

KANSAS BIG BROTHERS BIG SISTERS, INC.

**Financial Statements
and Supplementary Information
December 31, 2014 and 2013**

**with
Independent Auditor's Report**

KANSAS BIG BROTHERS BIG SISTERS, INC.
Financial Statements
For the Years Ended December 31, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Kansas Big Brothers Big Sisters, Inc.
Wichita, Kansas

Report on the Financial Statements

We have audited the accompanying financial statements of Kansas Big Brothers Big Sisters, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities, functional expenses, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 Kansas Big Brothers Big Sisters, Inc. as of December 31, 2014 and 2013, 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 Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2015, on our consideration of Kansas Big Brothers Big Sisters, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kansas Big Brothers Big Sisters, Inc.'s internal control over financial reporting and compliance.

Peterson, Peterson & Goss, LC

Wichita, KS
August 18, 2015

KANSAS BIG BROTHERS BIG SISTERS, INC.

Statements of Financial Position

December 31, 2014 and 2013

ASSETS

| | 2014 | 2013 |
|---------------------------------------------------------|---------------------|---------------------|
| Cash and cash equivalents | \$ 428,107 | \$ 1,362,762 |
| Grant reimbursements receivable | 212,910 | 68,547 |
| Prepaid expenses | 17,657 | - |
| Investments | 1,092,306 | 1,183,212 |
| Contributions receivable | 365,320 | 703,343 |
| Property and equipment, net of accumulated depreciation | 2,480,017 | 2,537,584 |
| Total assets | <u>\$ 4,596,317</u> | <u>\$ 5,855,448</u> |

LIABILITIES AND NET ASSETS

Liabilities:

| | | |
|--------------------------------------|----------------|----------------|
| Accounts payable | \$ 76,412 | \$ 79,758 |
| Line of credit | 194,533 | 93,533 |
| Accrued wages and related deductions | 176,272 | 160,835 |
| Accrued vacation | 111,244 | 103,914 |
| Other accrued expenses | 6,899 | 12,481 |
| Long-term debt | - | 40,711 |
| Total liabilities | <u>565,360</u> | <u>491,232</u> |

Net Assets:

| | | |
|----------------------------------|---------------------|---------------------|
| Unrestricted | | |
| Unrestricted | 3,250,474 | 4,239,827 |
| Board designated | 310,230 | 317,176 |
| Temporarily restricted | 397,326 | 734,286 |
| Permanently restricted | 72,927 | 72,927 |
| Total net assets | <u>4,030,957</u> | <u>5,364,216</u> |
| Total liabilities and net assets | <u>\$ 4,596,317</u> | <u>\$ 5,855,448</u> |

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

KANSAS BIG BROTHERS BIG SISTERS, INC.

Statements of Activities

For the Years Ended December 31, 2014 and 2013

| | 2014 | | | |
|-------------------------------------------|---------------------|---------------------------|---------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Revenues, gains and other support: | | | | |
| Special events | | | | |
| Special event income | \$ 1,261,102 | \$ - | \$ - | \$ 1,261,102 |
| Special event expenses | (352,074) | | | (352,074) |
| Net special events income | 909,028 | - | - | 909,028 |
| Contributions | 1,508,017 | 18,900 | - | 1,526,917 |
| Grants | 1,419,528 | | | 1,419,528 |
| Investment return | 62,388 | | | 62,388 |
| Other revenue | 680,821 | | | 680,821 |
| Net assets released from restrictions | 355,860 | (355,860) | | - |
| Total revenues, gains and other support | 4,935,642 | (336,960) | - | 4,598,682 |
| Expenses: | | | | |
| Program | 4,827,027 | | | 4,827,027 |
| Management and general | 690,588 | | | 690,588 |
| Fundraising | 414,326 | | | 414,326 |
| Total expenses | 5,931,941 | - | - | 5,931,941 |
| Change in net assets | (996,299) | (336,960) | - | (1,333,259) |
| Net assets, beginning of year | 4,557,003 | 734,286 | 72,927 | 5,364,216 |
| Net assets, end of year | <u>\$ 3,560,704</u> | <u>\$ 397,326</u> | <u>\$ 72,927</u> | <u>\$ 4,030,957</u> |

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

KANSAS BIG BROTHERS BIG SISTERS, INC.

