

Big Brothers Big Sisters of McHenry County, Inc.

**Financial Statements and
Independent Auditor's Report**

June 30, 2018

Big Brothers Big Sisters of McHenry County, Inc.
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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Big Brothers Big Sisters of McHenry County, Inc.

We have audited the accompanying financial statements of Big Brothers Big Sisters of McHenry County, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Brothers Big Sisters of McHenry County, Inc. as of June 30, 2018, 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.


Miller Verchota, Inc.
Certified Public Accountants

Crystal Lake, Illinois
April 8, 2019

Big Brothers Big Sisters of McHenry County, Inc.
Statement of Financial Position
June 30, 2018

ASSETS

	2018
Current Assets	
Cash and cash equivalents	\$ 205,945
Investments	91,363
Prepaid expense	10,018
Total Current Assets	307,326
Fixed Assets	
Building	350,500
Furniture and equipment	118,749
Less: accumulated depreciation	(2,243)
Total Fixed Assets	467,006
Other Assets	
Investments held by community foundation	30,810
TOTAL ASSETS	\$ 805,142

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 300
Accrued expense	8,845
Accrued compensation	20,027
Deferred revenue	22,100
Total Current Liabilities	51,272
Net Assets	
Unrestricted	723,060
Permanently restricted	30,810
Total Net Assets	753,870
TOTAL LIABILITIES AND NET ASSETS	\$ 805,142

Big Brothers Big Sisters of McHenry County, Inc.
Statement of Activities
Year Ended June 30, 2018

	Unrestricted	Permanently Restricted	Total
Revenues, Grants, and Other Support			
Contributions			
Individuals	\$ 16,075	\$ -	\$ 16,075
Organizations	34,439	-	34,439
Capital Fund Campaign	681,159	-	681,159
In-Kind	175,320	-	175,320
Total Contributions	906,993	-	906,993
Grants			
United Way of McHenry County	52,020	-	52,020
United Way - other	2,324	-	2,324
Other grants	150,238	-	150,238
Total Grants	204,582	-	204,582
Fundraising	299,094	-	299,094
Loss on sale and disposal of assets	(36,178)	-	(36,178)
Gain on marketable securities	5,908	-	5,908
Gain on investments held by community foundation	943	2,294	3,237
Interest income	588	-	588
Utility share income	1,380	-	1,380
Miscellaneous income	1,534	-	1,534
Total Revenues, Grants, and Other Support	1,384,844	2,294	1,387,138
Functional Expenses			
Program services	769,765	-	769,765
Supporting services			
Management and general	38,273	-	38,273
Fundraising	135,266	-	135,266
Total Functional Expenses	943,304	-	943,304
CHANGE IN NET ASSETS	441,540	2,294	443,834
NET ASSETS AT BEGINNING OF YEAR	281,520	28,516	310,036
NET ASSETS AT THE END OF YEAR	\$ 723,060	\$ 30,810	\$ 753,870

Big Brothers Big Sisters of McHenry County, Inc.
Statement of Functional Expenses
Year Ended June 30, 2018

	Supporting Services			Total
	Program	Management and General	Fundraising	
Advertising	\$ 22,726	\$ -	\$ -	\$ 22,726
Bank fees	50	-	-	50
Capital campaign	333,706	-	-	333,706
Conferences and meetings	2,256	-	-	2,256
Depreciation	6,083	-	-	6,083
Direct program expense	17,383	-	-	17,383
Dues to affiliated operations	11,398	-	-	11,398
Dues, subscriptions and fees	1,257	-	-	1,257
Event costs	-	-	85,061	85,061
Insurance	8,037	-	-	8,037
Maintenance and repairs	1,700	10,370	-	12,070
Occupancy	7,816	-	-	7,816
Office supplies	4,532	-	-	4,532
Payroll taxes	22,110	918	2,754	25,782
Postage	2,211	-	-	2,211
Professional fees	19,295	14,985	11,179	45,459
Salaries and wages	287,232	12,000	36,000	335,232
Telephone	4,767	-	-	4,767
Travel	10,353	-	272	10,625
Utilities	6,853	-	-	6,853
	\$ 769,765	\$ 38,273	\$ 135,266	\$ 943,304

Big Brothers Big Sisters of McHenry County, Inc.
Statement of Cash Flows
Year Ended June 30, 2018

