

**BIG BROTHERS BIG SISTERS
OF GREATER LOS ANGELES, INC.
(A CALIFORNIA NON-PROFIT CORPORATION)**

FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

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Walters & Sklyar LLP

To the Board of Directors of
Big Brothers Big Sisters of Greater Los Angeles, Inc.
Los Angeles, California

Independent Auditors' Report

We have audited the accompanying financial statements of Big Brothers Big Sisters of Greater Los Angeles, Inc. (the Organization), a California non-profit corporation, which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Brothers Big Sisters of Greater Los Angeles, Inc. as of December 31, 2016 and 2015, 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.

Walters & Sklyar LLP

Woodland Hills, California

May 10, 2017

**BIG BROTHERS BIG SISTERS
OF GREATER LOS ANGELES, INC.**

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

	2016	2015
ASSETS:		
Cash	\$ 988,893	\$ 1,005,972
Assets whose use is limited or restricted	450,172	297,652
Investments	138,484	132,210
Pledges receivable, net	464,929	294,336
Prepaid expenses	85,316	88,383
Other current assets	55,304	31,137
	2,183,098	1,849,690
Total current assets	2,183,098	1,849,690
INVESTMENTS, net of current portion	1,627,313	1,608,271
PLEDGES RECEIVABLE, net of current portion	115,759	224,010
PROPERTY AND EQUIPMENT, net	419,016	497,155
DEPOSITS	37,017	20,081
OTHER ASSETS	68,767	69,617
	4,450,970	4,268,824
Total assets	\$ 4,450,970	\$ 4,268,824
LIABILITIES:		
Accounts payable and accrued expenses	\$ 540,408	\$ 472,209
Other current liabilities	-	15,300
	540,408	487,509
Total current liabilities	540,408	487,509
Total liabilities	540,408	487,509
COMMITMENTS AND CONTINGENCIES	-	-
NET ASSETS:		
Unrestricted net assets:		
Operating	1,257,798	1,382,104
Board designated	297,335	121,000
	1,555,133	1,503,104
Total unrestricted net assets	1,555,133	1,503,104
Temporarily restricted net assets	955,429	878,211
Permanently restricted net assets	1,400,000	1,400,000
	3,910,562	3,781,315
Total net assets	3,910,562	3,781,315
Total liabilities and net assets	\$ 4,450,970	\$ 4,268,824

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

**BIG BROTHERS BIG SISTERS
OF GREATER LOS ANGELES, INC.**

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS:		
SUPPORT AND OTHER REVENUE:		
Contributions	\$ 1,572,186	\$ 1,550,983
Special fundraising events, net of direct costs of \$488,063 and \$457,962, respectively	732,560	626,410
Bingo income, net of direct costs of \$1,268,737 and \$1,064,026, respectively	590,933	515,642
Bequests	33,177	33,148
Investment income (loss), net	3,408	(3,001)
Other income	10,920	27,270
Total support and other revenue	2,943,184	2,750,452
NET ASSETS RELEASED FROM RESTRICTIONS	665,796	1,034,360
Total support and other revenue, and net assets released from restrictions	3,608,980	3,784,812
FUNCTIONAL EXPENSES:		
Program services	2,785,060	2,575,930
Management and general	318,215	270,233
Fundraising	453,676	384,061
Total functional expenses	3,556,951	3,230,224
Increase in unrestricted net assets	52,029	554,588
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	703,480	749,841
Special fundraising events, net of direct costs of \$6,493 and \$36,648, respectively	6,007	75,852
Investment income, net	42,024	30,668
Provision for uncollectible pledges receivable	(8,497)	(13,517)
Net assets released from restrictions	(665,796)	(1,034,360)
Transfer to permanently restricted net assets	-	(61,523)
Increase (decrease) in temporarily restricted net assets	\$ 77,218	\$ (253,039)

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

**BIG BROTHERS BIG SISTERS
OF GREATER LOS ANGELES, INC.**

**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS - CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:		
Transfer from temporarily restricted net assets	\$ -	\$ 61,523
Increase in permanently restricted net assets	-	61,523
NET CHANGE IN NET ASSETS	129,247	363,072
NET ASSETS AT BEGINNING OF YEAR	<u>3,781,315</u>	<u>3,418,243</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,910,562</u>	<u>\$ 3,781,315</u>

