

BIG BROTHERS BIG SISTERS
OF THE BLACK HILLS, INC.

FINANCIAL REPORT

December 31, 2015 and 2014

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors of
Big Brothers Big Sisters of the Black Hills, Inc.
Rapid City, South Dakota

We have audited the accompanying financial statements of Big Brothers Big Sisters of the Black Hills, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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. 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.

INDEPENDENT AUDITOR'S REPORT

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 the Black Hills, Inc. as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on page 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

DeMet and Biggs, LLP

June 8, 2016

BIG BROTHERS BIG SISTERS OF THE BLACK HILLS, INC.

STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2015	2014
Current Assets		
Cash and cash equivalents	\$179,099	\$ 65,130
Prepaid insurance	3,360	4,194
Deposits	<u>11,940</u>	<u>-</u>
Total current assets	<u>194,399</u>	<u>69,324</u>
Property and Equipment, (Net of depreciation of \$221,605 in 2015 and \$206,147 in 2014)	<u>352,919</u>	<u>357,379</u>
Other Assets		
Beneficial interests in BHCF agency endowment	1,741	1,901
Building maintenance savings	8,073	8,071
Investment in securities	<u>34,843</u>	<u>35,831</u>
Total other assets	<u>44,657</u>	<u>45,803</u>
Total Assets	<u>\$591,975</u>	<u>\$472,506</u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable	\$ 18,948	\$ 3,224
Accrued vacation	<u>8,429</u>	<u>6,194</u>
Total current liabilities	<u>27,377</u>	<u>9,418</u>
Net Assets		
Unrestricted		
Designated by Board for endowment purposes	1,741	1,901
Undesignated	<u>469,756</u>	<u>453,116</u>
Total unrestricted net assets	471,497	455,017
Temporarily restricted net assets	<u>93,101</u>	<u>8,071</u>
Total net assets	<u>564,598</u>	<u>463,088</u>
Total Liabilities and Net Assets	<u>\$591,975</u>	<u>\$472,506</u>

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

BIG BROTHERS BIG SISTERS OF THE BLACK HILLS, INC.

STATEMENTS OF ACTIVITIES

	For the Years Ended December 31,	
	2015	2014
Unrestricted Net Assets		
Public support		
Contributions	\$141,076	\$115,895
Grants - government	4,000	4,000
Grants - other	23,422	35,500
United Way allocation	77,545	76,432
Special events	118,793	103,806
In-Kind advertising donation	27,960	45,280
Total public support	<u>392,796</u>	<u>380,913</u>
Revenues, gains, losses and other support		
Contract services	27,264	34,793
Investment income	1,235	1,244
Miscellaneous	4,151	2,910
Unrealized gain (loss) on investments	(2,271)	(1,366)
Total revenues, gains, losses and other support	<u>30,379</u>	<u>37,581</u>
Net assets released from restrictions	<u>-</u>	<u>1,000</u>
Total unrestricted public support, revenues, gains, losses, and other support, and reclassifications	<u>423,175</u>	<u>419,494</u>
Expenses		
Mentoring programs	249,934	282,595
Management and general	34,323	35,390
Fundraising	122,438	125,908
Total expenses	<u>406,695</u>	<u>443,893</u>
Increase (Decrease) in Unrestricted Net Assets	<u>16,480</u>	<u>(24,399)</u>
Temporarily Restricted Net Assets		
Investment income	2	3
Restricted Grant	85,028	-
Net assets released from restriction	<u>-</u>	<u>(1,000)</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>85,030</u>	<u>(997)</u>
Increase (Decrease) in Net Assets	101,510	(25,396)
Net Assets - Beginning	<u>463,088</u>	<u>488,484</u>
Net Assets - Ending	<u>\$564,598</u>	<u>\$463,088</u>

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

BIG BROTHERS BIG SISTERS OF THE BLACK HILLS, INC.

STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
	2015	2014
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$101,510	\$ (25,396)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	19,432	22,136
Unrealized (gain) loss on investments	2,271	1,366
(Gain) loss on asset disposal	-	3,054
(Increase) decrease in:		
Other assets	(2)	997
Prepaid insurance	834	(402)
Increase (decrease) in:		
Accounts payable	15,724	(5,235)
Accrued vacation	2,235	(2,028)
Net Cash Provided (Used) by Operating Activities	<u>142,004</u>	<u>(5,508)</u>
Cash Flows from Investing Activities		
Deposit on improvements	(11,940)	-
Purchase of equipment	(14,972)	(3,968)
Investment in securities	(1,183)	(1,181)
Black Hills Community Foundation reinvestment	(26)	(37)
Black Hills Community Foundation distribution	86	82
Net Cash Used by Investing Activities	<u>(28,035)</u>	<u>(5,104)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	113,969	(10,612)
Cash and Cash Equivalents at Beginning of Year	<u>65,130</u>	<u>75,742</u>
Cash and Cash Equivalents at End of Year	<u>\$179,099</u>	<u>\$ 65,130</u>

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

BIG BROTHERS BIG SISTERS OF THE BLACK HILLS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Big Brothers Big Sisters of the Black Hills, Inc. (the Organization) is a not-for-profit corporation organized under the laws of South Dakota. The Organization provides quality volunteer and professional contract mentoring services in the Black Hills area, on a one-to-one basis for youth with limited parental support to assist them in achieving their highest potential as they become responsible adults. The Organization is supported primarily through grants, contributions and revenues from contract mentoring services.

Basis of Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less. For the years ended December 31, 2015 and 2014 there were no cash equivalents.

Grants, Contributions, and Contract Services Receivable

The Organization states receivables at their unpaid balances and charges off uncollectible receivables as bad debt when management determines the receivable will not be collected. It is the Organization's policy to net bad debt expense against revenues. For the years ended December 31, 2015 and 2014 there was no bad debt charged against revenue.

Grants and Contributions

The Organization reports receipts of cash and other assets as temporarily or permanently restricted support, if they are received with donor or grantor stipulations that limit the use of the assets. When the donor or grantor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If the restrictions are satisfied in the same time period as the receipt of the assets, the cash or other assets are reported as unrestricted.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

BIG BROTHERS BIG SISTERS OF THE BLACK HILLS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$1,000. Property and equipment are carried at cost. Depreciation of property and equipment is calculated using the straight-line method based on cost and estimated useful lives of the assets.

The estimated useful lives used in computing depreciation are:

	<u>Years</u>
Furniture and Equipment	3-7
Building and Building Improvements	30

Depreciation of \$19,432 for 2015 and \$22,136 for 2014 were charged to operations.

Functional Allocation of Expenses

The Organization allocates functional expenses based on management's estimate of the program or supporting services benefiting from the expense.

Contributed Services

The Organization receives a substantial amount of contributed services related to its mentoring programs. No amounts have been reflected in the financial statements for those services.

Income Taxes

Big Brothers Big Sisters of the Black Hills, Inc. is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

As of December, 31, 2015, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Organization's income tax filings are subject to audit by various taxing authorities. The Organization is no longer subject to federal income tax examinations by taxing authorities for years before 2012. Management has engaged accounting professionals who continually evaluate expiring statutes of limitation, audits, proposed settlements, changes in tax law and new authoritative rulings and provide them with guidance. The Organization believes their estimates are appropriate based on current facts and circumstances. Interest and penalties assessed by income taxing authorities, if any, are included in interest expense.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

BIG BROTHERS BIG SISTERS OF THE BLACK HILLS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Operations and Summary of Significant Accounting Policies (continued)

Advertising Costs

The Organization uses advertising to promote its programs and recruit volunteers. The Organization's policy is to expense advertising costs as the costs are incurred. Advertising expenses, presented as marketing and recruitment expense on the schedule of functional expenses, for the years ended December 31, 2015 and 2014 were \$5,243 and \$5,454, respectively.

In-kind advertising donations for marketing and recruitment and for fundraising totaled \$27,960 and \$45,280 during the year ended December 31, 2015 and 2014, respectively.

Basis of Accounting

The financial statements of Big Brothers Big Sisters of the Black Hills, Inc. have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Subsequent Events

In preparing the financial statements, management has evaluated events and transactions for potential recognition or disclosure through June 8, 2016, the date the financial statements were available to be issued.

Note 2. Reclassification of 2014 Functional Expenses

During the preparation of the 2015 Financial Statement, an error was discovered on the 2014 Schedule of Functional Expenses in the allocation of one employee's wages and costs. The reclassification decreases Mentoring Program expenses and increases Fundraising expenses by \$47,556, respectively, with no change in total expenses.

