

First Graduate

Financial Statements &
Independent Auditor's Report
for the Year Ended
June 30, 2016

**COOK &
COMPANY**

A PROFESSIONAL ACCOUNTANCY CORPORATION

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COOK & COMPANY

A PROFESSIONAL ACCOUNTANCY CORPORATION

Independent Auditor's Report

To the Board of Directors
First Graduate
San Francisco, California

We have audited the accompanying financial statements of First Graduate (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Graduate as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the June 30, 2015, financial statements of First Graduate and our report dated December 23, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.



A Professional Accountancy Corporation
February 9, 2017

First Graduate

Statement of Financial Position June 30, 2016 with Comparative Totals for June 30, 2015

	<u>6/30/16</u>	<u>6/30/15</u> <u>(Note 2)</u>
ASSETS		
Current Assets:		
Cash & equivalents	\$ 207,895	\$ 550,034
Grants & pledges receivable, current (Note 3)	534,800	286,000
Other receivables	11,531	10,948
Prepaid expenses	14,185	25,166
Total current assets	768,411	872,148
Grants receivable, long-term (Note 3)	205,379	279,178
Deposits	9,350	11,030
Property & equipment, net of accumulated depreciation of \$46,302 at 6/16 and \$31,317 at 6/15	31,988	37,731
TOTAL ASSETS	\$1,015,128	\$ 1,200,087
LIABILITIES & NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 60,164	\$ 48,791
Accrued vacation pay	57,387	56,843
Scholarship obligation	5,000	23,000
Other liabilities	6,690	6,142
Total current liabilities	129,241	134,776
Deferred rent (Note 5)	20,324	21,593
TOTAL LIABILITIES	149,565	156,369
Net Assets		
Unrestricted (Note 4)	(196,214)	131,280
Temporarily restricted (Note 6)	1,061,777	912,438
TOTAL NET ASSETS	865,563	1,043,718
TOTAL LIABILITIES & NET ASSETS	\$1,015,128	\$ 1,200,087

See accompanying notes to financial statements
and independent auditor's report.

First Graduate

Statement of Activities and Changes in Net Assets for the Year Ended June 30, 2016 with Comparative Totals for the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>6/30/16 Total</u>	<u>6/30/15 Total (Note 2)</u>
Support & Revenue:				
Grants	\$ 163,329	\$ 993,658	\$ 1,156,987	\$ 1,236,226
Donations	543,995	35,623	579,618	571,768
Net assets released from restriction:				
Satisfaction of donor requirements	973,842	(973,842)	-	-
In-kind support (Note 7)	7,809		7,809	7,960
Special event, net of direct donor benefits of \$100,584 in 15/16 and \$75,504 in 14/15	79,288	93,900	173,188	193,473
Other income	<u>16,590</u>		<u>16,590</u>	<u>17,949</u>
Total support & revenue	1,784,853	149,339	1,934,192	2,027,376
Expenses:				
Program services	1,578,125		1,578,125	1,563,440
General & administrative	225,745		225,745	272,560
Fundraising	<u>308,477</u>		<u>308,477</u>	<u>263,468</u>
Total expenses	<u>2,112,347</u>	-	<u>2,112,347</u>	<u>2,099,468</u>
 CHANGE IN NET ASSETS	 (327,494)	 149,339	 (178,155)	 (72,092)
NET ASSETS, July 1	<u>131,280</u>	<u>912,438</u>	<u>1,043,718</u>	<u>1,115,810</u>
NET ASSETS, June 30	<u><u>\$ (196,214)</u></u>	<u><u>\$ 1,061,777</u></u>	<u><u>\$ 865,563</u></u>	<u><u>\$ 1,043,718</u></u>

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Statement of Functional Expenses for the Year Ended June 30, 2016 with Comparative Totals for the Year ended June 30, 2015