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

**BIG BROTHERS BIG SISTERS
OF GREATER LOS ANGELES, INC.**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net change in net assets	\$ 129,247	\$ 363,072
Adjustments to reconcile net change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	86,218	76,542
Loss on disposal of property and equipment	-	2,224
Net realized and unrealized (gains) losses on investments	(14,670)	3,104
Provision for uncollectible pledges receivable, net	8,497	13,517
Contributions restricted for capital purposes	-	(200,000)
Changes in assets and liabilities:		
(Increase) in assets whose use is limited or restricted	(152,520)	(95,630)
(Increase) in pledges receivable	(70,839)	(225,193)
Decrease in prepaid expenses	3,067	1,665
(Increase) in other current assets	(24,167)	(26,982)
(Increase) decrease in deposits	(16,936)	24,767
Decrease in other assets	850	200
Increase (decrease) in accounts payable and accrued expenses	68,199	(49,914)
(Decrease) increase in other current liabilities	(15,300)	15,300
	1,646	(97,328)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(8,079)	(478,185)
(Purchase of) proceeds from investments, net	(5,044)	50,763
Reinvestment of interest and dividend income	(5,602)	(5,068)
	(18,725)	(432,490)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from contributions restricted for capital purposes	-	300,000
	-	300,000
NET CHANGE IN CASH	(17,079)	(229,818)
CASH AT BEGINNING OF YEAR	1,005,972	1,235,790
CASH AT END OF YEAR	\$ 988,893	\$ 1,005,972

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

**BIG BROTHERS BIG SISTERS
OF GREATER LOS ANGELES, INC.**

**STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016			
	Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,639,160	\$ 216,688	\$ 298,107	\$ 2,153,955
Employee benefits	187,411	24,775	34,084	246,270
Payroll taxes	131,998	17,449	24,006	173,453
Total personnel costs	1,958,569	258,912	356,197	2,573,678
Occupancy and administrative	305,555	40,393	55,724	401,672
Program services and events	377,885	-	3,347	381,232
Professional services	60,449	7,991	10,994	79,434
National and regional	26,420	3,492	4,805	34,717
Depreciation and amortization	56,182	7,427	22,609	86,218
Total functional expenses	\$ 2,785,060	\$ 318,215	\$ 453,676	\$ 3,556,951
	2015			
	Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,458,421	\$ 179,428	\$ 246,903	\$ 1,884,752
Employee benefits	166,501	20,484	28,188	215,173
Payroll taxes	110,107	13,546	18,640	142,293
Total personnel costs	1,735,029	213,458	293,731	2,242,218
Occupancy and administrative	338,818	41,685	57,360	437,863
Program services and events	379,423	-	1,328	380,751
Professional services	49,224	6,056	8,333	63,613
National and regional	22,624	2,783	3,830	29,237
Depreciation and amortization	50,812	6,251	19,479	76,542
Total functional expenses	\$ 2,575,930	\$ 270,233	\$ 384,061	\$ 3,230,224

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

**BIG BROTHERS BIG SISTERS
OF GREATER LOS ANGELES, INC.**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - DESCRIPTION OF BUSINESS

Big Brothers Big Sisters of Greater Los Angeles, Inc. (the Organization) is a California non-profit public benefit corporation formed to empower children who face economic, emotional, and social challenges through a variety of programs that provide professionally supported, one-to-one mentoring relationships with positive role models.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements of the Organization have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

In accordance with GAAP, 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 are not restricted by donors, or the donor-imposed restrictions have expired. Unrestricted net assets represent funds that are fully available, at the discretion of management and the Board of Directors, for the Organization to utilize in its programs or supporting activities.
- Temporarily restricted net assets are comprised of contributions that have been restricted by the donors for specific purposes or time periods. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets. If a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.
- Permanently restricted net assets consist of contributions that have been restricted by the donors to be maintained in perpetuity. The related income is temporarily restricted either for specific purpose (donor-imposed) or time period (in accordance with GAAP).

The Organization follows the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Presentation of Financial Statements*, which provides guidance on the net asset classification and reporting of donor-restricted endowment funds for not-for-profit organizations that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The UPMIFA was signed into law in California (CPMIFA) on September 30, 2008.

**BIG BROTHERS BIG SISTERS
OF GREATER LOS ANGELES, INC.**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Public Contributions

All contributions are recorded at their estimated fair value or net realized value at the time of receipt of the asset or when pledged. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

In-Kind Contributions

In accordance with GAAP, in-kind services are recognized if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

In addition, the Organization receives significant amount of donated services from unpaid volunteers that are essential to the completion of the Organization's purposes. However, these services have not been recorded in the financial statements since they do not meet the accounting criteria necessary for recognition.