	2018
Cash Flows from Operating Activities	
Change in net assets	\$ 443,834
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	6,083
Loss on sale and disposal of assets	36,178
Realized/unrealized gain on investments	(8,202)
Decrease (increase) in assets:	
Prepaid expenses	(3,490)
Increase (decrease) in liabilities:	
Accounts payable	(594)
Accrued expense	8,777
Accrued compensation	2,168
Payroll liabilities	(419)
Deferred revenue	(4,595)
Net cash provided by operating activities	479,740
 Cash Flows from Investing Activities	
Investment in certificate of deposit	(346)
Proceeds from certificate of deposit maturity	102,523
Proceeds from sale of assets	61,382
Purchase of building	(350,500)
Purchase of fixed assets	(118,749)
Net cash used for investing activities	(305,690)
Increase in cash and cash equivalents	174,050
 Cash and cash equivalents - beginning of year	31,895
 Cash and cash equivalents - end of year	\$ 205,945
 Supplemental disclosures of cash flow information:	
Interest	\$ -
Income taxes	-
 Noncash transactions:	
Donated property and equipment	31,464
Noncash contributions	143,856

Big Brothers Big Sisters of McHenry County, Inc.
Notes to Financial Statements
June 30, 2018

Note 1 – Organization and Nature of Business

Big Brothers Big Sisters of McHenry County, Inc. (Organization) received its full membership affiliation from Big Brothers Big Sisters of America in December of 1995. The mission of the Organization is to help children reach their potential through one-to-one relationships with mentors that have a measurable impact on youth, consistent with the guidelines and objectives of Big Brothers Big Sisters of America, thereby enabling such children to achieve their highest potential and to become responsible men and women. The Organization's vision "*is successful mentoring relationships for all children who need and want them, contributing to brighter futures, better schools, and stronger communities for all.*"

The Organization has two core programs, a community-based program, and a school-based program. The Community-Based Program allows the mentor and the child to develop their relationship by spending time together in the community. The School-Based Program allows the mentor and the child to enjoy activities and time at the child's school.

Funding is provided by the United Way, private donations, corporate sponsorships, foundation grants, and fundraising events.

The Organization is a not-for-profit corporation; all contributions are tax deductible, under the Internal Revenue Code of 1986, Section 501(c)(3).

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting and Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with the U.S. generally accepted accounting principles promulgated by the Financial Accounting Standards Board. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets

Unrestricted net assets are net assets that are not subject to donor-imposed stipulations. Revenues are reported in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. When temporary restrictions on net assets expire (i.e., the donor-imposed stipulated purpose has been fulfilled or the stipulated time period has elapsed,) the assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

Big Brothers Big Sisters of McHenry County, Inc.
Notes to Financial Statements
June 30, 2018

Note 2 – Summary of Significant Accounting Policies (continued)

Temporarily restricted net assets

Temporarily restricted net assets are net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. At June 30, 2018, the Organization had no temporarily restricted net assets.

Permanently restricted net assets

Permanently restricted net assets are subject to donor-imposed stipulations that they 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 any related investments for general or specific purposes. At June 30, 2018, the Organization had \$30,810 of permanently restricted net assets.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on the prior years' experience and management's analysis of specific promises made. At June 30, 2018, the Organization did not have any uncollectible unconditional promises.

Investments

Investments consist primarily of assets in marketable equity and debt securities, and money market accounts. The Organization accounts for investments in accordance with the FASB standard for investments held by not-for-profit organizations. This standard requires that investments in equity securities with readily determinable fair values and all investments in debt securities be measured at fair value in the Statement of Financial Position. Fair value of marketable equity and debt securities is based on quoted market prices. Realized and unrealized gains and losses are included in the change in net assets in the accompanying Statement of Activities.

Investments are exposed to various risks such as significant world events, interest rate, credit, and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that change in the fair value of investments will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Financial Position.

Big Brothers Big Sisters of McHenry County, Inc.
Notes to Financial Statements
June 30, 2018

Note 2 – Summary of Significant Accounting Policies (continued)

Fixed Assets

Fixed assets are recorded at cost if purchased or at fair market value at the time received if donated and depreciated over the estimated useful life of the asset. Additions and improvements of \$5,000 or more are capitalized, while repairs and maintenance that do not improve or extend the useful lives of the respective assets are expensed. The Organization follows the general policy of providing for depreciation by charges to expense utilizing the straight-line method of depreciation with useful lives as follows:

Building	40 years
Furniture and Equipment	5-7 years

Fair Value of Financial Instruments

Unless otherwise indicated, the fair values of all reported assets and liabilities that are financial instruments approximate the carrying values of such amounts.