Statements of Activities

For the Years Ended December 31, 2014 and 2013

| | 2013 | | | |
|-------------------------------------------|---------------------|---------------------------|---------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Revenues, gains and other support: | | | | |
| Special events | | | | |
| Special event income | \$ 1,062,471 | \$ - | \$ - | \$ 1,062,471 |
| Special event expenses | (455,781) | | | (455,781) |
| Net special events income | 606,690 | - | - | 606,690 |
| Contributions | 1,391,898 | 772,300 | (50) | 2,164,148 |
| Grants | 1,819,885 | | | 1,819,885 |
| Investment return | 112,614 | | | 112,614 |
| Other revenue | 462,707 | | | 462,707 |
| Net assets released from restrictions | 1,457,573 | (1,457,573) | | - |
| Total revenues, gains and other support | 5,851,367 | (685,273) | (50) | 5,166,044 |
| Expenses: | | | | |
| Program | 5,064,620 | | | 5,064,620 |
| Management and general | 543,556 | | | 543,556 |
| Fundraising | 163,086 | | | 163,086 |
| Total expenses | 5,771,262 | - | - | 5,771,262 |
| Change in net assets | 80,105 | (685,273) | (50) | (605,218) |
| Net assets, beginning of year | 4,476,898 | 1,419,559 | 72,977 | 5,969,434 |
| Net assets, end of year | <u>\$ 4,557,003</u> | <u>\$ 734,286</u> | <u>\$ 72,927</u> | <u>\$ 5,364,216</u> |

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

KANSAS BIG BROTHERS BIG SISTERS, INC.

Statements of Functional Expenses

For the Years Ended December 31, 2014 and 2013

| | 2014 | | | |
|------------------------------------------------|---------------------|------------------------------|-------------------|---------------------|
| | Program | Management and General | Fund- Raising | 2014 Total |
| Salaries and wages | \$ 2,951,754 | \$ 369,899 | \$ 155,413 | \$ 3,477,066 |
| Employee benefits | 536,477 | 65,471 | 27,893 | 629,841 |
| Total salaries, wages and related expenses | 3,488,231 | 435,370 | 183,306 | 4,106,907 |
| Equipment and supplies | 266,782 | 27,922 | 27,579 | 322,283 |
| Group activities and volunteer appreciation | 52,202 | 6,874 | 94,549 | 153,625 |
| Training | 90,239 | 36,492 | 19,241 | 145,972 |
| Contract services and employment costs | 127,923 | 73,199 | 37,428 | 238,550 |
| Occupancy costs | 286,700 | 49,507 | 3,331 | 339,538 |
| Advertising | 39,983 | 395 | 17,059 | 57,437 |
| Insurance | 58,837 | 6,922 | 3,461 | 69,220 |
| Printing | 8,432 | 90 | 11,927 | 20,449 |
| Postage | 28,503 | 853 | 7,502 | 36,858 |
| National dues | | 30,981 | | 30,981 |
| Subrecipient grants | 210,101 | | | 210,101 |
| Special program collaboration fees | 17,063 | | | 17,063 |
| Interest | | 4,097 | | 4,097 |
| Depreciation | 152,031 | 17,886 | 8,943 | 178,860 |
| Totals | <u>\$ 4,827,027</u> | <u>\$ 690,588</u> | <u>\$ 414,326</u> | <u>\$ 5,931,941</u> |

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

KANSAS BIG BROTHERS BIG SISTERS, INC.

