releases	Ending Balance
<b>Subject to Expenditure for Specified Purpose</b>				
Community-based mentoring projects	\$ 177,276	\$ 469,082	\$ (351,333)	\$ 295,025
Other	40,042	458	(12,000)	28,500
<b>Subject to Spending Policy &amp; Appropriation</b>				
Endowment funds	49,552	143	-	49,695
Total	\$ 266,870	\$ 469,683	\$ (363,333)	\$ 373,220

Big Brothers Big Sisters of the Bay Area, Inc.  
NOTES TO THE FINANCIAL STATEMENTS  
June 30, 2019

NOTE 15 - ENDOWMENT FUNDS

Endowment funds as of June 30 were as follows:

	2019	2018
JJ Campership Fund	\$ 26,069	\$ 25,972
Colby Howe Fund	<u>23,626</u>	<u>23,580</u>
Total	<u>\$ 49,695</u>	<u>\$ 49,552</u>

Endowment funds are comprised of two special purpose funds. Earnings from the JJ Campership Fund provide funds to be used to send children in the Organization's programs to camp. Funds in the Colby Howe Fund are to be used to provide scholarships to the Organization's mentees for any special needs.

NOTE 16 - ENDOWMENTS

The Organization's endowments include donor-restricted endowment funds. As required by accounting principles generally accepted in the United States, net position associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Uniform Prudent Management of Institutional Funds Act ("UPMIFA") governs the management of endowment funds held by charitable institutions, which has been adopted by the State of California. UPMIFA prescribes guidelines for expenditures of a donor-restricted endowment fund (in the absence of overriding, explicit donor stipulations) in a more robust set of guidelines about what constitutes prudent spending, explicitly requiring consideration of the duration and preservation of the fund. The act generally requires the Organization's governing board to establish a spending policy and establishes a rebuttable presumption of imprudence for spending in any given year.

The Organization has interpreted the State Prudent Management of Institutional Funds Act ("SPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as restricted net position: (a) the original value of gifts donated to the endowment fund, (b) the original value of subsequent gifts to the endowment fund, and (c) accumulations to the endowment fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

Big Brothers Big Sisters of the Bay Area, Inc.  
NOTES TO THE FINANCIAL STATEMENTS  
 June 30, 2019

NOTE 16 - ENDOWMENTS (concluded)

Changes in the endowment net position for the year ended June 30, 2019 were as follows:

Endowment net assets, beginning of year	\$ 49,552
Investment return	<u>143</u>
Endowment net assets, end of year	<u>\$ 49,695</u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level SPMIFA requires the Organization to retain as net assets with donor restrictions. Deficiencies of this nature result from unfavorable market fluctuations. There were no deficiencies as of June 30, 2019.

The endowment net position is presented in the Statement of Net Position as follows:

Restricted cash and cash equivalents	<u>\$ 49,695</u>
--------------------------------------	------------------

NOTE 17 - PENSION PLAN

The Organization has a defined contribution plan under Section 403(b) of the Internal Revenue Code, (the Plan) for all eligible employees. Employees are eligible upon hire. The Organization does not contribute to the plan.

NOTE 18 - OPERATING LEASE COMMITMENTS

The Organization leases office space in Milpitas, Napa, and San Francisco under operating leases expiring through August 1, 2022. The terms of the Milpitas lease agreement calls for monthly fees of \$876. Accordingly, the Organization recognizes an in-kind facility donation for the difference between the facility's fair market value and the monthly fee in the amount of \$28,350 for the year ended June 30, 2019. In May 2017, the Organization signed a 60-month lease for office space in San Francisco expiring on August 1, 2022. In August 2018, the Organization signed a 24-month lease for office space in Napa expiring on August 20, 2020.

