



Patricia L. Pich, CPA, PLLC

2413 Pacific Avenue SE Suite C, Olympia, WA, 98501



October 7, 2021

Board of Directors

Big Brothers Big Sisters of Southwest Washington

2424 Heritage Court SW, Suite 302

Olympia, Washington 98502

We have audited the financial statements of ***Big Brothers Big Sisters of Southwest Washington*** for the year ended December 31, 2020, and we will issue our report thereon dated October 7, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 2, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by ***Big Brothers Big Sisters of Southwest Washington*** are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2020. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the capitalized equipment, furniture, and leasehold improvement's useful lives. Capitalized assets are recorded at cost or fair market value if donated and the useful lives of the capitalized assets range from 3-15 years and are depreciated on a straight - line basis over the estimated useful life. As a result, Management feels that current presentation is reasonable in relation to the financial statements taken as a whole.

Management's estimate of accrued leave. It is the Agency's policy to pay out accrued leave balances at time of termination. The accrued leave is estimated by the actual period-end balance of leave multiplied by the employee hourly rate. This estimation could change due to the employees use of leave, changes in wages, and time of termination.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of subsequent events in the notes to the financial statements is particularly sensitive as the first CARES Act PPP loan has been forgiven in the amount of \$100,300 and will be reclassified from a debt liability to a conditional grant in the 2021 fiscal year. In addition, a second CARES Act PPP loan was obtained in February 2021 in the amount of \$101,147 which could be conditionally forgiven if all conditions are met and approved by the Small Business Administration.

The disclosure of COVID-19 in notes to the financial statements is particularly sensitive because this disclosure describes the global conditions and the affects that the COVID-19 pandemic had on the Organization in 2020.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a disagreement on a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 7, 2021.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Findings and recommendations noted during our audit are as follows:

1. **Condition:** 3 salaried staff, if they are exempt employees, are close to the L&I salary threshold implementation schedule and in the proceeding years this minimum threshold will increase.
Effect: Salaried staff could become underpaid by L&I regulations and result in non-compliance with Washington State law and regulations.
Recommendation: Ensure all exempt salaried staff rates with the L&I salaried exempt schedule and make necessary adjustments to ensure the Organization is in compliance with Washington State law. If any salaried employees are non-exempt salaried staff, they must complete timesheets and are required to be paid overtime for all hours exceeding 40 hours a week.
2. **Condition:** Accounts receivable has not been evaluated for collectability and the method for estimating an allowance and a related policy for doubtful accounts has not been implemented as per U.S GAAP.
Effect: The absence of the allowance for doubtful accounts and a documented policy and method is a departure form U.S. GAAP and could result in future unfavorable audit opinions.
Recommendation: Develop a policy and method to estimate an allowance for uncollectable receivables and implement the process to write off uncollectable receivables.

This information is intended solely for the use of Board of Directors and, management of **Big Brothers Big Sisters of Southwest Washington** and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,



Patricia L. Pich, CPA, PLLC

BIG BROTHERS BIG SISTER OF SOUTHWEST
WASHINGTON
COMPARATIVE FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2020, AND 2019



Patricia L. Pich, CPA, PLLC

2413 Pacific Ave SE
Suite C
Olympia, Washington 98501

Office: 360-339-7867
Fax: 360-339-8604
Website: pichcpa.com

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Patricia L. Pich, CPA, PLLC

2413 Pacific Avenue SE Suite C, Olympia, WA, 98501



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Big Brothers Big Sisters of Southwest Washington
Olympia, Washington

Opinion

We have audited the accompanying financial statements of Big Brothers Big Sisters of Southwest Washington (a nonprofit organization), which comprise the statement of financial position as of December 31, 2020, and 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Brothers Big Sisters of Southwest Washington as of December 31, 2020, and 2019, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Big Brothers Big Sisters of Southwest Washington and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Big Brothers Big Sisters of Southwest Washington's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Big Brothers Big Sisters of Southwest Washington's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Big Brothers Big Sisters of Southwest Washington's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

 Patricia L. Pich CPA PLLC

Patricia L. Pich, CPA, PLLC
Olympia, Washington
October 7, 2021

BIG BROTHERS BIG SISTERS OF SOUTHWEST WASHINGTON
COMPARATIVE STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Current assets		
Cash	\$ 162,806	\$ 91,081
Restricted cash	7,572	9,912
Accounts receivable	25,656	31,445
Prepaid expenses	20,554	6,900
Total current assets	216,588	139,338
Property and equipment net of accumulated depreciation	59,645	73,948
Total assets	\$ 276,233	\$ 213,285
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities		
Accounts payables	\$ 55,571	\$ 100,864
Accrued liabilities	35,461	41,044
Deferred revenue	-	4,500
Current portion of long-term debt	17,403	-
Total current liabilities	108,435	146,408
Long-term liabilities		
Long-term debt	92,897	-
Total liabilities	201,332	146,408
Net assets		
Without donor designation	67,330	56,965
With donor designation	7,571	9,912
Total net assets	74,901	66,877
Total liabilities and net assets	\$ 276,233	\$ 213,285