Estimates

Preparing the Organization's financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect 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.

Income Tax Status

The Organization is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. Accordingly, the financial statements contain no provisions for federal income taxes. As of June 30, 2018, the Organization has not incurred any interest or penalties on its income tax returns. The Organization's tax returns are subject to possible examination by the taxing authorities. For federal income tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the date on which those returns are filed.

Donated Assets

Donated assets are recorded at their fair value at the date of the gift. Donated assets for the year ended June 30, 2018 total \$31,464.

Donated Services

Donated services are reported as contributions when the services: (a) create or enhance nonfinancial assets, or (b) would be purchased if they had not been provided by contribution or require specialized skills and are provided by individuals possessing those skills. Management has estimated that approximately 38,500 hours of contributed time (unpaid volunteers) was donated in the 2018 fiscal year. Certain services totaling \$79,050 are included in the financial statements.

Big Brothers Big Sisters of McHenry County, Inc.
Notes to Financial Statements
June 30, 2018

Note 2 – Summary of Significant Accounting Policies (continued)

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, checking accounts, savings accounts, money market accounts, and short-term investments with initial maturities of three months or less. Cash equivalents are stated at cost plus accrued interest, which approximates market value.

Advertising Costs

Advertising costs are expensed when incurred and were \$22,726 for the year ending June 30, 2018. Advertising costs were funded through gifts-in-kind of \$12,476 for the years ending June 30, 2018.

Note 3 – Concentration of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash deposits. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At June 30, 2018, all funds were within FDIC insured limits.

Note 4 – Prepaid Expense

Prepaid expense includes amounts paid in advance for insurance coverage, deposits and expenses for upcoming fundraising events and affiliation and subscription dues. At June 30, 2018, the amount was \$10,018.

Note 5 – Investments Held by Community Foundation

The Organization has transferred assets to the McHenry County Community Foundation (the Foundation), which is holding them as an agency fund (Fund) for the benefit of the Organization. The Organization has granted the Foundation variance power which gives the Foundation's Board of Directors the power to use the Fund for other purposes in certain circumstances. The Fund may not be withdrawn from the Foundation by the Organization. Subject to approval from the Foundation's Board of Directors and upon sixty-day notice from the Organization, provided it continues to qualify as a 501(c)(3) organization, the Organization may request a withdrawal of an amount above the current distributable income for the Organization's exclusive use and benefit. Also, subject to the Foundation Board of Directors, the Organization may request to waive the annual distribution. The Fund is subject to the Foundation's investment and spending policies which currently results in an annual distribution to the Organization. The Organization reports its interest in the Fund at the fair value in the statement of financial position as Investments Held by Community Foundation and reports distributions and the change in value as Gain on Investments Held by Community Foundation.

Big Brothers Big Sisters of McHenry County, Inc.
Notes to Financial Statements
June 30, 2018

Note 5 – Investments Held by Community Foundation (continued)

In addition to the original \$25,000 investment, the Organization received a matching grant of \$25,000 to be held in a permanent endowment by McHenry County Community Foundation. This amount is held in a separate account and the Organization will have no access to the original \$25,000. As of June 30, 2018, the value of the endowment was \$30,655. Nine hundred twenty-five dollars was received as a distribution from the account and it has been recorded as other grants in the statement of activities. The account balance has not been recorded on the financial statements for the Organization.

Note 6 - Investments

Investments consist of the following:

	<u>June 30, 2018</u>
Cash and cash alternatives	\$ 2,500
Exchange-traded products	<u>88,863</u>
Total	<u>\$ 91,363</u>

Fees, for management of the investment portfolio, were \$605 as of June 30, 2018.

Note 7 – Fair Value Measurements

The Organization applies *Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures*, which defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurements. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy 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 tiers of the fair value hierarchy are described as follows:

Level 1 – Quoted prices for identical assets or liabilities in active markets.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Valuation techniques used in fair value measurements need to maximize the use of observable inputs and minimize the use of unobservable inputs. A valuation method may produce a fair value measurement that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions could result in different fair value measurements at the reporting date. There have been no changes in the methodologies used during the years ended June 30, 2018.

Big Brothers Big Sisters of McHenry County, Inc.
Notes to Financial Statements
June 30, 2018

Note 7 – Fair Value Measurements (continued)

The underlying investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain marketable securities, it is at least reasonably possible that changes in risks in the near term could materially affect account balances and the amounts reporting in the statement of financial position and the statement of activities.