Functional Expenses

The costs of providing program services and supporting activities have been summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting activities benefited.

Bingo Income

The Organization conducts bingo operations in order to provide additional revenue. Income from bingo operations is subject to city and state regulations that restrict the use of such income for charitable purposes and specified operating expenditures. Because the bingo operations are not central to the Organization's program, all direct bingo costs have been netted against bingo revenue in the accompanying financial statements.

Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted include net assets designated by the Board of Directors or restricted by donors to be used for the operations, including scholarships and associated expenses, of The Future Fund, Dawn Steel Fund, The Big Brothers Big Sisters Scholarship Fund, and Women in Entertainment scholarships. As of December 31, 2016 and 2015, assets whose use is limited or restricted amounted to \$450,172 and \$297,652, respectively.

**BIG BROTHERS BIG SISTERS
OF GREATER LOS ANGELES, INC.**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Pledges Receivable

In accordance with GAAP, unconditional promises to give (pledges) that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges that are expected to be collected over periods in excess of one year are discounted to net present value using risk-free interest rates applicable to the years in which the pledges are received. Discount on unconditional pledges is amortized from the date the pledge was initially recognized to the date the contribution is received. Discount amortization is recognized as donation revenue.

The Organization uses the allowance method to determine uncollectible promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made. Accounts are charged to the allowance for doubtful accounts as they are deemed uncollectible.

Investments

Investments are measured at fair value based on quoted market prices in the statements of financial position. Investment income or loss (including interest, dividends, realized gains or losses, and unrealized gains or losses on investments) is included in the statements of activities and changes in net assets.

Property and Equipment

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair market value at the date of donation. Expenditures for repairs and maintenance are expensed as incurred, while additions, renewals, and betterments expected to extend the useful lives of the assets are capitalized. Leasehold improvements are being amortized over the shorter of the lease term or useful life. Depreciation and amortization on all other property and equipment is computed on the straight-line method over the estimated useful lives of the assets as follows:

Leasehold improvements	5 years
Furniture and fixtures	3 - 8 years

Impairment of Long-Lived Assets

In accordance with GAAP, the Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If such review indicates an asset may not be recoverable, an impairment loss is recognized for the excess of the carrying amount over the fair value of an asset to be held and used or over the fair value less cost to sell an asset to be disposed.

**BIG BROTHERS BIG SISTERS
OF GREATER LOS ANGELES, INC.**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Impairment of Long-Lived Assets – Continued

During the years ended December 31, 2016 and 2015, there were no events or changes in circumstances indicating that the carrying amount of any long-lived assets may not be recoverable.

Income Taxes

The Organization is exempt from federal and state income taxes under Internal Revenue Code (IRC) Section 501(c)(3) and the corresponding provisions of the California Franchise Tax Code. However, it is subject to federal and California income tax on unrelated business income (UBI), if any, as stipulated in IRC Section 511.

The Organization evaluates uncertain tax positions through its review of the sources of income to identify UBI and certain other matters, including those which may affect its tax exempt status. The effect of the uncertainty would be recorded if the outcome was considered probable and reasonably estimable. As of December 31, 2016 and 2015, the Organization had no uncertain tax positions requiring accrual. The Organization's bingo operations qualify for the statutory bingo exclusion from unrelated trade or business definition and, therefore, do not subject the Organization to UBI tax.

The Organization's federal and California returns are no longer subject to examinations by taxing authorities for years before 2013 for their federal and 2012 for their state tax filings.

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash, assets whose use is limited or restricted, investments, and pledges receivable.

The Organization maintains its cash and assets whose use is limited or restricted with high credit quality financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, such balances may be in excess of the FDIC limit.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Investments are also exposed to credit loss for the amount of funds held in the event of nonperformance by the counterparties. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, and such changes could materially affect the amounts reported in the accompanying financial statements. The Organization mitigates these risks with an investment policy designed to limit the exposure and concentration, while achieving optimal return within reasonable risk tolerances.

**BIG BROTHERS BIG SISTERS
OF GREATER LOS ANGELES, INC.**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Concentrations of Credit Risk – Continued

With respect to pledges receivable, the Organization performs ongoing evaluations of each pledge and maintains an allowance for doubtful accounts as necessary to cover potential losses.

Management Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates, assumptions and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include those related to the Organization's allocation of certain expenses by function, allowance and discount for pledges receivable, estimates of useful lives of property and equipment, fair value of financial instruments, determination of lease terms, and accounting for impairment losses and litigation. Although estimates are considered to be fairly stated at the time made, actual results could differ materially from those estimates.