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

BIG BROTHERS BIG SISTERS OF SOUTHWEST WASHINGTON
COMPARATIVE STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019

	<u>Without</u>	<u>With</u>		
	<u>Donor Restriction</u>	<u>Donor Restriction</u>	<u>2020</u>	<u>2019</u>
Support and Revenue				
Grants	\$ 127,475	\$ 57,435	\$ 184,910	\$ 170,324
Fees for service	198,522	-	198,522	142,844
Special events	304,324	-	304,324	557,530
Contributions	30,846	-	30,846	29,364
In-kind revenue	44,157	-	44,157	82,690
United Way	-	-	-	630
Other income	1,439	-	1,439	164
Total support and revenue	<u>706,764</u>	<u>57,435</u>	<u>764,199</u>	<u>983,546</u>
Net assets released from restriction	<u>59,776</u>	<u>(59,776)</u>	<u>-</u>	<u>-</u>
Total support and revenues	<u>766,540</u>	<u>(2,341)</u>	<u>764,199</u>	<u>983,546</u>
Expenses				
Program services	413,726	-	413,726	525,643
Management and general	108,260	-	108,260	50,496
Fundraising	234,188	-	234,188	418,393
Total functional expenses	<u>756,175</u>	<u>-</u>	<u>756,175</u>	<u>994,532</u>
Change in net assets	10,365	(2,341)	8,024	(10,986)
Net assets, January 1,	56,965	9,912	66,877	67,952
Prior period adjustment	-	-	-	9,912
Net assets, December 31,	<u>\$ 67,330</u>	<u>\$ 7,571</u>	<u>\$ 74,901</u>	<u>\$ 66,878</u>

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

BIG BROTHERS BIG SISTERS OF SOUTHWEST WASHINGTON
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020 AS COMPARED TO 2019

	Program Services	Management & General	Fundraising	2020 Totals	2019 Totals
Salaries and wages	\$ 251,789	\$ 46,033	\$ 95,058	\$ 392,880	\$ 478,840
Payroll taxes	20,810	3,527	8,004	32,340	39,066
Employee Benefits	27,128	6,370	10,029	43,528	34,637
Total personnel expenses	299,727	55,931	113,090	468,748	552,543
Professional fees	27,599	16,370	15,984	59,953	41,950
Special events	-	-	45,779	45,779	142,174
In-kind expense	-	-	44,157	44,157	82,690
Occupancy	12,582	11,731	2,059	26,372	36,919
Dues and subscriptions	22,023	1,813	2,414	26,249	25,954
Depreciation	11,990	9,220	-	21,209	9,332
Insurance	12,079	6,899	2,122	21,100	19,009
Program cost	12,009	-	-	12,009	17,502
Office expense	5,413	2,906	842	9,161	16,211
Bank fees	17	701	5,470	6,187	12,869
Telephone and communications	4,492	1,075	422	5,989	7,120
Travel expense	2,420	9	16	2,445	12,575
Miscellaneous expense	1,141	419	434	1,995	5,673
Advertising	750	-	750	1,500	3,745
Postage	656	38	391	1,085	1,316
Interest expense	-	1,071	-	1,071	608
Education and Training	660	-	-	660	3,049
Meetings	118	79	157	355	929
Bad debt expense	-	-	100	100	1,000
Printing	27	-	-	27	278
Mentor expense	24	-	-	24	1,086
Total	<u>\$ 413,726</u>	<u>\$ 108,260</u>	<u>\$ 234,188</u>	<u>\$ 756,175</u>	<u>\$ 994,532</u>