Note 3. Property and Equipment

A summary of property and equipment is as follows:

	<u>2015</u>	<u>2014</u>
Furniture and Equipment	\$ 63,654	\$ 67,628
Building and Improvements	<u>510,870</u>	<u>495,898</u>
	574,524	563,526
Less Accumulated Depreciation	<u>(221,605)</u>	<u>(206,147)</u>
	<u>\$ 352,919</u>	<u>\$ 357,379</u>

BIG BROTHERS BIG SISTERS OF THE BLACK HILLS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 4. Temporarily Restricted and Board Designated Net Assets

For the years ended December 31, 2015 and 2014 temporarily restricted net assets included grants and contributions restricted to the cost of furnishing and maintaining the new facility purchased during the year ended December 31, 2006. These funds are held in the Building Maintenance Savings account. This account is presented as part of Other Assets on the Statement of Financial Position.

For the years ended December 31, 2015 and 2014, \$0 and \$1,000, respectively, in net assets were released from donor restrictions by incurring expenses related to building maintenance, thereby satisfying the purpose specified by the donor.

Note 5. Board-designated Endowment Funds

The Organization's endowment consists of one fund established to support the mission of the Organization. Its endowment includes funds designated by the Board of Directors to function as an endowment. Since that amount resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets. The income from the assets can be used to support the Organization's general activities.

Earnings from the board designated funds are currently added to the endowment fund net assets. The Black Hills Community Foundation approves distributions based upon their spending policies. These funds are held in the BHCF agency endowment.

Composition of endowment net assets for the year ended December 31, 2015 at fair value was as follows:

	<u>Unrestricted</u>	<u>Total</u>
Board-Designated Endowment Funds	\$ 1,741	\$ 1,741
Total Funds	<u>\$ 1,741</u>	<u>\$ 1,741</u>

Changes in endowment assets for the year ended December 31, 2015 are as follows:

	<u>Unrestricted</u>	<u>Total</u>
Beneficial interests in BHCF agency endowment, beginning of year	\$ 1,901	\$ 1,901
Change in Market Value	(100)	(100)
Earnings, net of fees	26	26
Distributions	<u>(86)</u>	<u>(86)</u>
Beneficial interests in BHCF agency endowment, end of year	<u>\$ 1,741</u>	<u>\$ 1,741</u>

BIG BROTHERS BIG SISTERS OF THE BLACK HILLS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 6. Investment in Securities

Investment in Securities consists of an investment in a single mutual fund. The investment is classified on the Statements of Financial Position as follows:

	<u>Unrestricted</u>	<u>Total</u>
Investment in Securities	<u>\$ 34,843</u>	<u>\$ 34,843</u>

The following schedule summarizes the investment return and its classification in the Statement of Activities for the year ended December 31, 2015.

	<u>Unrestricted</u>	<u>Total</u>
Investment, beginning of year	\$ 35,831	\$ 35,831
Change in Market Value	1,183	1,183
Investment Income (Loss)	<u>(2,171)</u>	<u>(2,171)</u>
Fair Value, end of year	<u>\$ 34,843</u>	<u>\$ 34,843</u>

Note 7. Fair Value Measurements

The Organization uses a three-level hierarchy for disclosure of assets and liabilities recorded at fair value. The classification of assets and liabilities within the hierarchy is based on whether the inputs to the valuation methodology used for measurement are observable or unobservable. Observable inputs reflect market-derived or market-based information obtained from independent sources while unobservable inputs reflect estimates about market data.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

Level I - Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments which would generally be included in Level I include listed equities and listed derivatives. The Organization, to the extent that it holds such investments, does not adjust the quoted price of these investments.

Level II - Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level I. Fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-counter derivatives.

Level III - Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation. Investments that are included in this category generally include general and limited partnership interests in corporate private equity and real estate funds, debt funds, hedge funds, distressed debt and non-investment grade residual interests in securitizations and collateralized debt obligations and collateralized debt obligations.

BIG BROTHERS BIG SISTERS OF THE BLACK HILLS, INC.