Statements of Functional Expenses

For the Years Ended December 31, 2014 and 2013

| | 2013 | | | |
|---------------------------------------------------|-------------------------|------------------------------|-----------------------|-------------------------|
| | Program | Management and General | Fund- Raising | 2013 Total |
| Salaries and wages | \$ 2,866,537 | \$ 305,937 | \$ 71,284 | \$ 3,243,758 |
| Employee benefits | 572,001 | 45,027 | 11,442 | 628,470 |
| Total salaries, wages and related expenses | 3,438,538 | 350,964 | 82,726 | 3,872,228 |
| Equipment and supplies | 279,469 | 15,699 | 4,611 | 299,779 |
| Group activities and volunteer appreciation | 93,427 | 7,693 | 18,500 | 119,620 |
| Training | 121,541 | 15,597 | 8,601 | 145,739 |
| Contract services and employment costs | 185,807 | 49,876 | 24,040 | 259,723 |
| Occupancy costs | 270,163 | 41,943 | 3,279 | 315,385 |
| Advertising | 23,030 | 120 | 1,044 | 24,194 |
| Insurance | 65,748 | 7,735 | 3,868 | 77,351 |
| Printing | 10,347 | 593 | 4,041 | 14,981 |
| Postage | 29,326 | 650 | 4,899 | 34,875 |
| National dues | | 31,047 | | 31,047 |
| Subrecipient grants | 412,069 | | | 412,069 |
| Special program collaboration fees | 8,038 | | | 8,038 |
| Interest | | 6,684 | | 6,684 |
| Depreciation | 127,117 | 14,955 | 7,477 | 149,549 |
| Totals | <u>\$ 5,064,620</u> | <u>\$ 543,556</u> | <u>\$ 163,086</u> | <u>\$ 5,771,262</u> |

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

KANSAS BIG BROTHERS BIG SISTERS, INC.
Statements of Cash Flows
For the Years Ended December 31, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|------------------------------------------------------------------|--------------------|---------------------|
| Operating Activities | | |
| Change in net assets | \$ (1,333,259) | \$ (605,218) |
| Items not requiring (providing) operating activities cash flows: | | |
| Depreciation | 178,860 | 149,549 |
| Net realized and unrealized gains on investments | (62,388) | (91,858) |
| Changes in | | |
| Grant reimbursements receivable | (144,363) | 11,264 |
| Prepaid expenses | (17,657) | 361 |
| Contributions receivable | 338,023 | 566,401 |
| Contributions restricted for long-term purposes | - | (121,000) |
| Accounts payable and accrued expenses | 13,839 | 73,873 |
| Net cash flow from operating activities | <u>(1,026,945)</u> | <u>(16,628)</u> |
| Investing Activities | | |
| Purchase of property and equipment | (121,293) | (188,191) |
| Net sale (purchase) of investments | 153,294 | (186,958) |
| Net cash flow from investing activities | <u>32,001</u> | <u>(375,149)</u> |
| Financing Activities | | |
| Proceeds from contributions restricted for endowment | - | 2,000 |
| Proceeds from contributions restricted for capital | - | 119,000 |
| Proceeds from line-of-credit | 131,000 | - |
| Payments on line-of-credit | (30,000) | (30,000) |
| Principal payments on long-term debt and notes payable | (40,711) | (2,593) |
| Net cash flow from financing activities | <u>60,289</u> | <u>88,407</u> |
| Net change in cash and cash equivalents | (934,655) | (303,370) |
| Cash and cash equivalents, beginning of year | <u>1,362,762</u> | <u>1,666,132</u> |
| Cash and cash equivalents, end of year | <u>\$ 428,107</u> | <u>\$ 1,362,762</u> |
| Supplemental cash flows information - interest paid | <u>\$ 4,097</u> | <u>\$ 6,684</u> |

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

KANSAS BIG BROTHERS BIG SISTERS, INC.

Notes to Financial Statements

December 31, 2014 and 2013

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations – Kansas Big Brothers Big Sisters, Inc. (Organization) is a not-for-profit organization whose 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 principal activities of the organization are to recruit, screen and monitor adult volunteers to serve as mentors for children who are considered at-risk. The Organization's revenues and other support are derived from contributions and federal and state grants. The Organization is statewide including 34 agencies who serve more than 6,000 children each year. Each agency develops a community advisory board comprised of local residents who provide advice and support to Kansas Big Brothers Big Sisters, Inc.

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

Cash Equivalents – The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2014 and 2013, cash equivalents consisted primarily of money market funds and certificates of deposit. The balances, at times, may exceed federally insured limits. Management believes credit risk related to these deposits is minimal.

Investments and Investment Return – Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income, realized and unrealized gains and losses on investments carried at fair value.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of activities as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

KANSAS BIG BROTHERS BIG SISTERS, INC.

Notes to Financial Statements

December 31, 2014 and 2013

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounts Receivable – Accounts receivable are stated at the amount billed on the funding source. The Organization provides an allowance for doubtful accounts and pledges, as needed, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable are ordinarily due upon receipt of the invoice. Delinquent receivables are written off based on individual evaluation and specific circumstances.