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

BIG BROTHERS BIG SISTERS OF SOUTHWEST WASHINGTON
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Cash received from grants	\$ 184,910	\$ 170,324
Cash received from contributions	30,846	29,712
Cash received from United Way	-	630
Cash received from fees for service	204,312	145,378
Cash received from special events	304,324	557,530
Cash received from other income	1,423	165
Cash paid to suppliers and employees	(758,770)	(834,867)
Interest income	16	1
Interest paid on line of credit	<u>(1,071)</u>	<u>(608)</u>
Net cash (used) provided by operating activities	<u>(34,009)</u>	<u>68,265</u>
Cash flows from investing activities		
Purchase of fixed assets	<u>(6,907)</u>	<u>(76,693)</u>
Net cash (used) by investing activities	<u>(6,907)</u>	<u>(76,693)</u>
Cash flows from financing activities		
COVID-19 PPP and EIDL loans	110,300	-
Principle payments on line of credit	<u>-</u>	<u>(10,000)</u>
Net cash provided (used) by financing activities	<u>110,300</u>	<u>(10,000)</u>
Net increase (decrease) in cash	69,384	(18,428)
Cash, January 1	<u>100,993</u>	<u>119,421</u>
Cash, December 31	<u>\$ 170,377</u>	<u>\$ 100,993</u>

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

BIG BROTHERS BIG SISTERS OF SOUTHWEST WASHINGTON
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
increase (decrease) in net assets	\$ 8,024	\$ (10,986)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	21,209	9,332
Decrease in accounts receivable	5,789	2,884
(Increase) in prepaid expenses	(13,655)	(5,947)
(Decrease) increase in accounts payables	(45,294)	71,474
(Decrease) increase in accrued liabilities	(5,583)	4,486
(Decrease) in other current liabilities	(4,500)	(2,978)
Total adjustments	<u>(42,033)</u>	<u>79,251</u>
Net cash provided by operating activities	<u>(34,010)</u>	<u>68,265</u>
Supplemental disclosure of cash flow information		
Cash paid during the year		
Interest Paid	<u>\$ 12</u>	<u>\$ 608</u>
Non-cash activities		
In-kind contributions		
Program in-kind contributions, event tickets and services	\$ -	\$ 5,259
Fundraising in-kind contributions	44,157	77,431
Total non-cash activities	<u>\$ 44,157</u>	<u>\$ 82,690</u>

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

BIG BROTHERS BIG SISTER OF SOUTHWEST WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020, AND 2019

Summary of Significant Accounting Policies

Brief History and Purpose

Big Brothers Big Sisters of Southwest Washington (the Agency) is a local affiliate of our national organization that was founded in 1904. We have been making meaningful, monitored matches between adult volunteers (Bigs) and youth (Littles) ages 6 through 18 since 1984 throughout Thurston, Lewis, Grays Harbor, Pacific and Mason Counties. Our purpose is to develop positive relationships that have a direct and lasting effect on the lives of young people. The Agency receives funding from the United Way, grants from various foundations, individual donations and through special fundraising events.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Comparative Financial Statements

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2019, from which the summarized information was derived.

Reclassifications

Certain reclassifications have been made to the 2019 financial statement presentation to correspond to the current year's format. Net assets and changes in net assets are unchanged due to these reclassifications.

Cash

Cash consists of cash in checking, savings, and money market accounts. The Agency maintains its cash in bank accounts, which at times may exceed Federal Deposit Insurance Corporation insured amounts. The Agency has not experienced any losses in such accounts.

Accounts Receivable

The Agency's accounts receivable is primarily reimbursed amounts due from local and state governmental agencies. Revenue is recognized and recorded at the time expenses relating to the contract obligations and are incurred by recording a receivable.

BIG BROTHERS BIG SISTER OF SOUTHWEST WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020, AND 2019

Summary of Significant Accounting Policies (continued)

Fixed Assets

Expenditures for equipment and leasehold improvements are recorded at cost. Equipment and services donated to the Agency are capitalized at the estimated fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 15 years. When assets are sold or otherwise disposed of, the cost and related depreciation are removed from the accounts, and any resulting gain or loss is included in the statement of activities. Costs of maintenance and repairs that do not improve or extend the useful lives of the respective assets are expenses.

Net Assets

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

Net Assets Without Donor Designation: Net assets available for use in general operation and not subject to donor (or certain grantor) restrictions. This also can include board designated funds for specific purpose/use.

Net Assets with Donor Designation: Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates those resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Estimates

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

BIG BROTHERS BIG SISTER OF SOUTHWEST WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020, AND 2019

Summary of Significant Accounting Policies (continued)

Donated Goods and Services

Donated goods and services are recorded at their estimated fair value when received and reported in the statement of activities at their estimated values at the date of receipt. Big Brothers Big Sisters of Southwest Washington recognized and recorded donated goods in the amount of \$44,157 for the annual auction fundraiser. No amounts have been recorded in the financial statements for the donated time of volunteers since do not meet the requirements set out in the in *FASB ASC 958*.

