



**Big Thought and Affiliate**

**Consolidated Financial Statements  
with Supplementary Information and Compliance Reports  
June 30, 2016**

# Big Thought and Affiliate

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## **Independent Auditors' Report**

Board of Directors  
Big Thought and Affiliate

### ***Report on the Consolidated Financial Statements***

We have audited the accompanying consolidated financial statements of Big Thought and Affiliate, which comprise the consolidated statement of financial position as of June 30, 2016 and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Consolidated Financial Statements***

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

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 consolidated financial statements are free from material misstatement. The financial statements of the Big Thought Endowment were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Big Thought and Affiliate as of June 30, 2016 and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

### ***Other Matters***

#### *Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulation (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for the purpose of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated 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 November 28, 2016, on our consideration of Big Thought'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 Big Thought's internal control over financial reporting and compliance.



A Limited Liability Partnership

Arlington, Texas  
November 28, 2016

**Big Thought and Affiliate**  
**Consolidated Statement of Financial Position**  
**June 30, 2016**

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**Assets**

Cash and cash equivalents	\$ 651,416
Investments	1,101,596
Pledges receivable, net	2,144,558
Government grants receivable	186,600
Accounts receivable	107,554
Prepaid expenses and other assets	20,502
Property and equipment, net	<u>435,445</u>
<b>Total assets</b>	<b><u>\$ 4,647,671</u></b>

**Liabilities and Net Assets**

Accounts payable	\$ 427,699
Accrued expenses	339,078
Deferred rent and lease incentive	274,486
Long-term debt	<u>54,002</u>
<b>Total liabilities</b>	<b><u>1,095,265</u></b>
Unrestricted net assets	1,679,372
Temporarily restricted net assets	<u>1,873,034</u>
<b>Total net assets</b>	<b><u>3,552,406</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 4,647,671</u></b>

See accompanying notes to financial statements.

**Big Thought and Affiliate**  
**Consolidated Statement of Activities**  
**Year Ended June 30, 2016**

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	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Contributions	\$ 974,950	\$ 5,049,816	\$ 6,024,766
Government grants	-	2,223,215	2,223,215
Program income	928,491	-	928,491
Other income	132,573	-	132,573
Special event, net of direct benefits to donors of \$48,848	89,374	-	89,374
Interest income	42	-	42
Net assets released from restrictions	5,956,675	(5,956,675)	-
<b>Total support and revenue</b>	<b>8,082,105</b>	<b>1,316,356</b>	<b>9,398,461</b>
Expenses:			
Program	6,778,256	-	6,778,256
Supporting	552,501	-	552,501
Fundraising	653,160	-	653,160
<b>Total expenses</b>	<b>7,983,917</b>	<b>-</b>	<b>7,983,917</b>
<b>Increase in net assets</b>	<b>98,188</b>	<b>1,316,356</b>	<b>1,414,544</b>
<b>Net assets at beginning of year</b>	<b>1,581,184</b>	<b>556,678</b>	<b>2,137,862</b>
<b>Net assets at end of year</b>	<b>\$ 1,679,372</b>	<b>\$ 1,873,034</b>	<b>\$ 3,552,406</b>

See accompanying notes to financial statements.

**Big Thought and Affiliate**  
**Consolidated Statement of Functional Expenses**  
**Year Ended June 30, 2016**

	Program	Supporting	Fundraising	Total
Agency fees	\$ 890,024	\$ -	\$ -	\$ 890,024
Artist fees	306,827	-	-	306,827
Contract services	743,046	77,225	48,026	868,297
Depreciation	274,542	10,203	-	284,745
Insurance	62,059	6,633	-	68,692
Marketing	31,812	3,266	15,138	50,216
Office	4,365	17,261	8,584	30,210
Other	38,360	63,007	5,566	106,933
Postage and printing	43,627	5,383	921	49,931
Professional fees	146,195	25,294	-	171,489
Rent, utilities and telephone	126,518	14,058	-	140,576
Salaries and related benefits	3,759,265	308,225	563,676	4,631,166
Supplies	130,144	-	-	130,144
Technology	150,970	3,914	10,942	165,826
Training	19,289	-	-	19,289
Travel	51,213	18,032	307	69,552
	<u>\$ 6,778,256</u>	<u>\$ 552,501</u>	<u>\$ 653,160</u>	<u>\$ 7,983,917</u>
	<u>84.9%</u>	<u>6.9%</u>	<u>8.2%</u>	<u>100.0%</u>

See accompanying notes to financial statements.

