

First Graduate

Financial Statements &
Independent Auditor's Report
for the Year Ended
June 30, 2013



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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, 2013, 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, 2013, 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, 2012 financial statements of First Graduate and our report dated January 11, 2013 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, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in blue ink that reads "Cook & Company". The signature is written in a cursive, flowing style.

Certified Public Accountant
January 23, 2014

First Graduate

Statement of Financial Position June 30, 2013 with Comparative Totals for June 30, 2012

	<u>6/30/2013</u>	<u>6/30/2012</u> <u>(Note 2)</u>
ASSETS		
Current Assets:		
Cash	\$434,532	\$380,602
Grants & pledges receivable, current (Note 3)	378,377	354,818
Prepaid expenses	<u>16,427</u>	<u>7,866</u>
Total current assets	<u>829,336</u>	<u>743,286</u>
Grants receivable, long-term (Note 3)	175,712	238,083
Deposits	15,250	15,250
Property & equipment, net (Note 4)	<u>6,775</u>	<u>6,337</u>
 TOTAL ASSETS	 <u>\$1,027,073</u>	 <u>\$1,002,956</u>
 LIABILITIES & NET ASSETS		
Current Liabilities:		
Accounts payable	\$27,435	\$18,655
Accrued vacation pay	35,101	47,534
Scholarship obligation	<u>59,000</u>	<u>74,000</u>
 TOTAL LIABILITIES	 121,536	 140,189
Net Assets		
Unrestricted	247,297	54,186
Temporarily restricted (Note 5)	<u>658,240</u>	<u>808,581</u>
 TOTAL NET ASSETS	 <u>905,537</u>	 <u>862,767</u>
 TOTAL LIABILITIES & NET ASSETS	 <u>\$1,027,073</u>	 <u>\$1,002,956</u>

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, 2013 with Comparative Totals for the Year Ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>6/30/2013 Total</u>	<u>6/30/2012 Total (Note 2)</u>
Support & Revenue:				
Grants	\$208,236	\$422,178	\$630,414	\$980,231
Donations	639,190		639,190	441,749
Net assets released from restriction:				
Satisfaction of donor requirements	572,519	(572,519)	0	0
In-kind support (Note 6)	48,219		48,219	102,147
Special event, net of direct donor benefits of \$43,522 in 12/13 and \$74,981 in 11/12	223,467		223,467	172,897
Government contract	50,678		50,678	49,728
Miscellaneous	16		16	2,572
	1,742,325	(150,341)	1,591,984	1,749,324
Expenses:				
Program services	1,093,680		1,093,680	1,221,702
General & administrative	211,286		211,286	204,404
Fundraising	244,248		244,248	288,803
	1,549,214	0	1,549,214	1,714,909
CHANGE IN NET ASSETS	193,111	(150,341)	42,770	34,415
NET ASSETS, July 1	54,186	808,581	862,767	828,352
	\$247,297	\$658,240	\$905,537	\$862,767
NET ASSETS, June 30	\$247,297	\$658,240	\$905,537	\$862,767

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

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Statement of Functional Expenses for the Year Ended June 30, 2013 with Comparative Totals for the Year ended June 30, 2012

	Program Services	General & Administrative	Fundraising	6/30/2013 Total	6/30/2012 Total (Note 2)
Salaries	\$557,566	\$93,639	\$163,213	\$814,418	\$868,526
Payroll taxes	46,716	7,624	13,102	67,442	70,652
Employee benefits	60,861	8,441	12,493	81,795	79,542
Staff development	1,081	4,345	899	6,325	23,407
Consultants & contractors	59,184	73,251	293	132,728	160,991
Rent	78,001	9,682	17,101	104,784	102,319
Office supplies	5,428	755	1,584	7,767	16,249
Telephone	7,793	602	1,064	9,459	8,956
Postage	2,340	445	4,087	6,872	5,166
Printing & copying	4,634	523	9,369	14,526	7,606
Repairs & maintenance	7,143	887	1,565	9,595	13,271
Travel & meetings	20,116	295	701	21,112	33,396
Dues & subscriptions	1,001	2,402	2,942	6,345	6,510
Insurance	2,985	5,814	655	9,454	11,411
Books & materials	1,728		3	1,731	4,321
Program facility rental	20,000			20,000	20,000
Student fees & admissions	7,240		145	7,385	9,845
Student/mentor meals & snacks	12,555	756	252	13,563	23,497
Scholarships awarded	188,792			188,792	198,467
Awards & honoraria	3,560		482	4,042	19,955
Special event expenses			9,613	9,613	18,125
Depreciation	3,342	415	732	4,489	6,389
Other	1,614	1,410	3,953	6,977	6,308
Total Expenses	\$1,093,680	\$211,286	\$244,248	\$1,549,214	\$1,714,909