The following table sets forth, by level within the fair value hierarchy, amounts recorded in the Society's financial statements at fair value as of June 30, 2018:

	Fair Value	Level 1	Level 2	Level 3
Assets:				
Investments				
Cash and cash alternatives	\$ 2,500	\$ 2,500	\$ -	\$ -
Exchange traded products	88,863	88,863	-	-
Investments Held by Community Foundation	31,810	-	-	31,810
	<u>\$ 123,173</u>	<u>\$91,363</u>	<u>\$ -</u>	<u>\$ 31,810</u>

The change in Investments Held by Community Foundation is as follows:

Balance as of July 1, 2017	\$ 28,516
Less: distributions received	(943)
Gain on investments	<u>3,237</u>
Balance as of June 30, 2018	<u>\$ 31,810</u>

Realized and unrealized gains and losses are reported in the statement of activities. There have been no changes in valuation techniques.

Note 8 – Fixed Assets

Fixed assets consist of the following at June 30, 2018:

	Cost			Cost	Accumulated
	July 1, 2017	Deletions	Acquisitions	June 30, 2018	Depreciation
					June 30, 2018
Building	\$ 139,000	\$ (139,000)	\$ 350,500	\$ 350,500	\$ (1,460)
Furniture and equipment	18,592	(18,592)	118,749	118,749	(783)
Total fixed assets	<u>\$ 157,592</u>	<u>\$ (157,592)</u>	<u>\$ 469,249</u>	<u>\$ 469,249</u>	<u>\$ (2,243)</u>

For the year ended June 30, 2018, depreciation expense was \$6,083 and is reported as program costs and supporting services in the Statement of Functional Expenses.

Big Brothers Big Sisters of McHenry County, Inc.
Notes to Financial Statements
June 30, 2018

Note 9 – In-Kind Donations

During the year ended June 30, 2018, the Organization received in-kind contributions, at market value, in the following amounts: advertising for \$12,476, other services for \$66,574, food for \$19,431, fixed assets for \$31,464 and donated building and other items used for fundraising events of \$45,375.

For the year ended June 30, 2018, the total amount of in-kind donations was \$175,320.

Note 10 – Commitments and Contingencies

Grant compliance

Certain contracts and grants received by the organization are subject to audit or review by the grantor/payor agencies. As a result of these audits or reviews, the Organization may be required to repay a portion of grant or contract funds received. However, Management does not believe any liability related to its grants and contracts would be material.

Note 11 - Concentration

The Organization's services were concentrated in the McHenry County area during the years ended June 30, 2018. The Organization's activities are highly dependent upon the fundraising events. Each year, the Bowl for Kids' Sake, the Annual Golf Outing, the Fall Benefit, and the Annual Raffle fundraising events provided 22% in 2018 of the Organization's support and revenue. The Organization's board members are large contributors to these events.

Note 12 – National Affiliation

The Organization is affiliated with Big Brothers/Big Sisters of America (BB/BSA). As a member of the National organization, the McHenry County chapter is entitled to utilize the BB/BSA name, as well as other terms, during the term of the agreement. An annual membership fee is due based on the agency's total operating expenses for the most recently completed fiscal year. The Organization paid dues to BB/BSA in the amount of \$12,315 for the year ended June 30, 2018.

Note 13 – Related Party Transactions

For the year ended June 30, 2018, the Organization received related party contributions, grants, in-kind support and fundraising income of \$715,400 from Board members or entities related to Board Members. Expenses paid to related parties for the year ended June 30, 2018 were \$42,210.

Note 14 – Correction of an Error

During the year ended June 30, 2018, it was determined that the classification of the Investments Held by Community Foundation was incorrectly classified as Unrestricted, Board Designated Net Assets. Therefore, a reclassification was made to reduce Unrestricted, Board Designated Net Assets and increase Permanently Restricted Net Assets for \$28,516 as of June 30, 2017. The reclassification had no effect on total net assets or change in net assets for the year ended June 30, 2017.

Big Brothers Big Sisters of McHenry County, Inc.
Notes to Financial Statements
June 30, 2018

Note 15 – Subsequent Events

In accordance with FASB ASC 855, the Organization has evaluated subsequent events through April 8, 2019, the date these financial statements were available to be issued and has determined that there are no additional adjustments and/or disclosures required.