Revenue Recognition

Big Brothers Big Sisters of Southwest Washington revenues are recognized in the year when transfers of services are met per the individual service contracts at a point in time, support is recognized in the year it is unconditionally promised, and expenses are reported in the year incurred.

Contributions that are restricted by the donor are reported as increases in net assets without donor designation if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

All other donor-restricted contributions are reported as increases in donor designated net assets, depending on the nature of the restrictions. When a restriction expires, donor designated net assets are reclassified to without donor designation net assets and reported in the statement of activities as net assets released from restrictions.

Grant and contract revenue are recognized at the time the Agency has performed the services and has right of claim. Expenses are recognized when a liability for goods and services arises regardless of time of payment.

Functional Allocation of Expense

The costs of providing The Agency's program and supporting services are summarized on a functional basis in the statement of activities based on direct program expenses. Payroll and related expenses are allocated base on time spent on each function. Postage, printing, and insurance are allocated based on usage by department. Occupancy expenses including rent, utilities, and repairs and maintenance are allocated based on full-time equivalent allocation of time.

BIG BROTHERS BIG SISTER OF SOUTHWEST WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020, AND 2019

Summary of Significant Accounting Policies (continued)

Federal Income Tax Status

The Agency is a not-for-profit organization and is exempt from federal income tax under the Internal Revenue Code Section 501(c)(3) as described in section 509(a)(1). The Agency is subject to income taxes on activities unrelated to its exempt purpose, none are known to exist.

The Agency may recognize the tax benefit from a tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Agency and various positions related to the potential sources of unrelated business taxable income (UBIT). The Agency has analyzed its tax positions taken for filings with the Internal Revenue Service. The Agency believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Agency's financial condition, results of operations, or cash flows.

Recent Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board (“FASB”) issued new guidance on the measurement of current expected credit losses (“CECL”) on financial instruments. During 2019, the FASB issued additional guidance amending certain aspects of the measurement of CECL. The new guidance has replaced the incurred loss methodology of recognizing credit losses on financial instruments with a methodology that estimates the expected credit loss on financial instruments and reflects the net amount expected to be collected on the financial instrument. The Organization adopted this change in accounting principle as of the first day of 2020 using the modified retrospective method. Accordingly, financial information for periods prior to the date of initial application has not been adjusted.

Subsequent Events

Management has evaluated subsequent events through October 7, 2021, the date that the financial statements were available to be issued. Management disclosed that due to the Covid-19 pandemic the Agency obtained a second PPP loan for approximately \$101,147 to help with operations and payroll expenses due to the pandemic in February 2021. The loan carries a 1% APR and could be forgiven if all conditions are met by the Agency. The Agency is confident that they will meet all the conditions to have the PPP loan forgiven, however the SBA loan may not be forgiven due to the loan conditions of obtaining the PPP loan. In addition, the Agency's first PPP loan obtained in April 2020, was forgiven by the Small Business Administration in full on May 24, 2021, and the total amount of the loan and accrued interest will be recognized as conditional revenue in 2021.

BIG BROTHERS BIG SISTER OF SOUTHWEST WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020, AND 2019

Summary of Significant Accounting Policies (continued)

COVID-19

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a “Public Health Emergency of International Concern” and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures public places and businesses. The coronavirus and actions taken to mitigate the spread of it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Agency operates. On March 27, 2020, the Coronavirus Aid, Relief, and Economics Security Act (CARES Act) was enacted to amongst other provisions, provide emergency assistance for individuals, families, and businesses affected by the coronavirus pandemic. It is unknown how long the adverse conditions associated with the coronavirus will last and what the complete financial effect will be to the Organization. Additionally, it is reasonably possible that estimates made in the financial statements have been, or will be, impacted in the near term as a result of these conditions.

Special Borrowing Arrangement

As a result of the COVID-19 pandemic, the Agency obtained a Paycheck Protection Program loan (PPP loan) under the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) in April 2020 for approximately \$100,300 with an annual interest rate of 1% annually to help ongoing operations and reduce potential employee layoffs. Principal and interest payments are deferred for 18 months from the funding date. If the Small Business Association (SBA) confirms full and complete forgiveness of the unpaid balance of the loan, and reimburses the bank for the total outstanding balance, principle, and interest, The Agency’s obligations under the loan will be deemed fully satisfied and paid in full. If the SBA does not confirm forgiveness of the loan, or only partly confirms forgiveness of the loan, the Agency will be obligated to repay the bank the total outstanding balance remaining due under the loan, including principal and interest within two years from the funding date of the loan. The Agency is optimistic that they will meet the conditions to have this loan forgiven partially, if not in full. Related interest expense that was accrued at December 31, 2020, was \$755.