**Big Thought and Affiliate**  
**Consolidated Statement of Cash Flows**  
**Year Ended June 30, 2016**

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Cash flows from operating activities:	
Increase in net assets	\$ 1,414,544
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	284,745
Donated securities	(1,583)
Net realized and unrealized losses from investments	27
Change in allowance for doubtful accounts	33,206
Changes in assets and liabilities:	
Pledges receivable	(1,373,010)
Government grants receivable	(85,424)
Accounts receivable	121,490
Prepaid expenses and other assets	(11,961)
Accounts payable	(198,394)
Accrued expenses	101,001
Deferred rent and lease incentive	<u>(67,161)</u>
<b>Net cash provided by operating activities</b>	<u>217,480</u>
Cash flows from investing activities:	
Proceeds from sales of investments	2,252,526
Purchases of investments	<u>(3,352,567)</u>
<b>Net cash used by investing activities</b>	<u>(1,100,041)</u>
Cash flows from financing activities:	
Borrowings of long-term debt	80,000
Repayments on long-term debt	<u>(166,853)</u>
<b>Net cash used by financing activities</b>	<u>(86,853)</u>
<b>Net decrease in cash and cash equivalents</b>	(969,414)
<b>Cash and cash equivalents at beginning of year</b>	<u>1,620,830</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 651,416</u>
Supplemental cash flow information -	
Cash paid during the year for interest	<u>\$ 22,727</u>

See accompanying notes to financial statements.



# Big Thought

## Notes to Consolidated Financial Statements

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### 1. Organization

Big Thought is a Texas nonprofit corporation formed in 1987 under Section 501(c)(3) of the Internal Revenue Code (IRC). Big Thought's mission is to make imagination a part of everyday learning. Big Thought envisions communities where every learner is immersed in opportunities to imagine, create, and succeed.

Big Thought approaches its work by building creative learning communities - a group of partners such as schools, city agencies, universities, museums, libraries, nonprofits, funders and others - working together to organize and implement resources and programs.

Big Thought coordinates creative learning programs in three distinct learning communities:

The Integrated Creative Learning Community includes elementary, middle and high school campuses, students, teachers, professional artists, and dozens of museums, performance arts groups, science and nature centers and other providers. This community integrates creative learning into general classroom subjects to improve student engagement and academic achievement.

The In-School Creative Learning Community includes visual art and music teachers, specialized arts outreach programs, curriculum specialists and others. It is dedicated to reestablishing visual art, music, dance and theater as staples of high-quality elementary, middle and high school education.

The Out of School Time Creative Learning Community includes after-school and summer programs, libraries, recreation centers, churches and other partners - all working together to mobilize resources at the neighborhood level to surround children and families with creative learning opportunities everywhere they learn and throughout their life.

Big Thought focuses its efforts in three areas of civic outcome:

Successful students - Creative learning helps keep students engaged in school and instills skills - like innovation, problem-solving and critical thinking - essential as they prepare to join the 21<sup>st</sup> century workforce.

Strong families - Engaging parents is vital to a child's academic success. Creative learning opens the door to family involvement, providing diverse, high-quality opportunities for families to learn together.

Vibrant communities - A strong cultural scene is a hallmark of any great city. Arts and culture provide jobs, enhance community and business relationships, contribute to economic vitality, and help make a community an attractive place to live.

# Big Thought

## Notes to Consolidated Financial Statements

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Big Thought is supported primarily through government grants and contracts and contributions from foundations, corporations and individuals.

The affiliate, Big Thought Endowment (Fund), is a Texas nonprofit corporation incorporated June 3, 2003. It is a tax exempt organization under Section 501(c)(3) and 509 (a)(3) of the IRC. The sole purpose for establishing the Fund is to provide an organization that will operate for the benefit of, and will support the mission of Big Thought. A majority of the board of directors of the Fund also serve as directors of Big Thought.

## 2. Summary of Significant Accounting Policies

### *Basis of Accounting*

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (GAAP).

### *Consolidated Financial Statements*

The consolidated financial statements include the accounts and transactions of Big Thought and its affiliate, the Fund (collectively, the Organization). All significant inter-organizational accounts and transactions have been eliminated in consolidation.

