

First Graduate

Financial Statements &
Independent Auditor's Report
for the Year Ended
June 30, 2017

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, 2017, 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, 2017, 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, 2016, financial statements of First Graduate and our report dated February 9, 2017, 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, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.



A Professional Accountancy Corporation
February 15, 2018

First Graduate

Statement of Financial Position June 30, 2017 with Comparative Totals for June 30, 2016

	6/30/2017 <u>Total</u>	6/30/2016 <u>(Note 2)</u>
ASSETS		
Current Assets:		
Cash	\$ 545,283	\$ 207,895
Grants & pledges receivable, current (Note 3)	425,000	534,800
Other receivables	18,456	11,531
Prepaid expenses & other	49,788	14,185
Total current assets	1,038,527	768,411
Grants & pledges receivable, long-term (Note 3)	272,879	205,379
Deposits	9,350	9,350
Property & equipment, net of accumulated depreciation of \$61,833 in 2017 and \$46,302 in 2016	33,069	31,988
TOTAL ASSETS	\$ 1,353,825	\$ 1,015,128
LIABILITIES & NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 1,257	\$ 60,164
Accrued vacation pay	50,517	57,387
Scholarship obligation	5,000	5,000
Deferred rent liability, current (Note 4)	12,571	-
Other	2,857	6,690
Total current liabilities	72,202	129,241
Deferred rent liability, long-term (Note 4)	8,572	20,324
TOTAL LIABILITIES	80,774	149,565
Net Assets		
Unrestricted	234,606	(196,214)
Temporarily restricted (Note 5)	1,038,445	1,061,777
TOTAL NET ASSETS	1,273,051	865,563
TOTAL LIABILITIES & NET ASSETS	\$ 1,353,825	\$ 1,015,128

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, 2017 with Comparative Totals for the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017 Total</u>	<u>2016 Total (Note 2)</u>
Support & Revenue:				
Grants	\$ 337,026	\$ 716,060	\$ 1,053,086	\$1,156,987
Donations	992,219	179,149	1,171,368	579,618
Net assets released from restriction:				
Satisfaction of donor restrictions	1,025,331	(1,025,331)	-	-
In-kind support	7,393		7,393	7,809
Special events, net of direct donor benefits of \$83,497 in FY17 and \$100,584 in FY16	52,964	106,790	159,754	173,188
Other	41,231	-	41,231	16,590
Total support & revenue	2,456,164	(23,332)	2,432,832	1,934,192
Expenses:				
Program services	1,506,979		1,506,979	1,578,125
General & administrative	214,978		214,978	225,745
Fundraising	303,387		303,387	308,477
Total expenses	2,025,344	-	2,025,344	2,112,347
CHANGE IN NET ASSETS	430,820	(23,332)	407,488	(178,155)
NET ASSETS, July 1	(196,214)	1,061,777	865,563	1,043,718
NET ASSETS, June 30	<u>\$ 234,606</u>	<u>\$ 1,038,445</u>	<u>\$ 1,273,051</u>	<u>\$ 865,563</u>

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

First Graduate

Statement of Functional Expenses for the Year Ended June 30, 2017 with Comparative Totals for the Year Ended June 30, 2016