In addition to the PPP loan, the Agency obtained an U.S. Small Business Administration Economic Injury Disaster Loan (EIDL) payable, 2.75% APR, due in 360 monthly installments and payments are deferred for 12 months from the origination date of April 14, 2020, with payments starting April 2021. The loan was obtained to help the Organization with operational expenses due to closures resulting from the COVID-19 pandemic. Accrued interest for the EIDL note payable was \$304 at December 31, 2020.

BIG BROTHERS BIG SISTER OF SOUTHWEST WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020, AND 2019

Summary of Significant Accounting Policies (continued)

COVID-19 Impact

While Big Brothers Big Sisters of Southwest Washington continues to meet community needs and provide support amid the COVID-19 pandemic, there is no doubt that our organization and services have been deeply impacted. From experiencing a fundraising events revenue shortfall of 45% due to an inability to properly host our major events, to the forced transition to a virtual model in order to safely provide continued mentorship support, our agency has suffered but remained resilient in our ability to adapt, innovate and serve.

Our primary source of revenue (over 65%) comes from fundraising events. Because of the pandemic, we were forced to cancel our popular community bowling event that raises over \$30,000 per year, experienced a 20% reduction in revenue from our golf fundraising event, as well as a 50% reduction in revenue switching our annual gala auction to a virtual platform. Overall, experienced a fundraising revenue shortfall from events of \$250,000 for the fiscal year that ended December 31, 2020.

Along with the massive impact to our revenue streams, we were required to make drastic cuts in our overall expenses. This included laying off three employees permanently, furloughing staff, and restricting all travel and purchases of supplies. We requested and received a reduction in rent from our landlord and a reduction in fees from several contractors. Because of this, we experienced over \$283,000 in expense savings for the fiscal year compared to the previous year.

We know the need for mentorship support has never wavered, in fact, it has increased during this time. Despite the hardships, BBBS continued to enroll new youth, families and mentors within the last year. In 2020 we served over 248 youth and made 55 successful matches. We were able to make these new matches virtually, and then in person, as we moved through the COVID safety phases in Washington. Funds from agencies like United Way allow us to further expand our mission and continue to serve even more children and families in 2021.

Concentration of Risk

The Agency receives a substantial amount of its revenue through fundraising and contributions. If a significant reduction in fundraising and contributions should occur, it may have a significant effect on the Agency's programs and activities.

BIG BROTHERS BIG SISTER OF SOUTHWEST WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020, AND 2019

Liquidity and Availability

Financial assets available for general expenditure, that is without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following:

Cash and cash equivalents	\$ 170,378
Less restricted cash	(6,991)
Accounts receivable	25,656
Prepaid expenses	20,554
Accounts payable	(55,570)
Accrued liabilities	(34,402)
Current portion of long-term debt	<u>(17,403)</u>
	<u>\$ 102,222</u>

As a part of the Agency's liquidity management plan, The Agency will strive to generate an unrestricted surplus (unrestricted revenue in excess of expenses) annually through its operations, and accumulate these annual, unrestricted surpluses to:

- Create a reserve fund to safeguard against unexpected expenses and/or revenue losses,
- Capitalize growth in operations to expand the mission,
- Invest in long-term assets, and
- Make other strategic investments.

The reserve fund shall be comprised of cash or marketable securities in an amount equivalent to at least one-third of The Agency's annual operating expenses. The reserve fund shall be the primary purpose of accumulated unrestricted net assets until such minimum amount is attained. In the event the reserve fund balance falls below this minimum, The Agency shall develop a Board approved plan to replenish it to the required minimum amount within six (6) months. The Agency maintains two open lines of credit in the amount of \$75,000, of which \$75,000 remained available on December 31, 2020.

BIG BROTHERS BIG SISTER OF SOUTHWEST WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020, AND 2019

Fair Value Measurement

FASB ASC 820, *Fair Value Measurement*, establishes a framework for measuring fair value. The framework provides a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority of unobservable inputs (level 3 measurement). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Big Brothers Big Sisters of Southwest Washington has the ability to access.

Level 2: Inputs to valuation methodology include:

- a. Quoted prices for similar assets or liabilities in active markets.
- b. Quoted prices for identical or similar assets or liabilities in inactive markets.
- c. Inputs other than quoted prices that is observable for the asset or liability.
- d. Inputs that are principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Agency's financial instruments of cash, accounts receivable, prepaid expenses, accrued liabilities, accounts payable, and other current liabilities are recorded at their approximate fair values based on their short-term nature.