### *Financial Statement Representation*

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

*Unrestricted net assets* - Net assets not subject to donor-imposed stipulations.

*Temporarily restricted net assets* - Net assets subject to donor stipulations that will be met by actions of the Organization and/or the passage of time.

*Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that will never lapse, thus requiring the funds to be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purpose. There are no permanently restricted net assets at June 30, 2016.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the

## **Big Thought**

### **Notes to Consolidated Financial Statements**

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stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

#### ***Financial Instruments and Credit Risk Concentrations***

Financial instruments which are potentially subject to concentrations of credit and market risk consist principally of cash and cash equivalents and pledges, government grants and accounts receivable.

The Organization maintains cash balances at various financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2016 the Organization's uninsured bank balances totaled \$273,820. Management has placed these funds with a high credit quality institution in order to minimize risk. The Organization has not experienced any losses on such accounts.

Pledges, government grants and accounts receivable are unsecured and are primarily due from donors and government agencies. The Organization periodically evaluates the collectability of pledges, government grants and accounts receivable and maintains allowances as necessary.

For the year ended June 30, 2016, the Organization received 28% of its support and revenue from two funding sources. The balance due from three funding sources totaled 74% of total receivables at June 30, 2016.

The Organization operates mainly in the Dallas, Texas area. Therefore, results of operations are subject to economic conditions of the area.

#### ***Estimates***

The preparation of the consolidated financial statements in conformity with GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***Federal Income Taxes***

The Organization is exempt from federal income taxes under section 501(c)(3) of the IRC and has not been classified as a private foundation as defined in the IRC. Income generated from activities unrelated to the Organization's exempt purposes is subject to tax under IRC Section 511. The Organization had no unrelated business income for the year ended June 30, 2016. Accordingly, no provision has been made for federal income tax in the accompanying consolidated financial statements.

GAAP requires the evaluation of tax positions taken in the course of preparing the Organization's

# Big Thought

## Notes to Consolidated Financial Statements

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tax returns and recognition of a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Organization, and has concluded that as of June 30, 2016, there are no uncertain tax positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

### ***Cash and Cash Equivalents***

Cash and cash equivalents includes cash on hand and all highly liquid investments with an original maturity of three months or less.

### ***Pledges, Government Grants and Accounts Receivable***

Pledges receivable are recorded at the estimated fair value when received, government grants receivable are recorded based on the reimbursable amount incurred, and accounts receivable are generally recorded at the invoiced amount. The collectability of the Organization's receivables is reviewed on an ongoing basis, using an assessment of the current status of individual accounts and current economic conditions.

### ***Property and Equipment***

Property and equipment purchased by the Organization are recorded at cost or if acquired by gift, at the fair value at the date of the gift. The Organization follows the practice of capitalizing all expenditures for property and equipment in excess of \$1,000; the fair value of donated fixed assets is similarly capitalized. Depreciation is calculated using the straight-line method based upon the estimated useful lives of 3 to 10 years, except for leasehold improvements which are depreciated using the lesser of the useful life of the asset or the term of the lease.

### ***Revenue Recognition***

Contributions are generally recorded only upon receipt, unless evidence of an unconditional promise to give (pledge) has been received. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected and reduced by an allowance for uncollectible amounts. Conditional promises to give are recognized when the conditions to which they are subject are met. If funds are received related to the conditional promise, the amounts received are accounted for as a refundable advance.

Government grants are recognized as contract terms are fulfilled. Cost reimbursement grants are recognized as support when the allowable costs are incurred. Fees for contract services are recognized as revenue when the contracted services are performed. Contributions and grants are considered to be available for unrestricted purposes unless restricted by a donor for specific purposes.

# Big Thought

## Notes to Consolidated Financial Statements

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Donated materials and equipment are reflected as contributions at their estimated fair values at date of receipt. Contributions of services are recorded at estimated fair value if the services received create or enhance nonfinancial assets or require specialized skills and would typically need to be purchased if not provided by donation. Numerous individuals donate significant amounts of time to the Organization. No donated services were utilized that met the criteria to be recorded as support on the Organization's consolidated financial statements.