Property and Equipment – Property and equipment are depreciated on a straight-line basis over estimated useful life of each asset, which is 3 - 10 years for furniture and equipment and 15 - 39 years for buildings and leasehold improvements. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives. The Organization capitalizes property and equipment having a useful life of more than one year and cost of \$500 or more.

Temporarily and Permanently Restricted Net Assets – Temporarily restricted net assets are those whose use by the organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

Contributions – Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor 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. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue and net assets.

Gifts of land, buildings, equipment and other long-lived assets are reported as unrestricted revenue and net assets, unless explicit donor stipulations specify how such assets must be used, in which case the gifts are reported as temporarily or permanently restricted revenue and net assets. Absent explicit donor stipulations for the time long-lived assets must be held, expirations or restrictions resulting in reclassification of temporarily restricted net assets as unrestricted net assets are reported when the long-lived assets are placed in service.

KANSAS BIG BROTHERS BIG SISTERS, INC.

Notes to Financial Statements

December 31, 2014 and 2013

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

Conditional gifts depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the gift becomes unconditional.

In-Kind Contributions – In addition to receiving cash contributions, the Organization receives in-kind contributions of goods and services from various donors. It is the policy of the Organization to record the estimated fair value of certain in-kind donations as an expense in its financial statements, and similarly increase contribution revenue by a like amount. For the years ended December 31, 2014 and 2013, \$170,652 and \$231,030, respectively, was received in in-kind contributions. In addition, a substantial number of volunteers have donated significant amount of their time to the Organization programs.

Deferred Revenue – Revenue from grant funds received but not yet extended for their contractual purpose is deferred and recognized in the period when the contractual purpose is met. The Organization has not recorded any deferred revenue at December 31, 2014 and 2013.

Grants – Support funded by grants is recognized as the Organization performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

Income Taxes – The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law, and is not a private foundation. However, the Organization is subject to federal income tax on any unrelated business taxable income.

KANSAS BIG BROTHERS BIG SISTERS, INC.

Notes to Financial Statements

December 31, 2014 and 2013

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Tax positions taken may include positions that the Organization is exempt from income taxes or be related to how the Organization determines its unrelated business income. The Organization recognizes the financial statement effects of a tax position only when it believes it can more likely than not sustain the position upon an examination by the relevant tax authority.

Tax years that remain open include years ending 2011, 2012, 2013 and 2014.

Functional Allocation of Expenses – The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program, management and general and fund-raising categories based on time expended, usage and other methods.

Advertising – The Organization's policy is to expense advertising as incurred. Advertising expense was \$57,437 and \$24,194 for the years ended December 31, 2014 and 2013, respectively.

Reclassifications – Certain amounts on the statement of financial position for the year ended December 31, 2013 have been reclassified, to be consistent with classifications adopted for the year ended December 31, 2014.

Subsequent Events – Subsequent events have been evaluated through August 18, 2015, which is the date the audited financial statements were available to be issued.

KANSAS BIG BROTHERS BIG SISTERS, INC.

Notes to Financial Statements

December 31, 2014 and 2013

2. INVESTMENTS AND INVESTMENT RETURN

Investments at December 31 consisted of the following:

| | 2014 | 2013 |
|-------------------------------------|--------------------|--------------------|
| Long term certificates of deposit | \$ -- | \$ -- |
| Equity securities | 552,315 | 551,117 |
| Corporate debt securities | 298,751 | 246,245 |
| Life annuity contract | 52,132 | 52,132 |
| Real estate investment trusts | 2,007 | 1,169 |
| Commodity funds | 1,084 | 1,169 |
| Cash equivalents | 361 | 1,347 |
| Investment in community foundations | 185,656 | 330,033 |
| Total | <u>\$1,092,306</u> | <u>\$1,183,212</u> |

Total investment return is comprised of the following:

| | 2014 | 2013 |
|-------------------------------------------------------------------------------------|------------------|-------------------|
| Interest and dividend income | \$ 24,281 | \$ 20,756 |
| Net realized and unrealized gains (losses) on investments reported at fair value | 38,107 | 91,858 |
| Total | <u>\$ 62,388</u> | <u>\$ 112,614</u> |

3. CONTRIBUTIONS RECEIVABLE

Contributions receivable consisted of the following:

| | 2014 | 2013 |
|-------------------------------------------|-------------------|-------------------|
| Due within one year | \$ 55,247 | \$ 472,714 |
| Due in one to five years | 368,918 | 350,018 |
| Due in more than five years | -- | -- |
| | 424,165 | 822,732 |
| Less: unamortized discount | 18,946 | 41,930 |
| Less: allowance for uncollectible pledges | 39,899 | 77,459 |
| Total | <u>\$ 365,320</u> | <u>\$ 703,343</u> |

Discount rates were 4.75% for 2014 and 2013.