The total expenses for occupancy were \$218,227 and \$199,151 for the years ended June 30, 2019 and June 30, 2018, respectively. Minimum future rental payments under non-cancelable operating building leases for each of the next four years in aggregate are:

For the year ended June 30, 2020	\$ 176,399
For the year ended June 30, 2021	158,971
For the year ended June 30, 2022	161,680
For the year ended June 30, 2023	<u>13,113</u>
Total	<u>\$ 510,163</u>

Big Brothers Big Sisters of the Bay Area, Inc.  
NOTES TO THE FINANCIAL STATEMENTS  
 June 30, 2019

NOTE 19 - NET ASSETS TRANSFER - MERGER

On October 6, 2017, Big Brothers Big Sisters of the North Bay (the North Bay) merged with the Organization. The North Bay was merged into the Organization and the separate corporate existence of the North Bay ceased. The Organization succeeds, without other transfer, to all of the rights and properties of the North Bay and is subject to all the debts and liabilities thereof in the same manner as if the Organization had itself incurred them. Assets received by the Organization were \$1,090,472 and liabilities assumed were \$247,046.

On October 6, 2017, net assets had been adjusted by \$843,426 to reflect the transfer of certain assets and liabilities to Big Brothers Big Sisters of the Bay Area, per the merger agreement as follows:

Cash and cash equivalents	\$ 292,431
Restricted cash and cash equivalents	49,507
Grants and pledges receivable, net	14,000
Prepaid expenses and other current assets	27,328
Fixed assets, net of accumulated depreciation	707,206
Accounts payable and accrued liabilities	(26,964)
Notes payable	<u>(220,082)</u>
Net assets	<u>\$ 843,426</u>

NOTE 20 - AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization's financial assets as of June 30, reduced by amounts not available for general use within one year of the year end date because of contractual or donor-imposed restrictions or internal designations. Amounts not available include amounts set aside for long-term investing in the operating fund and other reserves that could be drawn upon if the governing board approves that action.

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 958,138	\$ 268,627
Grants and pledges receivable, net	<u>260,679</u>	<u>139,545</u>
Total financial assets	1,218,817	408,172
Donor-imposed restrictions	(373,220)	(266,870)
Board designations	<u>(329,000)</u>	<u>-</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 516,597</u>	<u>\$ 141,302</u>

NOTE 21 - RECLASSIFICATIONS

Certain amounts in the June 30, 2018 financial statements have been reclassified to conform with the June 30, 2019 presentation. These reclassifications have no effect on the change in net assets as previously reported.

November 27, 2019

To the Board of Directors of  
Big Brothers Big Sisters of the Bay Area, Inc.  
San Francisco, California

In planning and performing our audit of the financial statements of Big Brothers Big Sisters of the Bay Area, Inc. (the Organization) for the fiscal year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of its internal control. Accordingly, we do not express an opinion on the effectiveness of Big Brothers Big Sisters of the Bay Area, Inc.'s internal control.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Big Brothers Big Sisters of the Bay Area, Inc.'s financial statements that is more than inconsequential will not be prevented or detected by Big Brothers Big Sisters of the Bay Area, Inc.'s internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Big Brothers Big Sisters of the Bay Area, Inc.'s internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses, as defined above. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

During our audit, we noted certain matters involving internal controls and other operational matters that are presented for your consideration in this report. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are not intended to be all-inclusive, but rather represent those matters that we considered worthy of your consideration. Our comments and recommendations are submitted as constructive suggestions to assist you in strengthening controls and procedures; they are not intended to reflect on the honesty or integrity of any employee. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist Big Brothers Big Sisters of the Bay Area, Inc. in implementing the recommendations.

#### **Current Year Observations**

There were no current year observations.

**Prior Year Observations**

1) Capitalization Policy

Observation:

During our review of the Organization's capitalized assets, we noted that the capitalization amount for property and equipment is fairly low at \$1,500. Most organizations of late are using a higher capitalization amount for property and equipment of \$5,000.

Recommendation:

We recommended the Organization consider revisiting their capitalization policy. Although the current capitalization policy is acceptable, raising the capitalization amount may reduce the record keeping for property and equipment.

Status:

This recommendation is in the process of being implemented. The board approved the revised policy to raise the capitalization threshold to \$5,000 in December 2019.

This report is intended solely for the information and use of management of Big Brothers Big Sisters of the Bay Area, Inc. and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

We thank Big Brothers Big Sisters of the Bay Area, Inc.'s staff for its cooperation during our audit.

Very Truly Yours,

*R.J. Ricciardi, Inc.*

R.J. Ricciardi, Inc.  
Certified Public Accountants