### ***Deferred Rent and Lease Incentive***

The Organization has entered into an office lease which includes lease incentives, rent abatements and escalating rent over the term of the lease. In accordance with GAAP, rent cost is accounted for on a straight-line basis over the rental term.

### ***Allocation of Functional Expenses***

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

### ***Contract Compliance***

The Organization is responsible for compliance with provisions of contracts and grant agreements. Noncompliance could result in the disallowance of expenditures and a request for reimbursement. In the opinion of the Organization's management, such disallowance, if any, would not be significant to the Organization's consolidated financial statements.

## **3. Investments**

Under the Fair Value Measurements and Disclosures topic of the Codification, ASC 820, disclosures are required about how fair value is determined for assets and liabilities and a hierarchy for which these assets and liabilities must be grouped is established, based on significant levels of inputs as follows:

- Level 1    Inputs to the valuation methodology are quoted prices available in active markets for identical assets or liabilities as of the reporting date;
  
- Level 2    Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies;
  
- Level 3    Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates or assumptions related to the pricing of the

# Big Thought

## Notes to Consolidated Financial Statements

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asset or liability including assumptions regarding risk.

A financial instrument's level within the 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 methodology used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy:

### Money Market Funds

Money market funds are valued at the net asset value (NAV) provided by the administrator of the fund. The NAV is a quoted price in an active market and classified within Level 1 of the valuation hierarchy. Investments totaling \$1,101,596 for the year ended June 30, 2016 are classified as Level 1 investments.

## 4. Pledges, Government Grants and Accounts Receivable

Pledges receivable as of June 30, 2016 are as follows:

Receivable in less than one year	\$ 1,168,776
Receivable in one to five years	<u>1,025,800</u>
Total	2,194,576
Less allowance for doubtful accounts	(14,657)
Less discount to present value	<u>(35,361)</u>
	<u><u>\$ 2,144,558</u></u>

The discount rate used on long-term pledges was 3.5%.

Government grants and accounts receivable are due within the next year and are considered to be fully collectible by management at June 30, 2016; accordingly no allowance for doubtful accounts is required.

## 5. Property and Equipment

Property and equipment as of June 30, 2016 consist of the following:

Furniture and equipment	\$ 1,513,327
Leasehold improvements	358,691
Educational curriculum	<u>1,088,727</u>
	2,960,745
Accumulated depreciation	<u>(2,525,300)</u>
Property and equipment, net	<u><u>\$ 435,445</u></u>

**Big Thought**  
**Notes to Consolidated Financial Statements**

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**6. Lines of Credit**

The Organization has an unsecured line of credit with Frost Bank allowing the Organization to borrow up to \$500,000. Interest is at .25% above the bank's prime rate (3.5% as of June 30, 2016) and is payable monthly until October 3, 2017, when all unpaid principal and interest will be due. No amounts were outstanding as of June 30, 2016.

The Organization has an unsecured line of credit with Inwood National Bank allowing the Organization to borrow up to \$150,000. Interest is at .5% above the bank's prime rate (3.5% as of June 30, 2016) and is payable monthly until October 14, 2016, when all unpaid principal and interest will be due. No amounts were outstanding as of June 30, 2016.

**7. Long-Term Debt**

On May 23, 2013, the Organization entered into a multiple advance loan agreement with a bank to purchase furniture and equipment for a new office facility. The loan agreement allowed the Organization to borrow up to \$500,000 through November 1, 2013. The loan bears interest at .50% above the bank's prime rate (3.5% as of June 30, 2016) payable monthly; beginning February 2, 2014. The loan requires quarterly principal payments until maturity on May 1, 2016, when all unpaid principal and interest was due.

On October 13, 2015, the Organization entered into a loan agreement with a bank totaling \$80,000. The loan bears interest at 4.118% and is collateralized by certain equipment. The loan requires monthly principal and interest payments of \$3,480.55 until maturity on October 13, 2017. The balance outstanding on June 30, 2016 was \$54,002.