KANSAS BIG BROTHERS BIG SISTERS, INC.

Notes to Financial Statements

December 31, 2014 and 2013

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

Generally accepted accounting principles provide guidance which defines fair value, establishes a framework for measuring fair value under current accounting pronouncements that require or permit fair value measurement, and enhances disclosures about fair value measurements.

This guidance enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The guidance requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories.

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

Level 2 Inputs – Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3 Inputs – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instruments level within fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for instruments measured at fair value with Level 2 or 3 inputs, including the general classification of such instruments pursuant to the valuation hierarchy.

Certificates of Deposit – Investment values are estimated using quoted prices in markets that are not active, or from price quotations provided for comparable investments. Classified within level 2 of the hierarchy.

Life Annuity Contracts – Investment value based on the surrender value of the contract and valued within Level 3 of the hierarchy.

Community Foundation – These investments are valued using a unit of account for the Net Assets Value (NAV). The NAV is based on the ownership interest in the fund. Classified within level 2 of the valuation hierarchy.

KANSAS BIG BROTHERS BIG SISTERS, INC.

Notes to Financial Statements

December 31, 2014 and 2013

4. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table sets forth the Organization's financial assets that were measured at fair value on a recurring basis as of December 31, 2014 and 2013.

| | 2014 Fair Value Measurements Using | | | |
|------------------------|------------------------------------|-------------------|------------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Money market funds | \$ 360 | \$ - | \$ - | \$ 360 |
| Mutual funds | | | | |
| Equities | 552,316 | - | - | 552,316 |
| Fixed income | 298,751 | - | - | 298,751 |
| Real estate inv trusts | 2,007 | - | - | 2,007 |
| Commodity funds | 1,084 | - | - | 1,084 |
| Life annuity contract | - | - | 52,132 | 52,132 |
| Community foundations | - | 185,656 | - | 185,656 |
| | <u>\$ 854,518</u> | <u>\$ 185,656</u> | <u>\$ 52,132</u> | <u>\$ 1,092,306</u> |

| | 2013 Fair Value Measurements Using | | | |
|------------------------|------------------------------------|-------------------|------------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Total Fair Value |
| Money market funds | \$ 1,347 | \$ - | \$ - | \$ 1,347 |
| Mutual funds | | | | |
| Equities | 551,117 | - | - | 551,117 |
| Fixed income | 246,245 | - | - | 246,245 |
| Real estate inv trusts | 1,169 | - | - | 1,169 |
| Commodity funds | 1,169 | - | - | 1,169 |
| Life annuity contract | - | - | 52,132 | 52,132 |
| Community foundations | - | 330,033 | - | 330,033 |
| | <u>\$ 801,047</u> | <u>\$ 330,033</u> | <u>\$ 52,132</u> | <u>\$ 1,183,212</u> |

The changes in assets measured at fair value on a recurring basis using Level 3 hierarchy as of December 31, 2014 and 2013 are summarized as follows:

| | 2014 | 2013 |
|---------------------------------|------------------|------------------|
| Balance, beginning of year | \$ 52,132 | \$ 52,137 |
| Net loss included in net income | -- | (5) |
| Balance, end of year | <u>\$ 52,132</u> | <u>\$ 52,132</u> |

KANSAS BIG BROTHERS BIG SISTERS, INC.