Fair Value of Financial Instruments

The requirements of FASB ASC 820, *Fair Value Measurement and Disclosure*, apply to all financial instruments and all nonfinancial assets and nonfinancial liabilities that are being measured and reported on a fair value basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 also established a fair value hierarchy that prioritizes the inputs used in valuation methodologies into the following three levels:

Level 1 – unadjusted quoted prices in active markets for identical assets and liabilities.

Level 2 – observable inputs other than those included in Level 1, such as quoted market prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.

Level 3 – valuation based on inputs that are unobservable and require significant management judgment.

For cash, assets whose use is limited or restricted, pledges receivable, prepaid expenses, accounts payable and accrued expenses, and other current assets and liabilities, the carrying amounts represent a reasonable estimate of the fair values due to their relatively short maturity.

**BIG BROTHERS BIG SISTERS
OF GREATER LOS ANGELES, INC.**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation. Such reclassifications have no effect on changes in net assets as previously reported.

Subsequent Events

In accordance with GAAP, events occurring between December 31, 2016 and May 10, 2017, the date these financial statements were available to be issued, were evaluated, and no material subsequent events that required recognition in these financial statements were noted.

NOTE 3 - PLEDGES RECEIVABLE

Net pledges receivable amounted to \$580,689 and \$518,346 at December 31, 2016 and 2015, respectively. Unamortized discount of \$2,241 at December 31, 2016 and 2015 was calculated using risk-free interest rate applicable to the years in which the pledges were received. No allowance for doubtful accounts was recorded at December 31, 2016 and 2015 as management considered all pledges receivable to be fully collectible. At December 31, 2016, the estimated future annual collections on pledges receivable are as follows:

Less than one year	\$ 464,929
One to five years	<u>118,000</u>
	582,929
Less: Unamortized discount	<u>(2,240)</u>
	\$ <u>580,688</u>

NOTE 4 - INVESTMENTS AND FAIR VALUE DISCLOSURE

The Organization's investments are managed as a diversified portfolio governed by the Organization's investment policy, which sets asset allocation ranges for growth and fixed income investments.

**BIG BROTHERS BIG SISTERS
OF GREATER LOS ANGELES, INC.**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 - INVESTMENTS AND FAIR VALUE DISCLOSURE – CONTINUED

Composition of investments at fair value measured on a recurring basis was as follows at December 31:

	<u>2016</u>	<u>2015</u>
	Quoted prices in active markets for identical assets (Level 1)	Quoted prices in active markets for identical assets (Level 1)
Money market funds	\$ 1,024,283	\$ 865,378
Equities (common and preferred stock)	385,180	483,335
Mutual funds	5,179	5,110
Tax-exempt fixed income securities	<u>351,155</u>	<u>386,658</u>
	<u>\$ 1,765,797</u>	<u>\$ 1,740,481</u>

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

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require transfer of financial instruments from one level to another. In such instances, the transfer is reported at the end of the reporting period. There have been no changes in the valuation methodologies used at December 31, 2016 and 2015 to value the Organization's investments assets at fair value, and there were no significant transfers from one level to another.

Net investment income from these investments amounted to \$45,432 and \$27,667 for the years ended December 31, 2016 and 2015, respectively, and is summarized as follows:

	<u>2016</u>	<u>2015</u>
Interest and dividends, net of expenses	\$ 30,762	\$ 30,771
Net realized and unrealized gains (losses)	<u>14,670</u>	<u>(3,104)</u>
	<u>\$ 45,432</u>	<u>\$ 27,667</u>

**BIG BROTHERS BIG SISTERS
OF GREATER LOS ANGELES, INC.**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 328,750	\$ 328,750
Furniture and fixtures	<u>570,743</u>	<u>563,398</u>
	899,493	892,148
Less: accumulated depreciation and amortization	<u>(480,477)</u>	<u>(394,993)</u>
	<u>\$ 419,016</u>	<u>\$ 497,155</u>

Depreciation and amortization expense for the years ended December 31, 2016 and 2015 amounted to \$86,218 and \$76,542, respectively.

NOTE 6 - ENDOWMENT

The Organization's endowment consists of two individual funds established in accordance with the donor-imposed restrictions (Note 9).

Interpretation of Relevant Law

The Board of Directors has interpreted the CPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment 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 that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by the CPMIFA.