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

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Statement of Cash Flows for the Year Ended June 30, 2013 with Comparative Totals for the Year Ended June 30, 2012

	6/30/2013 <u>Total</u>	6/30/2012 <u>Total</u> <u>(Note 2)</u>
<i>Cash flows from operating activities:</i>		
Change in net assets	\$42,770	\$34,415
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	4,489	6,389
Changes in assets and liabilities:		
(Increase) decrease in grants & pledges receivable	38,812	(209,195)
(Increase) decrease in prepaid expenses	(8,561)	16,362
Increase (decrease) in accounts payable	8,780	(19,287)
Increase (decrease) in accrued vacation pay	(12,433)	16,897
Increase (decrease) in scholarship obligation	<u>(15,000)</u>	<u>12,000</u>
Cash provided (used) by operating activities:	58,857	(142,419)
<i>Cash flows from investing activities:</i>		
Purchase of fixed assets	<u>(4,927)</u>	<u>(849)</u>
Cash provided (used) by investing activities:	(4,927)	(849)
Cash provided (used) during year	53,930	(143,268)
Cash & cash equivalents:		
Beginning of year, July 1	<u>380,602</u>	<u>523,870</u>
End of year, June 30	<u><u>\$434,532</u></u>	<u><u>\$380,602</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, 2013

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 IRS 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, individuals and local government. 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.

(continued)

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2013

(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 money market 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 3%.

Fair Value of Financial Instruments

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

Fixed Assets

Fixed assets with an initial cost of at least \$1,400 are capitalized and stated at cost. 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.

(continued)

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2013

(continued)

Income Taxes

As a public charity organized under IRS 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) for the tax years ending in 2011, 2012 and 2013 are subject to examination by the Internal Revenue Service, generally for three 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, 2012, presented for comparative purposes, is not intended to be a complete financial statement presentation. For a complete presentation, please refer to the financial statements for that year.

Reclassification

Certain amounts in the June 30, 2012 financial statements have been reclassified to conform to the June 30, 2013 presentation.

3. Grants & Pledges Receivable

	<u>Due within One Year</u>	<u>Due in 1 – 5 Years</u>	<u>Total</u>
Grants & pledges receivable, at face value	\$378,377	\$182,250	\$560,627
Present value discount, at 3%	_____	(6,538)	(6,538)
Grants & pledges receivable, net	\$378,377	\$175,712	\$554,089

4. Property & Equipment

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Computers & equipment	\$58,242	(\$52,672)	\$5,570
Furniture	8,330	(8,330)	0
Leasehold improvements	<u>7,084</u>	<u>(5,879)</u>	<u>1,205</u>
Total	\$73,656	(\$66,881)	\$6,775

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2013

5. Temporarily Restricted Net Assets

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

Scholarships	\$560,667
Program support for future periods	45,500
Partnership program with Boys & Girls Club	15,000
Summer session	15,000
First Career program	9,329
Staff development	7,348
Service enterprise pilots	3,250
Other activities	<u>2,147</u>
Total temporarily restricted net assets at June 30, 2013	\$658,240

6. In-Kind Support

In-kind donations consist of the following:

Legal services	
Governance review	\$28,000
Intellectual property matters	10,650
Other legal services	6,616
Computer equipment	<u>2,953</u>
Total in-kind donations	\$48,219

7. Operating Leases

First Graduate leases its facility in the Presidio in San Francisco under an operating lease that expires in 2014. The lease agreement calls for an initial monthly rent of \$6,608 with annual increases based on the Consumer Price Index. First Graduate is also responsible for its pro rata share of property operating expenses.

First Graduate also rents program space at a nearby school under an agreement expiring in 2015. In addition, the Organization rents office equipment under various operating leases.

Future minimum rent payments are as follows:

<u>Fiscal Year Ending</u>	
June 30, 2014	77,037
June 30, 2015	<u>20,382</u>
Total future minimum lease payments	\$97,419

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2013

8. Management's Review of Subsequent Events

In preparing these financial statements, management has evaluated events for potential recognition or disclosure through January 23, 2014, the date the financial statements were available to be issued.