Notes to Financial Statements

December 31, 2014 and 2013

5. PROPERTY AND EQUIPMENT

Property and equipment at December 31 consists of:

| | 2014 | 2013 |
|--------------------------------------|---------------------|---------------------|
| Buildings and leasehold improvements | \$ 2,950,203 | \$ 2,950,203 |
| Furniture and equipment | 731,189 | 609,896 |
| | <u>3,681,392</u> | <u>3,560,099</u> |
| Less accumulated depreciation | 1,201,375 | 1,022,515 |
| Total | <u>\$ 2,480,017</u> | <u>\$ 2,537,584</u> |

6. LINE-OF-CREDIT

The Organization has a \$250,000 revolving bank line-of-credit expiring in September 2015. At December 31, 2014, \$194,533 had been borrowed and was owed against the line-of-credit. The line-of-credit is collateralized by substantially all of the Organization's assets. Interest accrues monthly on the balance at a rate of 3.5%.

7. LONG-TERM DEBT

| | 2014 | 2013 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|------------------|
| Note payable to bank due in monthly installments of \$388 including interest at 6% with an original maturity date of August 8, 2016 secured by certain real estate. The note was paid in full March 2014. | \$ <u>--</u> | \$ <u>40,711</u> |

KANSAS BIG BROTHERS BIG SISTERS, INC.

Notes to Financial Statements

December 31, 2014 and 2013

8. NET ASSETS

Temporarily restricted net assets at December 31 are available for the following purposes or periods:

| | 2014 | 2013 |
|---------------------------------------------------|-------------------|-------------------|
| Capital reserve | \$ 15,255 | \$ 15,255 |
| Donor restricted | 16,751 | 18,588 |
| Contributions to be received after December 31 | 365,320 | 700,443 |
| Total | <u>\$ 397,326</u> | <u>\$ 734,286</u> |

Net Assets Released From Restrictions – Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

| | 2014 | 2013 |
|-----------------------------------|-------------------|---------------------|
| Purpose restrictions accomplished | | |
| Capital | \$ - | \$ 247,695 |
| Time restrictions expired | | |
| Passage of specified time | 355,860 | 1,209,878 |
| Total | <u>\$ 355,860</u> | <u>\$ 1,457,573</u> |

Permanently restricted net assets are restricted for the following:

| | 2014 | 2013 |
|--------------------------------------------------------|------------------|------------------|
| Endowments | \$ 30,962 | \$ 30,962 |
| Endowment contributions receivable | 2,650 | 2,650 |
| Beneficial interest in Wichita Community Foundation | 39,315 | 39,315 |
| Total | <u>\$ 72,927</u> | <u>\$ 72,927</u> |

Board designated unrestricted net assets include funds set aside for future use determined by the board.

KANSAS BIG BROTHERS BIG SISTERS, INC.

Notes to Financial Statements

December 31, 2014 and 2013

9. OPERATING LEASES

Noncancellable operating leases for office space and equipment expire in various years through 2017 are as follows:

| | | |
|-------|----|---------------|
| 2015 | \$ | 4,620 |
| 2016 | | 4,620 |
| 2017 | | 1,925 |
| Total | \$ | <u>15,785</u> |

Rent expense for all operating leases was \$100,912 and \$100,919 for the years ended December 31, 2014 and 2013, respectively.

10. PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The Organization has a contributory pension plan that covers all employees over the age of 21 who have worked at the Organization for at least one year and who have worked no less than 1,000 hours throughout the plan year. The Organization's contributions to the plan are equal to 50% of employee contributions, not to exceed 1.5% of compensation paid to eligible participants during the plan year. Pension expense was \$28,545 and \$26,231 for the years ended December 31, 2014 and 2013, respectively.

11. ENDOWMENTS

The Organization's endowments consist of funds for the benefit of the Organization. This includes a donor-restricted fund and four funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

KANSAS BIG BROTHERS BIG SISTERS, INC.

Notes to Financial Statements

December 31, 2014 and 2013

11. ENDOWMENTS (continued)

The Board of Directors of 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 permanently restricted net assets (a) the original fair value of gifts donated to the permanent endowment, (b) the original fair 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 SPMIFA. In accordance with SPMIFA, the Organization considers the following factors in making determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (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, and (7) the Organization's investment policies.

The Organization's investment policy has set forth three main objectives (in order of importance): (1) preservation of capital, (2) maintaining liquidity, and (3) earning a positive return on investment.