**BIG BROTHERS BIG SISTERS
OF GREATER LOS ANGELES, INC.**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 - ENDOWMENT – CONTINUED

Interpretation of Relevant Law - Continued

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

- The duration and preservation of the fund,
- The purposes of the Organization and the donor-restricted endowment fund,
- General economic conditions,
- The possible effect of inflation and deflation,
- The expected total return from income and the appreciation of investments,
- Other resources of the Organization, and
- The investment policies of the Organization.

Composition and Changes in Endowment Net Assets

As of December 31, 2016, the Organization’s endowment net asset composition by type of fund was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ _____ -	\$ <u>150,262</u>	\$ <u>1,400,000</u>	\$ <u>1,550,262</u>
	\$ _____ -	\$ <u>150,262</u>	\$ <u>1,400,000</u>	\$ <u>1,550,262</u>

**BIG BROTHERS BIG SISTERS
OF GREATER LOS ANGELES, INC.**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 - ENDOWMENT – CONTINUED

Composition and Changes in Endowment Net Assets – Continued

Changes in endowment net assets for the year ended December 31, 2016 were as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 131,220	\$ 1,400,000	\$ 1,531,220
Investment return:				
Investment income	-	28,581	-	28,581
Net appreciation (realized/unrealized)	<u>-</u>	<u>13,443</u>	<u>-</u>	<u>13,443</u>
Total investment return	-	42,024	-	42,024
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(22,982)</u>	<u>-</u>	<u>(22,982)</u>
Endowment net assets, end of year	\$ <u>-</u>	\$ <u>150,262</u>	\$ <u>1,400,000</u>	\$ <u>1,550,262</u>

As of December 31, 2015, the Organization's endowment net asset composition by type of fund was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 131,220	\$ 1,400,000	\$ 1,531,220
	<u>\$ -</u>	<u>\$ 131,220</u>	<u>\$ 1,400,000</u>	<u>\$ 1,531,220</u>

**BIG BROTHERS BIG SISTERS
OF GREATER LOS ANGELES, INC.**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 - ENDOWMENT – CONTINUED

Composition and Changes in Endowment Net Assets – Continued

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 235,789	\$ 1,338,477	\$ 1,574,266
Investment return:				
Investment income	-	28,782	-	28,782
Net appreciation (realized/unrealized)	-	1,886	-	1,886
Total investment return	-	30,668	-	30,668
Appropriation of endowment assets for expenditure	-	(73,714)	-	(73,714)
Transfer of endowment assets	-	(61,523)	61,523	-
Endowment net assets, end of year	\$ -	\$ 131,220	\$ 1,400,000	\$ 1,531,220

Endowment Funds with Deficiencies

From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or the law requires the Organization to retain as a fund of perpetual duration. Such deficiencies could result from unfavorable market fluctuations that occur after the investment of permanently restricted contributions and continued appropriation for certain programs as might be deemed prudent by the Board of Directors. For the years ended December 31, 2016 and 2015, the Organization did not have any deficiencies.

**BIG BROTHERS BIG SISTERS
OF GREATER LOS ANGELES, INC.**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 - BOARD DESIGNATED NET ASSETS

Board designated net assets consisted of the following as of December 31:

	2016	2015
The Robert Howard Scholarship Fund – Designated to support the scholarships for graduating little brothers.	\$ 3,000	\$ 5,000
The Big Brothers Big Sisters Scholarship Fund – Designated to provide scholarships to little brothers and little sisters.	294,335	116,000
	\$ 297,335	\$ 121,000

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of December 31:

	2016	2015
Endowment Funds:		
Purpose Restricted:		
Earnings and appreciation on endowment funds restricted for The Future Fund scholarships	\$ 91,076	\$ 70,374
Earnings and appreciation on Dawn Steel endowment fund	59,186	60,846
Total purpose restricted	150,262	131,220
Total endowment funds	\$ 150,262	\$ 131,220

**BIG BROTHERS BIG SISTERS
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NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS – CONTINUED

Non-Endowment Funds:

Time and Purpose Restricted:

Assets restricted for The Future Fund, operations, including pledges receivable of \$7,959 and \$31,716, net	\$ 7,959	\$ 31,716
Assets restricted for The Big Brothers Big Sisters Scholarship Fund, including pledges receivable of \$14,000 and \$0	14,000	-
Assets restricted for Dawn Steel Fund	100,000	100,000
Assets restricted for Women in Entertainment scholarships	124,479	128,645
Pledges to be collected in future periods	<u>558,729</u>	<u>486,630</u>
Total time and purpose restricted	<u>805,167</u>	<u>746,991</u>
Total non-endowment funds	<u>805,167</u>	<u>746,991</u>
	<u>\$ 955,429</u>	<u>\$ 878,211</u>