	Program Services	General & Administrative	Fundraising	Shared Costs	2017 Total	2016 Total (Note 2)
Salaries	\$ 857,072	\$ 113,237	\$ 182,165	\$ -	\$ 1,152,474	\$ 1,173,270
Payroll taxes	68,245	9,244	14,394	107	91,990	92,964
Employee benefits	102,116	13,109	21,764	8,722	145,711	147,492
Staff development	12,249	657	504	1,597	15,007	9,649
Consultants & contractors	22,515	38,146	4,000	851	65,512	121,882
Rent	-	-	-	134,363	134,363	120,671
Office supplies	9,446	552	228	7,699	17,925	16,202
Telephone	3,835	-	302	3,131	7,268	7,498
Postage	324	22	1,217	3,189	4,752	4,148
Printing & copying	90	212	5,200	4,541	10,043	6,632
Repairs & maintenance					-	12,803
Travel & meetings	14,221	818	1,678	12	16,729	47,564
Dues & subscriptions	4,302	1,027	9,286	15,597	30,212	10,619
Insurance	-	5,639	-	6,655	12,294	11,555
Books & materials	5,214	-	423	48	5,685	4,162
Program facility rental	5,484	-	3,223	-	8,707	4,103
Student fees & admissions	15,592	-	-	-	15,592	23,885
Student /mentor meals & snacks	19,761	1,074	1,278	850	22,963	21,634
Scholarships awarded	205,408	-	-	-	205,408	204,950
Awards & honoraria	7,991	59	355	323	8,728	22,461
Special event expenses	-	-	24,773	-	24,773	20,400
Depreciation	-	-	-	15,531	15,531	18,176
Other expenses	1,853	11,197	448	179	13,677	9,627
Shared cost allocation	151,261	19,985	32,149	(203,395)	-	-
Total	\$ 1,506,979	\$ 214,978	\$ 303,387	\$ -	\$ 2,025,344	\$ 2,112,347

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

First Graduate

Statement of Cash Flows for the Year Ended June 30, 2017 with Comparative Totals for the Year Ended June 30, 2016

	<u>2017</u>	<u>2016</u> <u>(Note 2)</u>
<i>Cash flows from operating activities:</i>		
Change in net assets	\$ 407,488	\$ (178,155)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	15,531	18,176
Loss on disposal of fixed assets	-	1,016
Changes in assets and liabilities:		
(Increase) decrease in grants & pledges receivable	42,300	(175,001)
(Increase) decrease in other receivables	(6,925)	(583)
(Increase) decrease in prepaid expenses & deposits	(35,603)	12,661
Increase (decrease) in accounts payable	(58,907)	11,373
Increase (decrease) in accrued vacation pay	(6,870)	544
Increase (decrease) in deferred rent	819	(1,269)
Increase (decrease) in scholarship obligation	-	(18,000)
Increase (decrease) in other liabilities	<u>(3,833)</u>	<u>548</u>
Cash provided (used) by operating activities:	354,000	(328,690)
<i>Cash flows from investing activities:</i>		
Purchases of capital assets	<u>(16,612)</u>	<u>(13,449)</u>
Cash provided (used) by investing activities:	(16,612)	(13,449)
Cash provided (used) during year	337,388	(342,139)
Cash balance, beginning of year	<u>207,895</u>	<u>550,034</u>
Cash balance, end of year	<u><u>\$ 545,283</u></u>	<u><u>\$ 207,895</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, 2017

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.

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2017

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.

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2017

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 2015 through 2017 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 2014 through 2017 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, 2016, presented for comparative purposes, is not intended to be a complete financial statement presentation. For a complete presentation of June 30, 2016, please refer to the financial statements for that year.

3. Grants & Pledges Receivable

<i>Current</i>	
Due within one year	\$425,000
<i>Long-term</i>	
Due in one to five years	228,000
Due beyond five years	46,000
Less: present value discount	<u>(1,121)</u>
Subtotal – long-term	272,879
Grand total	\$697,879

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2017

4. 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 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. Future minimum rent payments are \$122,809 for 2017-2018 and \$72,877 for 2018-2019.

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. The current portion of the liability (\$12,571) will be amortized during 2017-2018, while the non-current portion (\$8,572) will be amortized in 2018-2019.

5. 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	\$484,587
General operating & program support for future periods	433,975
Scholarship administration	28,000
Other activities	<u>91,883</u>
Total temporarily restricted net assets at June 30, 2017	\$1,038,445

6. Retirement Plan

First Graduate maintains a 403(b) retirement plan for its employees. Employer contributions to employee accounts were approximately \$28,000 for the year ended June 30, 2017.

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.

First Graduate maintains its cash within one financial institution. The Federal Deposit Insurance Corporation only insures up to \$250,000. Although this presents the possibility of loss, management believes that the risk is minimal.

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2017

8. Management's Review of Subsequent Events

In preparing these financial statements, management has evaluated events for potential recognition or disclosure through February 15, 2018, the date the financial statements were available to be issued.