The Organization is subject to the Wichita Community Foundation's spending policy for \$38,665 of its permanently restricted fund. Annual grant distributions from each endowment Fund is based on four percent of a three year moving average of endowment fund market values determined at the end of the fiscal year before the year in which distribution is to be made. The Foundation's Board of Directors may, in its absolute discretion, due to unusual or extraordinary circumstances, designate some other amount for the Foundation to appropriate for expenditure or accumulate in any fund. The remaining \$31,612 is invested with the Central Kansas Community Foundation. Earnings on these funds are accrued for the benefit of the Organization, and the Organization is entitled to an annual distribution of the earnings. The Organization is in the process of adopting its spending policy for the funds.

KANSAS BIG BROTHERS BIG SISTERS, INC.

Notes to Financial Statements

December 31, 2014 and 2013

11. ENDOWMENTS (continued)

Endowment Net Asset Composition by Type of Fund as of December 31, 2014 is as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total Net Endowment Assets |
|----------------------------------|-------------------|---------------------------|---------------------------|----------------------------------|
| Donor-restricted endowment funds | \$ - | \$ 16,752 | \$ 70,277 | \$ 87,029 |
| Board-restricted endowment funds | 310,230 | - | - | 310,230 |
| Total funds | <u>\$ 310,230</u> | <u>\$ 16,752</u> | <u>\$ 70,277</u> | <u>\$ 397,259</u> |

Changes in endowment net assets for the year ended December 31, 2014 are as follows:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total Net Endowment Assets |
|-----------------------------------------|-------------------|---------------------------|---------------------------|----------------------------------|
| Endowment net assets, beginning of year | \$ 317,176 | \$ 18,589 | \$ 70,277 | \$ 406,042 |
| Grants | (23,000) | (2,930) | - | (25,930) |
| Investment income | 7,464 | 2,290 | | 9,754 |
| Net appreciation | 12,352 | (26) | | 12,326 |
| Amounts appropriated for expenditure | (3,762) | (1,171) | | (4,933) |
| Endowment net assets, end of year | <u>\$ 310,230</u> | <u>\$ 16,752</u> | <u>\$ 70,277</u> | <u>\$ 397,259</u> |

12. ALLOCATION OF JOINT COSTS

The Organization conducted activities that included requests for contributions, as well as program, management and general components. Those activities included Bowl for Kids' Sake and Raising More Money events. The costs of conducting those activities included a total of \$352,074 and \$455,781 in 2014 and 2013, respectively, of joint costs, which are not specifically attributable to particular components of the activities. These joint costs are shown as special event expenses on the Statement of Activities.

13. SIGNIFICANT ESTIMATES AND CONCENTRATIONS

Accounting principles accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Uncollectible Pledges – Estimates of the allowance for uncollectible pledges are described in Note 1 and Note 3.

SUPPLEMENTARY INFORMATION

KANSAS BIG BROTHERS BIG SISTERS, INC.
Schedule of Expenditures of Federal Awards
December 31, 2014

| Cluster/Program | Federal Agency/ Pass-Through Entity | CFDA Number | Grant or Identifying Number | Amount |
|-------------------------------------|-------------------------------------------------------------------------------------------------------------|----------------|-----------------------------------|---------------|
| Title II Formula Grant | U.S. Department of Justice/Kansas Advisory Group on Juvenile Justice and Delinquency Prevention | 16.540 | OJJ-2014-32-05 | \$ 41,774 |
| Title II Formula Grant | U.S. Department of Justice/Kansas Advisory Group on Juvenile Justice and Delinquency Prevention | 16.540 | OJJ-2014-31-05 | 18,923 |
| Title II Formula Grant | U.S. Department of Justice/Kansas Advisory Group on Juvenile Justice and Delinquency Prevention | 16.540 | OJJ-2014-37-02 | 22,275 |
| Title II Formula Grant | U.S. Department of Justice/Kansas Advisory Group on Juvenile Justice and Delinquency Prevention | 16.540 | OJJ-2015-37-03 | 6,670 |
| | | | | <u>89,642</u> |
| Mentoring Children of Promise | U.S. Department of Justice/Bureau of Justice Assistance | 16.738 | 2013-DJ-BX-0014 | 35,164 |
| Volunteers in Service to America | Corporation for National and Community Service | 94.013 | 13VSWKS001 | 1,541 |
| Juvenile Justice Authority | U.S. Department of Justice/Office of Juvenile Justice and Delinquency Preven | 16.726 | 2012-TY-FX-0030 | 21,183 |
| Military Mentoring Program | U.S. Department of Justice/Office of Juvenile Justice and Delinquency Preven | 16.726 | 2012-JU-FX-0008 | 21,395 |
| Youth Workforce Opp Initiative | U.S. Department of Labor Employment and Training Admin | 17.270 | PE-24401-13-60-A-42 | 303,327 |