Temporarily restricted net assets were released from restrictions by incurring expenses satisfying the donor-restricted purposes or time requirements during the year ended December 31:

	2016	2015
Collections of pledges receivable, operations	\$ 498,884	\$ 253,396
Build-out	-	529,988
The Future Fund scholarships, net	14,764	132,486
Dawn Steel Fund – social worker salary supplement	22,982	23,714
Women in Entertainment scholarships	<u>129,166</u>	<u>94,776</u>
	<u>\$ 665,796</u>	<u>\$ 1,034,360</u>

NOTE 9 - PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consisted of the following as of December 31:

	2016	2015
The Future Fund – Established in 2008; income earned on fund assets is designated to provide scholarships to qualified female students with demonstrated financial needs.	\$ 1,000,000	\$ 1,000,000
Dawn Steel Fund – Established in 2004; income earned on fund assets is designated to supplement the salary of one social worker.	<u>400,000</u>	<u>400,000</u>
	<u>\$ 1,400,000</u>	<u>\$ 1,400,000</u>

**BIG BROTHERS BIG SISTERS
OF GREATER LOS ANGELES, INC.**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 - PERMANENTLY RESTRICTED NET ASSETS – CONTINUED

With the establishment of The Big Brothers Big Sisters Scholarship Fund (Board Designated Fund, Note 7) in November 2015, there is no longer any active fundraising or solicitation of donations, gifts, grants, pledges, or contributions of any kind for The Future Fund.

NOTE 10 - IN-KIND CONTRIBUTIONS

The in-kind contributions represent contributed legal services that have been recorded based upon the fair value of the services as reported to the Organization by the donors and are included in the accompanying statements of activities and changes in net assets as unrestricted contributions. During the years ended December 31, 2016 and 2015, the Organization received approximately \$1,100 and \$15,100 of in-kind contributions, respectively.

NOTE 11 - RETIREMENT PLAN

In August 2006, the Organization adopted a profit sharing plan covering all full time employees who have reached age 21 and completed one or more years of service. The Organization's contributions in the participants' account balances are at the discretion of management, and become fully vested after five years and may be withdrawn at retirement, disability, termination, or upon attaining age 55, whichever occurs first. For the years ended December 31, 2016 and 2015, the Organization did not make any contribution to the profit sharing plan.

In September 2006, the Organization also adopted a 403(b) plan covering all full time employees with one or more years of service. The 403(b) plan was established in accordance with Section 403(b) of the IRC and allows employee and employer contributions. Employees may elect to defer their compensation as an employee contribution subject to Internal Revenue Service regulation limitations.

The Organization makes a matching contribution to the 403 (b) plan equal to 100% of the participant's contribution up to a maximum of 4% of the participant's eligible compensation. Employees are fully vested in their account balances. The Organization's contributions to the 403(b) plan for the years ended December 31, 2016 and 2015 were \$35,291 and \$21,605, respectively.

**BIG BROTHERS BIG SISTERS
OF GREATER LOS ANGELES, INC.**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 - COMMITMENTS AND CONTINGENCIES

Operating Leases

The Organization leases its facilities and equipment from unrelated parties under various operating leases that expire on various dates through November 2021 and require aggregate minimum monthly payments of approximately \$25,900. For the years ended December 31, 2016 and 2015, rent expense amounted to \$394,580 and \$331,843, respectively.

Future minimum lease payments were as follows as of December 31, 2016:

<u>Year Ending December 31,</u>	<u>Facilities</u>	<u>Equipment</u>	<u>Total</u>
2017	\$ 417,349	\$ 1,143	\$ 418,492
2018	402,157	1,143	403,300
2019	413,622	1,143	414,765
2020	343,498	1,143	344,641
2021	<u>138,120</u>	<u>1,048</u>	<u>139,168</u>
	<u>\$ 1,714,746</u>	<u>\$ 5,620</u>	<u>\$ 1,720,366</u>

Subleases

For the year ended December 31, 2015, the Organization received rental income from an unrelated party amounting to \$7,350 for the sublease of certain space at its bingo facility for food service operations. No rental income from sublease was received during the year ended December 31, 2016.

NOTE 13 - LEGAL MATTERS

In the ordinary course of business, the Organization may be involved in legal proceedings and regulatory investigations. Management believes that the outcome of such matters, existing as of December 31, 2016, if any, will be resolved without material adverse effect on the Organization's future financial position, changes in net assets, or cash flows.