	Program Services	General & Administrative	Fundraising	6/30/2016 Total	6/30/2015 Total (Note 2)
Salaries	\$ 837,010	\$ 131,221	\$ 205,039	\$ 1,173,270	\$ 1,084,162
Payroll taxes	66,305	10,349	16,310	92,964	84,161
Employee benefits	108,249	14,726	24,517	147,492	117,575
Staff development	6,589	1,176	1,884	9,649	14,831
Consultants & contractors	87,377	33,862	643	121,882	179,423
Rent	92,639	11,536	16,496	120,671	129,124
Office supplies	10,346	984	4,872	16,202	21,653
Telephone	6,667	342	489	7,498	8,220
Postage	1,841	261	2,046	4,148	4,276
Printing & copying	3,804	1,343	1,485	6,632	15,033
Repairs & maintenance	9,628	1,491	1,684	12,803	15,873
Travel & meetings	42,943	1,210	3,411	47,564	41,792
Dues & subscriptions	3,631	1,746	5,242	10,619	9,348
Insurance	4,567	6,175	813	11,555	10,210
Books & materials	4,162	-	-	4,162	4,700
Program facility rental	4,103	-	-	4,103	27,152
Student fees & admissions	23,885	-	-	23,885	13,665
Student/mentor meals & snacks	20,530	391	713	21,634	26,634
Scholarships awarded	204,950	-	-	204,950	224,006
Awards & honoraria	22,280	102	79	22,461	23,479
Special event expenses	-	-	20,400	20,400	14,468
Depreciation	14,395	1,556	2,225	18,176	12,112
Other	2,224	7,274	129	9,627	17,571
Total expenses	\$ 1,578,125	\$ 225,745	\$ 308,477	\$ 2,112,347	\$ 2,099,468

See accompanying notes to financial statements
and independent auditor's report.

First Graduate

Statement of Cash Flows for the Year Ended June 30, 2016 with Comparative Totals for the Year Ended June 30, 2015

	<u>6/30/16</u>	<u>6/30/15</u> <u>(Note 2)</u>
<i>Cash flows from operating activities:</i>		
Change in net assets	\$ (178,155)	\$ (72,092)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	18,176	12,112
Loss on disposal of fixed assets	1,016	1,165
Changes in assets and liabilities:		
(Increase) decrease in grants & pledges receivable	(175,001)	(62,134)
(Increase) decrease in other receivables	(583)	(6,271)
(Increase) decrease in prepaid expenses & deposits	12,661	(8,606)
Increase (decrease) in accounts payable	11,373	2,049
Increase (decrease) in accrued vacation pay	544	12,335
Increase (decrease) in deferred rent	(1,269)	1,775
Increase (decrease) in scholarship obligation	(18,000)	(14,000)
Increase (decrease) in other liabilities	<u>548</u>	<u>1,596</u>
Cash provided (used) by operating activities:	(328,690)	(132,071)
<i>Cash flows from investing activities:</i>		
Purchase of fixed assets	<u>(13,449)</u>	<u>(29,932)</u>
Cash provided (used) by investing activities:	(13,449)	(29,932)
Cash provided (used) during year	(342,139)	(162,003)
Cash & cash equivalents:		
Beginning of year, July 1	<u>550,034</u>	<u>712,037</u>
End of year, June 30	<u><u>\$ 207,895</u></u>	<u><u>\$ 550,034</u></u>

See accompanying notes to financial statements
and independent auditor's report.

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2016

1. The Organization

Nature of activities

First Graduate (the Organization) was incorporated in November 2000 to help students finish high school and become the first in their families to graduate from college. From the seventh grade through college, the Organization makes a ten-year commitment to each student in its program to ensure that they enter college prepared to succeed, and stay until they graduate.

Program services consist of:

- One-on-one mentoring,
- Academic instruction, tutoring and support,
- High school and college counseling,
- Family engagement activities,
- Eligibility for annual scholarships, and
- Long-term case management

First Graduate is a nonprofit organization exempt from income taxes under Internal Revenue Code Section 501(c)(3) and section 23701(d) of the California Revenue and Taxation Code. The Organization is governed by a board of directors.

Funding

Funding is received from foundations, corporations and individuals. The Organization also holds an annual gala fundraising event.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, support is recognized when it is awarded, revenue is recognized when it is earned and expenses are recognized when they are incurred.

Basis of Presentation

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

Unrestricted net assets, which includes resources not subject to donor-imposed restrictions.

Temporarily restricted net assets, which includes resources subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets, which includes resources subject to donor-imposed restrictions that they be maintained permanently by the Organization. The Organization does not currently have any permanently restricted net assets.

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First Graduate

Notes to Financial Statements for the Year Ended June 30, 2016

(continued)

Accounting for Restricted Support

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

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

Cash and Cash Equivalents

Cash and cash equivalents consist of a bank checking account, as well as cash funds held with a brokerage firm.

Grants & Pledges Receivable

Grants and pledges receivable are recorded based on formal promises received from donors. Amounts due within one year of the balance sheet date are stated at face value, while amounts due beyond one year are discounted to present value using an annual rate of 0.45%.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value because of the short maturity of these instruments.