KANSAS BIG BROTHERS BIG SISTERS, INC.
Schedule of Expenditures of Federal Awards
December 31, 2014

| Cluster/Program | Federal Agency/ Pass-Through Entity | CFDA Number | Grant or Identifying Number | Amount |
|-------------------------------|--------------------------------------------------------------------------------------------------------------------------|----------------|-----------------------------------|-------------------|
| Positive Pathways Partnership | U.S. Department of Labor Employment and Training Admin/ Mid-Atlantic Network of Youth and Family Services | 17.261 | YF-22029-11-60-A-42 | 5,811 |
| Face Forward | U.S. Department of Labor Employment and Training Admin | 17.270 | PE-24515-13-60-A-20 | 274,421 |
| | | | | 662,842 |
| | | | | <u>\$ 752,484</u> |

NOTES TO SCHEDULE

- (1) This schedule includes the federal awards activity of Kansas Big Brothers Big Sisters, Inc. and is presented on the accrual basis of accounting. This information in this schedule is presented in accordance with the requirement of OMB Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*. Therefore some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.
- (2) Of the federal expenditures presented in the accompanying schedule of expenditures of federal awards, \$210,101 was provided to subrecipients.

PETERSON, PETERSON & GOSS, L.C.

MEMBERS

GREGORY B. SEVIER, C.P.A.
JOHN B. GOSS, C.P.A.

PRINCIPALS

VONDA J. WILSON, C.P.A.
DENISE M. GUDENKAUF, C.P.A.
MATT T. HAASE, C.P.A.
JON W. OETTING, C.P.A.

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**OF COUNSEL
MARVIN W. NYE, C.P.A.**

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

To the Board of Directors of
Kansas Big Brothers Big Sisters, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Kansas Big Brothers Big Sisters, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 18, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Peterson, Peterson & Goss, LC

Wichita, Kansas
August 18, 2015

PETERSON, PETERSON & GOSS, L.C.

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Directors of
Kansas Big Brother Big Sisters, Inc.

Report on Compliance for Each Major Federal Program

We have audited Kansas Big Brother Big Sisters, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Kansas Big Brother Big Sisters, Inc.'s major federal programs for the year ended December 31, 2014. Kansas Big Brother Big Sisters, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Kansas Big Brother Big Sisters, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Kansas Big Brother Big Sisters, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Kansas Big Brother Big Sisters, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Kansas Big Brother Big Sisters, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of Kansas Big Brother Big Sisters, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Kansas Big Brother Big Sisters, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Kansas Big Brother Big Sisters, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Peterson, Peterson & Goss, LLC

Wichita, Kansas
August 18, 2015

KANSAS BIG BROTHERS BIG SISTERS, INC.

Schedule of Findings and Questioned Costs

Year Ended December 31, 2014

Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Kansas Big Brothers Big Sisters, Inc.
2. No significant deficiencies were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Kansas Big Brothers Big Sisters, Inc. which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies in internal control over major federal award programs were disclosed during the audit.
5. The auditor's report on compliance for the major federal awards programs for Kansas Big Brothers Big Sisters, Inc. expresses an unqualified opinion on all major federal programs.
6. There were no audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The program tested as a major program were: Face Forward, 17.260 and Youth Workforce Opportunity Initiative, 17.260.
8. The threshold used for distinguishing between Type A and Type B programs was \$300,000.
9. Kansas Big Brothers Big Sisters, Inc. was determined to be a low-risk auditee.

KANSAS BIG BROTHERS BIG SISTERS, INC.

Schedule of Findings and Questioned Costs

Year Ended December 31, 2014

Findings Required to be Reported by Government Auditing Standards

None were reported

Findings Required to be Reported by OMB Circular A-133

None were reported

Summary Schedule of Prior Audit Findings

| <u>Finding Number</u> | <u>Finding</u> | <u>Corrective Action</u> | <u>Status</u> |
|---------------------------|----------------|------------------------------|----------------|
| None to report | None to report | None to report | None to report |