Long-term debt was obtained to support programming during the COVID-19 pandemic and the loans are conditional and could be forgiven if all conditions are met and reported. As a result of the confidence in the condition to have the debt forgiven, the Agency determined to value the liability at fair market value of the notes as management believes the debt will be forgiven in the short-term.

The Agency has determined the fair value of certain assets.

BIG BROTHERS BIG SISTER OF SOUTHWEST WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020, AND 2019

Fair Value Measurement (continued)

Fair value of assets measured on a recurring basis as of December 31 is as follows:

	Year Ended December 31, 2020			
	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Cash	\$ 170,378	\$ -	\$ -	\$ 170,378
Accounts receivable	25,656	-	-	25,656
Prepaid expenses	20,554	-	-	20,554
Accounts payable	55,570	-	-	55,570
Accrued liabilities	34,402	-	-	34,402
Other current liabilities	7,572	-	-	7,572
Debt	<u>110,300</u>	<u>-</u>	<u>-</u>	<u>110,300</u>
	<u>\$ 424,432</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 424,432</u>

	Year Ended December 31, 2019			
	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total
Cash	\$ 100,643	\$ -	\$ -	\$ 100,643
Accounts receivable	32,089	-	-	32,089
Prepaid expenses	6,606	-	-	6,606
Accounts payable	100,864	-	-	100,864
Accrued liabilities	41,044	-	-	41,044
Other current liabilities	<u>14,412</u>	<u>-</u>	<u>-</u>	<u>14,412</u>
	<u>\$ 295,658</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 295,658</u>

BIG BROTHERS BIG SISTER OF SOUTHWEST WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020, AND 2019

Cash, Restricted Cash, and Restricted Cash Equivalents

For purposes of the statement of financial position and the statement of cash flows, cash and cash equivalents consist of cash and other highly liquid resources, such as investments, money market funds, and certificates of deposits with an original maturity of three months or less. Assets reserved for the Patty Layton Enrichment Fund, Scholarships, and Fundraising expenditures on the statements of financial position include restricted cash received with restrictions imposed by donors (but not yet spent). The following table provides a reconciliation of cash, cash equivalents, restricted cash, and restricted cash equivalents reported within the statements of financial position that sum to the totals of the same such amounts in the statements of cash flows.

	<u>2020</u>	<u>2019</u>
Cash	\$ 162,806	\$ 90,731
Restricted cash included in assets:		
Patricia Layton Enrichment Fund	6,991	9,331
Scholarships	381	381
Board designated auction expenditures	<u>200</u>	<u>200</u>
Total cash and cash equivalents	<u>\$ 170,378</u>	<u>\$ 100,643</u>

Fixed Assets

The Agency's fixed asset accounts consist of leasehold improvements, equipment, and furniture which are stated at cost and the estimated fair market value of donated equipment at the date of receipt. Depreciation is provided over the estimated lives of the assets on a straight-line method. Detailed property records are maintained on these assets. Depreciation expense at December 31, 2020, and 2019 was \$21,209 and \$9,332 for 2020 and 2019, respectively.

As of December 31, the Agency's fixed assets consist of the following:

	<u>2020</u>	<u>2019</u>
Leasehold improvements	\$ 39,191	\$ 39,191
Equipment and furniture	<u>79,527</u>	<u>72,621</u>
Total assets	118,718	111,812
Accumulated depreciation	<u>59,073</u>	<u>37,864</u>
Total fixed assets net of depreciation	<u>\$ 59,645</u>	<u>\$ 73,948</u>

BIG BROTHERS BIG SISTER OF SOUTHWEST WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020, AND 2019

Accrued Liabilities

Accrued liabilities consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Accrued wages	\$ 16,490	\$ 22,300
Accrued compensated absences	15,419	17,313
Accrued payroll taxes	951	1,431
Accrued expenses	1,542	-
Accrued interest	<u>1,059</u>	<u>-</u>
Total accrued liabilities	<u>\$ 35,461</u>	<u>\$ 41,044</u>

Lines of Credit

As of December 31, 2020, pursuant to agreements with First National Bank and Olympia Federal Savings, the Agency had available a \$40,000 and \$35,000, respectively, unsecured lines of credit, none of which was outstanding at that date.

Net Assets with Donor Designations

The Agency received a donation from a family for funds memorialized in honor of a loved one, labeled the Patricia Layton Enrichment Fund. The funds are designated by the donor to be spent on enrichment programs. The Patricia Layton Enrichment Fund was established to provide youth and families in our programs opportunities to explore experiences that can provide a broader perspective and inspiration that may not be available otherwise. As of December 31, 2020, and 2019, the Patty Layton enrichment fund balance was \$6,991 and \$9,331, respectively.