Property & Equipment

First Graduate capitalizes all computers (regardless of cost), as well as other office equipment and furnishings with an initial cost of at least \$1,400. Purchased items are stated at cost, while donated fixed assets are stated at their fair market value at the time of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, which range from 3 to 5 years for fixed assets currently on the books.

Scholarship Obligation

The scholarship obligation consists of awards that have been formally approved and promised to students, but not yet paid to the recipient or educational institution.

In-kind Support

In-kind contributions are reflected in the financial statements at the estimated fair market value at the date of receipt. When skilled and professional-level volunteer time is donated, it is valued at the rates First Graduate would otherwise need to pay for such services.

Functional Expenses

Expenses are allocated on a functional basis among First Graduate's program and support services. Expenses that can be identified with a specific activity or support service are allocated directly. Expenses that are common to several functions are allocated based on formulas developed by management.

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Notes to Financial Statements for the Year Ended June 30, 2016

(continued)

Income Taxes

As a public charity organized under Internal Revenue Code Section 501(c)(3), First Graduate is exempt from income taxes, except on activities unrelated to its mission. As management believes that all of the Organization's revenue is exempt from federal and state income tax, no provision has been made for income tax expense. The Organization's federal *Return of Organization Exempt from Income Tax* (Form 990) filings for the tax years ending in 2014 through 2016 are subject to examination by the Internal Revenue Service, generally for three years after they were filed. The Organization's California *Exempt Organization Annual Information Return* (Form 199) filings for the tax years ending in 2013 through 2016 are subject to examination by the Franchise Tax Board, generally for four years after they were filed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comparative Data

The financial statement information for the year ended June 30, 2015, presented for comparative purposes, is not intended to be a complete financial statement presentation. For a complete presentation of June 30, 2015, please refer to the financial statements for that year. In addition, certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation.

3. Grants & Pledges Receivable

	Due within <u>One Year</u>	Due in <u>1 – 5 Years</u>	<u>Total</u>
Grants & pledges receivable, at face value	\$534,800	\$206,500	\$741,300
Present value discount, at 0.45%	_____	(1,121)	(1,121)
Grants & pledges receivable, net	\$534,800	\$205,379	\$740,179

4. Interfund Borrowing

In fiscal year 2015-2016, the Organization experienced difficulty in obtaining sufficient unrestricted funds to provide working capital. As a result, the unrestricted net assets fund has borrowed from the temporarily restricted net assets fund for working capital purposes. The unrestricted net assets fund will be required to repay this borrowing with future unrestricted support and revenue.

5. Operating Leases

The Organization rents its San Francisco office under a five-year operating lease expiring in January 2019. The lease agreement establishes minimum monthly rent at \$9,250, followed by

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Notes to Financial Statements for the Year Ended June 30, 2016

(continued)

annual increases of approximately 3% for the remainder of the lease term. The lease also calls for the tenant's pro rata share of increases in building insurance and property taxes.

In connection with this lease, First Graduate has received a four-month rent abatement. The "free" rent has been deferred to future periods so that rent expense is properly recorded on a straight-line basis over the term of the lease. Deferred rent will be fully amortized at the end of the lease in January 2019.

Future minimum rent payments are as follows:

<u>Fiscal Year Ending</u>	
June 30, 2017	\$109,419
June 30, 2018	122,809
June 30, 2019	<u>72,877</u>
Total future minimum lease payments	\$305,105

6. Temporarily Restricted Net Assets

Temporarily restricted net assets represent donations and grants to First Graduate that have been restricted for a specific purpose or time period. Details are as follows:

Scholarships for college	\$482,165
General operating support for future periods	336,379
<i>Promise Scholarship</i> program	132,012
Program support for future periods	38,200
Other activities	<u>73,021</u>
Total temporarily restricted net assets at June 30, 2016	\$1,061,777

7. Contingencies – Satisfaction of Donor Requirements

First Graduate receives grants that are restricted for a specific program or purpose. If such restrictions are not met in accordance with the funding source agreement, there is the possibility that funds would have to be returned to the donor. It is management's opinion that all donor conditions have been met for grants that have been released from temporarily restricted net assets or recorded directly to unrestricted net assets.

8. Management's Review of Subsequent Events

In preparing these financial statements, management has evaluated events for potential recognition or disclosure through February 9, 2017, the date the financial statements were available to be issued.