

First Graduate

Financial Statements &
Independent Auditor's Report
for the Year Ended
June 30, 2014



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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, 2014, 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, 2014, 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, 2013 financial statements of First Graduate and our report dated January 23, 2014 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, 2013 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 15, 2015

First Graduate
Statement of Financial Position
June 30, 2014
with Comparative Totals for June 30, 2013

	<u>6/30/14</u>	<u>6/30/13</u> (Note 2)
ASSETS		
Current Assets:		
Cash & equivalents	\$ 712,037	\$ 434,532
Grants & pledges receivable, current (Note 3)	372,735	378,377
Other receivables	4,677	-
Prepaid expenses	18,240	16,427
Total current assets	1,107,689	829,336
Grants receivable, long-term (Note 3)	130,309	175,712
Deposits	9,350	15,250
Property & equipment, net (Note 4)	21,076	6,775
TOTAL ASSETS	\$ 1,268,424	\$ 1,027,073
 LIABILITIES & NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 46,742	\$ 27,435
Accrued vacation pay	44,508	35,101
Scholarship obligation	37,000	59,000
Other liabilities	4,546	-
Total current liabilities	132,796	121,536
Deferred rent (Note 5)	19,818	-
TOTAL LIABILITIES	152,614	121,536
Net Assets		
Unrestricted	279,880	247,297
Temporarily restricted (Note 6)	835,930	658,240
TOTAL NET ASSETS	1,115,810	905,537
TOTAL LIABILITIES & NET ASSETS	\$ 1,268,424	\$ 1,027,073

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, 2014 with Comparative Totals for the Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>6/30/14 Total</u>	<u>6/30/13 Total (Note 2)</u>
Support & Revenue:				
Donations	\$ 522,697	\$ 15,000	\$ 537,697	\$ 639,190
Grants	248,291	721,499	969,790	630,414
Net assets released from restriction:				
Satisfaction of donor requirements	563,809	(563,809)	-	-
In-kind support (Note 7)	80,672		80,672	48,219
Special event, net of direct donor benefits of \$87,963 in 13/14 and \$43,522 in 12/13	260,925	5,000	265,925	223,467
Government contract			-	50,678
Miscellaneous	<u>6,673</u>		<u>6,673</u>	<u>16</u>
Total support & revenue	1,683,067	177,690	1,860,757	1,591,984
Expenses:				
Program services	1,113,862		1,113,862	1,093,680
General & administrative	261,800		261,800	211,286
Fundraising	<u>274,822</u>		<u>274,822</u>	<u>244,248</u>
Total expenses	<u>1,650,484</u>	-	<u>1,650,484</u>	<u>1,549,214</u>
 CHANGE IN NET ASSETS	 32,583	 177,690	 210,273	 42,770
NET ASSETS, July 1	<u>247,297</u>	<u>658,240</u>	<u>905,537</u>	<u>862,767</u>
NET ASSETS, June 30	<u><u>\$ 279,880</u></u>	<u><u>\$ 835,930</u></u>	<u><u>\$ 1,115,810</u></u>	<u><u>\$ 905,537</u></u>

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and independent auditor's report.

First Graduate

Statement of Functional Expenses for the Year Ended June 30, 2014 with Comparative Totals for the Year ended June 30, 2013

	Program Services	General & Administrative	Fundraising	6/30/2014 Total	6/30/2013 Total (Note 2)
Salaries	\$ 535,676	\$ 99,044	\$ 154,099	\$ 788,819	\$ 814,418
Payroll taxes	41,279	8,237	12,763	62,279	67,442
Employee benefits	54,134	9,236	11,996	75,366	81,795
Staff development	11,956	9,100	2,067	23,123	6,325
Consultants & contractors	77,846	95,917	17,390	191,153	132,728
Rent	90,998	14,882	18,983	124,863	104,784
Office supplies	9,180	6,785	4,212	20,177	7,767
Telephone	6,272	532	727	7,531	9,459
Postage	1,863	872	2,257	4,992	6,872
Printing & copying	4,699	1,942	5,728	12,369	14,526
Repairs & maintenance	6,638	1,349	1,241	9,228	9,595
Travel & meetings	21,585	1,803	958	24,346	21,112
Dues & subscriptions	1,073	2,104	2,811	5,988	6,345
Insurance	2,997	5,383	625	9,005	9,454
Books & materials	5,038			5,038	1,731
Program facility rental	21,800			21,800	20,000
Student fees & admissions	11,801			11,801	7,385
Student/mentor meals & snacks	23,633	1,817	436	25,886	13,563
Scholarships awarded	174,182			174,182	188,792
Awards & honoraria	2,992		617	3,609	4,042
Special event expenses			28,302	28,302	9,613
Depreciation	5,418	744	1,130	7,292	4,489
Other	2,802	2,053	8,480	13,335	6,977
Total Expenses	\$ 1,113,862	\$ 261,800	\$ 274,822	\$ 1,650,484	\$ 1,549,214