NOTES TO FINANCIAL STATEMENTS

Note 7. Fair Value Measurements (continued)

In certain cases, the inputs used to measure the fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given investment is based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The fair value of each financial instrument in the table below was measured using FAS ASC Topic 820 input guidance and valuation techniques. The following table sets forth carrying amounts and estimated fair values for financial instruments at December 31, 2015:

	<u>Fair Value</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Investment in Securities	\$ 34,843	\$ 34,843		

The Organization recognizes transfers into and out of levels within the fair value hierarchy at the end of the reporting period. There were no transfers between levels in the year ended December 31, 2015.

In general, investments are exposed to various risks, such as interest rate, credit, and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes will occur in the near term and that such changes could materially affect the investment balances and the amounts reported in the statements of financial position.

Note 8. Concentrations

The Organization received approximately 15.2 % and 20.6% of its operating support from United Way of the Black Hills, and 16.8 % and 20.7% from the Bowl for Kids Sake fundraising activity for the years ended December 31, 2015 and 2014, respectively. A significant reduction in these sources of support, if it were to occur, may have a significant effect on the Organization's programs and activities.

Note 9. Retirement Plan

During the year ended December 31, 2004, the Organization established a SIMPLE IRA retirement plan (the "Plan") covering all employees of the Organization after one year of service. The Plan allows for discretionary employee contributions to the Plan up to the maximum amount allowed by the Internal Revenue Code.

The Organization will match each employee's contribution up to 3% of gross wages. For the years ended December 31, 2015 and 2014, the Organization contributed \$5,548 and \$6,328, respectively to the Plan.

SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNCTIONAL EXPENSES

BIG BROTHERS BIG SISTERS OF THE BLACK HILLS, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2015

	Mentoring Programs	Management and General	Fundraising	Total
Bank Credit Card Charges	\$ 510	\$ 54	\$ 143	\$ 707
Conference Expenses	-	-	-	-
Depreciation	14,000	1,496	3,936	19,432
Events and Campaigns	-	-	15,466	15,466
In-Kind Advertising Expenses	-	-	27,960	27,960
Insurance	13,047	1,394	3,668	18,109
Maintenance	4,451	476	1,251	6,178
Marketing and Recruitment	2,622	-	2,621	5,243
Miscellaneous	2,483	265	698	3,446
Office Supplies	2,232	239	628	3,099
Organizational Dues	9,569	-	-	9,569
Payroll and Payroll Taxes	171,503	21,306	59,638	252,447
Postage	2,076	222	584	2,882
Printing	411	44	116	571
Professional Fees	5,114	7,907	3,307	16,328
Program Activities	10,834	-	-	10,834
Recognition Awards	497	53	140	690
Staff Development	1,471	157	413	2,041
Travel	2,465	-	-	2,465
Utilities	6,649	710	1,869	9,228
Total	<u>\$ 249,934</u>	<u>\$ 34,323</u>	<u>\$ 122,438</u>	<u>\$ 406,695</u>

The accompanying notes are an integral part of
these financial statements

BIG BROTHERS BIG SISTERS OF THE BLACK HILLS, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2014

	Mentoring Programs	Management and General	Fundraising	Total
Bank Credit Card Charges	\$ 501	\$ 53	\$ 142	\$ 696
Conference Expenses	4,039	-	-	4,039
Depreciation	15,942	1,669	4,525	22,136
Events and Campaigns	-	-	12,904	12,904
In-Kind Advertising Expenses	7,288	-	37,992	45,280
Insurance	10,906	1,142	3,095	15,143
Maintenance	4,978	522	1,413	6,913
Marketing and Recruitment	2,727	-	2,727	5,454
Miscellaneous	-	3,054	-	3,054
Office Supplies	6,088	638	1,728	8,454
Organizational Dues	10,094	-	-	10,094
Payroll and Payroll Taxes	192,100	20,125	54,510	266,735
Postage	1,845	193	524	2,562
Printing	722	76	205	1,003
Professional Fees	5,910	6,861	3,280	16,051
Program Activities	8,068	-	-	8,068
Recognition Awards	532	56	150	738
Staff Development	1,941	203	551	2,695
Travel	1,295	-	-	1,295
Utilities	7,619	798	2,162	10,579
Total	<u>\$ 282,595</u>	<u>\$ 35,390</u>	<u>\$ 125,908</u>	<u>\$ 443,893</u>