The Agency received contributions to provide scholarships for youth to participate in programing for those who may not have the resources to do so. Donor designated contributions for scholarships at December 31, 2020 and 2019 was \$381 and \$381, respectively.

The Board has contributed funds designated for auction related expenses and are included in donor designated net asset. Donor designated funds for auction related expenses at December 31, 2020, and 2019 were \$200 and \$200, respectively.

BIG BROTHERS BIG SISTER OF SOUTHWEST WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020, AND 2019

Long-term Debt

The Agency has the following debt obligations:

	<u>2020</u>
Note payable to the Small Business Association, CARES Act PPP conditional note payable, 1% APR, due in 18 monthly installments and payments are deferred from 18 months from the origination date of April 3, 2020, with payments starting October 3, 2021. The loan was obtained to help the Agency with operational expenses due to closures resulting from the COVID-19 pandemic and could be forgiven if the Agency successfully demonstrates the funds were used in compliance with the terms of forgiveness stated by the Small Business Association. Monthly installments of \$5,660 will be due if the note is not forgiven. Management filed for forgiveness and received total forgiveness on May 24, 2021. Accrued interest for the PPP note payable was \$755 at December 31, 2020.	\$ 100,300
Note payable to the Small Business Association, U.S. Small Business Administration Economic Injury Disaster Loan (EIDL) payable, 2.75% APR, due in 360 monthly installments and payments are deferred from 12 months from the origination date of April 14, 2020, with payments starting April 2021. The loan was obtained to help the Agency with operational expenses due to closures resulting from the COVID-19 pandemic. Accrued interest for the EIDL note payable was \$304 at December 31, 2020.	<u>10,000</u>
Total long-term debt	<u>\$ 110,300</u>

Future minimum payments under these obligations are summarized as follows:

2021	\$ 17,403
2022	68,483
2023	18,292
2024	563
2025	563
2026 and thereafter	<u>10,085</u>
	115,389
Less: current portion	<u>(17,403)</u>
Total expected long-term debt	\$ 97,986

Interest expense on the long-term debt was \$1,059 for the year ending December 31, 2020.

BIG BROTHERS BIG SISTER OF SOUTHWEST WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020, AND 2019

In-kind Donations and Services (continued)

During the years ended December 31, 2020, and 2019, the estimated fair value of contributed services received but not recorded in the financial statements are as follows:

<u>Service Type</u>	<u>2020</u>		<u>2019</u>	
	<u>Volunteer</u>	<u>Total</u>	<u>Volunteer</u>	<u>Total</u>
	<u>Hours</u>	<u>Estimated</u> <u>Value</u>	<u>Hours</u>	<u>Estimated</u> <u>Value</u>
Board Member Service	274	\$ 7,820	321	\$ 8,731
Special Events	87	2,483	204	5,549
Total	<u>361</u>	<u>\$ 10,303</u>	<u>525</u>	<u>\$ 14,280</u>

The estimated fair value of contributed service for the years ended December 31, 2020, and 2019 was \$10,303 and \$14,280, respectively. The Agency uses the Independent Sector national average in Washington State, \$28.54 per hour in 2020 and \$27.20 per hour in 2019, to value hourly volunteer contribution services.

Fund-raising Expense

Total fund-raising expense for the years ended December 31, 2020, and 2019 was \$234,188 and \$418,393, respectively. Fund-raising expenses related to the annual support for 2020 and 2019 was 45% and 55%, respectively, of the total annual special events, contributions, and grant revenue. The ratio of expenses to amounts raised is computed using the functional expenses and related special event, contributions, and grant revenue on an accrual basis.

Special Events

The Agency held several special events during the year ended December 31, 2020, and 2019. Support received and the related expenses are as follows:

Year ending December 31, 2020

<u>Special Event</u>	<u>Gross Revenues</u>	<u>Event Expenses</u>	<u>Net Profit</u>
Big Brunch	\$ 44,906	\$ 11,655	\$ 33,251
Bowl for Kids' Sake	12,900	-	12,900
Golf Tournament	45,603	13,285	32,318
Auction	176,597	18,242	158,355
Tennis Tournament	17,279	2,597	14,682
MY STEAM Learning Lab	3,029	-	3,029
BIG Reasons to Give	4,010	-	4,010
Total	<u>\$ 304,324</u>	<u>\$ 45,779</u>	<u>\$ 258,545</u>