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, 2014 with Comparative Totals for the Year Ended June 30, 2013

	6/30/14 <u>Total</u>	6/30/13 Total <u>(Note 2)</u>
<i>Cash flows from operating activities:</i>		
Change in net assets	\$ 210,273	\$ 42,770
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	7,292	4,489
Loss on disposal of fixed assets	1,278	-
Changes in assets and liabilities:		
(Increase) decrease in grants & pledges receivable	51,045	38,812
(Increase) decrease in other receivables	(4,677)	-
(Increase) decrease in prepaid expenses & deposits	4,087	(8,561)
Increase (decrease) in accounts payable	19,307	8,780
Increase (decrease) in accrued vacation pay	9,407	(12,433)
Increase (decrease) in deferred rent	19,818	-
Increase (decrease) in scholarship obligation	(22,000)	(15,000)
Increase (decrease) in other liabilities	<u>4,546</u>	<u>-</u>
Cash provided (used) by operating activities:	300,376	58,857
<i>Cash flows from investing activities:</i>		
Purchase of fixed assets	<u>(22,871)</u>	<u>(4,927)</u>
Cash provided (used) by investing activities:	(22,871)	(4,927)
Cash provided (used) during year	277,505	53,930
Cash & cash equivalents:		
Beginning of year, July 1	<u>434,532</u>	<u>380,602</u>
End of year, June 30	<u><u>\$ 712,037</u></u>	<u><u>\$ 434,532</u></u>

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

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Notes to Financial Statements for the Year Ended June 30, 2014

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.

(continued)

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2014

(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 0.11%.

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.

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, 2014

(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) for the tax years ending in 2012, 2013 and 2014 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, 2013, 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.

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	\$372,735	\$130,500	\$503,235
Present value discount, at 3%	_____	(191)	(191)
Grants & pledges receivable, net	\$372,735	\$130,309	\$503,044

4. Property & Equipment

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Computers & equipment	\$62,319	(\$41,243)	\$21,076
Furniture	8,330	(8,330)	0
Total	\$70,649	(\$49,573)	\$21,076

5. Deferred Rent

When the Organization moved to its current premises, two months of rent were provided "free". This amount was 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.

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Notes to Financial Statements for the Year Ended June 30, 2014

6. 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	\$560,933
General operating support for future periods	155,000
To support the cost of a <i>Career Development Coach</i>	50,000
Program support for future periods	38,250
Developing partnerships with local schools	15,000
Professional development	12,350
Other activities	<u>4,397</u>
Total temporarily restricted net assets at June 30, 2014	\$835,930

7. In-Kind Support

In-kind donations consist of the following:

Legal services	
Governance review	\$36,600
Lease review	11,000
Intellectual property matters	8,804
Computer equipment	10,337
Special event donations	10,196
Space and food for program events	<u>3,735</u>
Total in-kind donations	\$80,672

8. 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 during 2014 (after a two-month rent abatement as described in Note 5), 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 as follows:

<u>Fiscal Year Ending</u>	
June 30, 2015	\$112,388
June 30, 2016	115,759
June 30, 2017	119,232
June 30, 2018	122,809
June 30, 2019	<u>72,877</u>
Total future minimum lease payments	\$543,065

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2014

9. Management's Review of Subsequent Events

In preparing these financial statements, management has evaluated events for potential recognition or disclosure through January 15, 2015, the date the financial statements were available to be issued.