**8. Temporarily Restricted Net Assets**

Temporarily restricted net assets as of June 30, 2016 consist of amounts restricted by donors for the following purposes:

Restricted as to time	\$ 9,939
Restricted as to purpose:	
City of Learning	1,820,095
Thriving Minds	<u>43,000</u>
	<u>\$1,873,034</u>

# Big Thought

## Notes to Consolidated Financial Statements

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### 9. Leases and Subleases

In February 2013, the Organization entered into a non-cancelable operating lease agreement for office space expiring April 30, 2023. The lease includes lease incentives, rent abatements and fixed rent escalations, which are amortized and recorded over the lease term on a straight-line basis. The following is a schedule of future required minimum lease payments under the lease agreement for the years ending June 30:

2017	\$ 172,058
2018	174,381
2019	185,991
2020	185,991
2021	185,991
2022-2023	340,984

Operating lease expense totaled \$140,570 for the year ended June 30, 2016.

In February 2016, the Organization entered into a sublease agreement with Camp Fire National Headquarters, a 501(c)(3) partner organization, expiring February 28, 2017. The future minimum rental to be received under the sublease agreement is \$1,600 for the year ended June 30, 2017.

### 10. Retirement Plan

The Organization has a tax deferred annuity plan qualified under Section 403(b) of the IRC. Employees can make contributions, subject to certain limitations, on a pretax basis. The Organization does not contribute to the plan.

### 11. Related Party Transactions

The Organization receives contributions from related parties, including board members and employees. For the year ended June 30, 2016 related party contributions totaled \$2,149,134.

### 12. Subsequent Events

The Organization evaluated subsequent events after the consolidated statement of financial position date of June 30, 2016 through November 28, 2016, which was the date the consolidated financial statements were available to be issued, and concluded that no additional disclosures are required.



**Big Thought**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2016**

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<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>CFDA #</u>	<u>Contract Number</u>	<u>Expenditures</u>
<b>U.S. Department of Education</b>			
<b>Texas Education Agency</b>			
Twenty-First Century Community Learning Centers	84.287C	146950167110007	\$ 128,609
Twenty-First Century Community Learning Centers	84.287C	156950167110007	<u>1,318,747</u>
			1,447,356
<b>National Endowment for the Arts</b>			
Promotion of the Arts	45.024	14-5100-7039	25,000
Promotion of the Arts	45.024	15-5100-7023	<u>100,000</u>
			125,000
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 1,572,356</u></u>

See notes to the schedule of expenditures of federal awards.

# Big Thought

## Notes to Schedule of Expenditures of Federal Awards

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### 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal grant activity of Big Thought (Organization) and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

### 2. Summary of Significant Accounting Policies

- Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or limited as to reimbursement.
- The Organization has not elected to use the 10 percent de minimus indirect cost rate as allowed under the Uniform Guidance.

**Report of Independent Auditors 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***

Board of Directors  
Big Thought and Affiliate

We have audited the consolidated financial statements of Big Thought and Big Thought Endowment, which comprise the consolidated statement of financial position as of June 30, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 28, 2016. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Big Thought Endowment were not audited in accordance with *Government Auditing Standards* and, accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Big Thought Endowment.

***Internal Control over Financial Reporting***

In planning and performing our audit of the consolidated financial statements, we considered Big Thought's (Organization) 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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 the Organization's consolidated 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 the consolidated 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.



A Limited Liability Partnership

November 28, 2016  
Arlington, Texas

## **Report of Independent Auditors on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance**

Board of Directors  
Big Thought and Affiliate

### ***Report on Compliance for Each Major Federal Program***

We have audited Big Thought's (Organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2016. The Organization'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Organization'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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 the Organization'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 the Organization's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, the Organization 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 June 30, 2016.

### ***Report on Internal Control over Compliance***

Management of the Organization 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 the Organization'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 the Uniform Guidance, 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 the Organization'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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Sutton Frost Cary*

A Limited Liability Partnership

November 28, 2016  
Arlington, Texas

**Big Thought**  
**Schedule of Prior Audit Findings**  
**Year Ended June 30, 2016**

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**Section I - Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weaknesses identified?  yes  no
- Significant deficiencies identified?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

*Federal Awards*

Internal control over major program:

- Material weaknesses identified?  yes  no
- Significant deficiencies identified?  yes  none reported

Type of auditor's report issued on compliance for Major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  yes  no

Identification of major federal program:

CFDA 84.287 Twenty-First Century Community Learning Centers

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?  yes  no

**Section II - Financial Statement Findings**

None

**Section III - Federal Award Findings and Questioned Costs**

None



**Big Thought  
Schedule of Prior Audit Findings  
Year Ended June 30, 2016**

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None.