BIG BROTHERS BIG SISTER OF SOUTHWEST WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020, AND 2019

Special Events (continued)

Year ending December 31, 2019

<u>Special Event</u>	<u>Gross Revenues</u>	<u>Event Expenses</u>	<u>Net Profit</u>
Big Brunch	\$ 42,378	\$ 12,625	\$ 29,753
Bowl for Kids' Sake	31,715	4,951	26,764
Golf Tournament	54,690	17,925	36,765
Auction	342,528	78,977	263,551
Tennis Tournament	23,666	3,163	20,503
MY STEAM Learning Lab	6,460	-	6,460
Ribs for Kids	29	-	29
BIG Car Raffle	56,063	24,534	31,529
Total	<u>\$ 557,530</u>	<u>\$ 142,174</u>	<u>\$ 415,354</u>

Agency Transactions

The current liability account "Accrued OSPI Distribution" represents the value of contracted services due to Affiliates on behalf of the Washington Office of Superintendent of Public Instruction (OSPI) contract with the Agency. The Agency acts as an intermediary for the contracted funds due to Affiliates. The Agency's policy is to record the contracted services as a liability until the fees for the contracted services are received and disbursed, at which time the liability is removed from the Agency's financial statements. At year ending December 31, 2020, and 2019, the accrued liability was \$4,366 and \$3,000, respectively.

Affiliate distributions for the OSPI contract is as follows for the year ended December 31, 2020, and 2019:

<u>Affiliate</u>	<u>2020</u>	<u>2019</u>
BBBS of Inland NW	\$ 12,565	\$ 10,625
BBBS of Island County	22,414	6,375
BBBS of Puget Sound	3,375	47,625
BBBS of Snohomish County	-	12,750
Total	<u>\$ 38,354</u>	<u>\$ 77,375</u>

Retirement Plan

The Agency has a Simple IRA plan for employees. The Agency provides a dollar-for-dollar matching contribution not to exceed 3% of each employee's wages. During the years ended December 31, 2020, and 2019, the Agency recognized a retirement expense totaling \$8,378 and \$10,087, respectively.

BIG BROTHERS BIG SISTER OF SOUTHWEST WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020, AND 2019

Leases

In 2018, the Agency entered into an operating lease agreement for the facility on August 29, 2018, for five years beginning December 1, 2018, with a minimum monthly lease payment of \$3,516. Due to the COVID-19 pandemic, the lease was amended May 8, 2020, to temporarily reduce the amount of lease payments from July 2020 through February 2021 to assist the Agency during disruptions relating to COVID-19. The temporarily reduced lease amount is \$1,758 per month.

In 2016, the Agency entered into an operating lease agreement for a copier in June of 2016, for five years beginning June 2016 with minimum monthly lease payments of \$577.

The Agency leases facilities and equipment which are classified as operating leases. Lease expense for the facilities and equipment for the year ended December 31, 2020, and 2019, was \$34,485 and \$44,826, respectively.

The following is a schedule, by year, of total minimum lease payments payable as of December 31, 2020:

2021	\$ 42,139
2022	42,192
2022	38,676
2023	-
2024	-
Total	<u>\$ 123,007</u>

Related Party Transactions

The Agency entered into an operating lease for the use of facilities on August 29, 2018, for five years beginning December 1, 2018. The facility, which is being used as the primary facility for operations, is leased at a monthly cost of \$3,516 from MPH Holdings, LLC, a company owned by a member of the Board of Directors of the Agency. It is the opinion of the Board of Directors that the lease's terms are not less favorable than could be obtained if the property were leased from an unrelated party. The interested Board Member has abstained from all decision making on behalf of the Agency's Board of Directors regarding this transaction. Total lease payments made to MPH Holdings, LLC at December 31, 2020, and 2019 was \$26,372 and \$36,919, respectively.

The Agency entered into a contract for professional services with management's family member to conduct grant writing services. The total amount of contracted services paid to the related party at December 31, 2020, and 2019 was \$8,320 and \$0, respectively.

BIG BROTHERS BIG SISTER OF SOUTHWEST WASHINGTON
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020, AND 2019

Prior Period Adjustment – Correction of Accounting Error

In 2019, there was an overstatement in liabilities of that was identified, and the recommended correction resulted in a \$9,912 adjustment to net assets with donor designation.

The overstatement consisted of scholarship funds and Patricia Layton enrichment funds which were received in prior periods from donors to the organization to be used specifically for these purposes and previously not recognized as donations.

As these funds belong to the Agency and are not required to be returned if not used but must be used for their specific purposes by the Agency thus resulting in donor designated net assets.