

# First Graduate

Financial Statements &  
Independent Auditor's Report  
for the Year Ended  
June 30, 2018

COOK &  
COMPANY

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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, 2018, 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, 2018, 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, 2017, financial statements of First Graduate and our report dated February 15, 2018, 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, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.



A Professional Accountancy Corporation  
September 23, 2019

## First Graduate

### Statement of Financial Position June 30, 2018 with Comparative Totals for June 30, 2017

	6/30/2018 <u>Total</u>	6/30/2017 <u>(Note 2)</u>
<b>ASSETS</b>		
Current Assets:		
Cash	\$ 320,190	\$ 545,283
Grants & pledges receivable, current (Note 3)	269,380	425,000
Other receivables	4,403	18,456
Prepaid expenses & other	19,826	49,788
Total current assets	613,799	1,038,527
Grants & pledges receivable, long-term (Note 3)	498,569	272,879
Deposits	9,350	9,350
Property & equipment, net of accumulated depreciation of \$75,694 in 2018 and \$61,833 in 2017	19,208	33,069
TOTAL ASSETS	\$ 1,140,926	\$ 1,353,825
<b>LIABILITIES &amp; NET ASSETS</b>		
Current Liabilities:		
Accounts payable	\$ 12,158	\$ 1,257
Accrued vacation pay	56,691	50,517
Scholarship obligation	5,000	5,000
Deferred rent liability, current (Note 4)	11,930	12,571
Other	9,637	2,857
Total current liabilities	95,416	72,202
Deferred rent liability, long-term (Note 4)	-	8,572
TOTAL LIABILITIES	95,416	80,774
Net Assets		
Unrestricted	(230,588)	234,606
Temporarily restricted (Note 5)	1,276,098	1,038,445
TOTAL NET ASSETS	1,045,510	1,273,051
TOTAL LIABILITIES & NET ASSETS	\$ 1,140,926	\$ 1,353,825

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, 2018 with Comparative Totals for the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2018 Total</u>	<u>2017 Total (Note 2)</u>
Support & Revenue:				
Grants	\$ 358,966	\$ 862,550	\$ 1,221,516	\$ 1,053,086
Donations	535,424	2,000	537,424	1,171,368
Net assets released from restriction:				
Satisfaction of donor restrictions	636,897	(636,897)	-	-
In-kind support	-		-	7,393
Special events	241,178	10,000	251,178	225,573
Other	39,803	-	39,803	58,909
	1,812,268	237,653	2,049,921	2,516,329
Expenses:				
Program services	1,637,889		1,637,889	1,506,979
General & administrative	318,180		318,180	214,978
Fundraising	321,393		321,393	386,884
	2,277,462	-	2,277,462	2,108,841
 CHANGE IN NET ASSETS	 (465,194)	 237,653	 (227,541)	 407,488
NET ASSETS, July 1	234,606	1,038,445	1,273,051	865,563
NET ASSETS, June 30	\$ (230,588)	\$ 1,276,098	\$ 1,045,510	\$ 1,273,051

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

## First Graduate

### Statement of Functional Expenses for the Year Ended June 30, 2018 with Comparative Totals for the Year Ended June 30, 2017

	<b>Program Services</b>	<b>General &amp; Administrative</b>	<b>Fundraising</b>	<b>2018 Total</b>	<b>2017 Total (Note 2)</b>
Salaries	\$ 934,726	\$ 75,709	\$ 202,133	\$ 1,212,568	\$ 1,152,474
Payroll taxes	77,673	4,979	16,929	99,581	91,990
Employee benefits	115,831	9,267	29,343	154,441	145,711
Staff development	4,978	1,811	-	6,789	15,007
Consultants & contractors	24,565	135,928	4,251	164,744	65,512
Rent	119,906	9,766	28,404	158,076	134,363
Office supplies	7,087	14,484	6,741	28,312	17,925
Telephone	3,227	715	421	4,363	7,268
Postage	1,268	1,543	847	3,658	4,752
Printing & copying	4,323	4,221	3,985	12,529	10,043
Travel & meetings	43,106	28,893	2,624	74,623	16,729
Dues & subscriptions	13,854	15,916	6,126	35,896	30,212
Insurance	3,259	8,809	2,122	14,190	12,294
Books & materials	525	-	74	599	5,685
Program facility rental	1,128	850	-	1,978	8,707
Student fees & admissions	21,596	-	-	21,596	15,592
Student/mentor meals & snacks	13,319	2,468	1,117	16,904	22,963
Scholarships awarded	228,532	-	-	228,532	205,408
Awards & honoraria	7,939	200	157	8,296	8,728
Special event expenses	-	-	11,141	11,141	108,270
Depreciation	9,421	1,421	3,019	13,861	15,531
Other expenses	1,626	1,200	1,959	4,785	13,677
<b>Total</b>	<b>\$ 1,637,889</b>	<b>\$ 318,180</b>	<b>\$ 321,393</b>	<b>\$ 2,277,462</b>	<b>\$ 2,108,841</b>

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

## First Graduate

### Statement of Cash Flows for the Year Ended June 30, 2018 with Comparative Totals for the Year Ended June 30, 2017

	<u>2018</u>	<u>2017</u> <u>(Note 2)</u>
<b><i>Cash flows from operating activities:</i></b>		
Change in net assets	\$ (227,541)	\$ 407,488
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	13,861	15,531
Loss on disposal of fixed assets	-	-
Changes in assets and liabilities:		
(Increase) decrease in grants & pledges receivable	(70,070)	42,300
(Increase) decrease in other receivables	14,053	(6,925)
(Increase) decrease in prepaid expenses & deposits	29,962	(35,603)
Increase (decrease) in accounts payable	10,901	(58,907)
Increase (decrease) in accrued vacation pay	6,174	(6,870)
Increase (decrease) in deferred rent	(9,213)	819
Increase (decrease) in scholarship obligation	-	-
Increase (decrease) in other liabilities	6,780	(3,833)
	(225,093)	354,000
<b><i>Cash provided (used) by operating activities:</i></b>	<b>(225,093)</b>	<b>354,000</b>
<b><i>Cash flows from investing activities:</i></b>		
Purchases of capital assets	-	(16,612)
	-	(16,612)
<b><i>Cash provided (used) by investing activities:</i></b>	<b>-</b>	<b>(16,612)</b>
	(225,093)	337,388
<b>Cash provided (used) during year</b>	<b>(225,093)</b>	<b>337,388</b>
<b>Cash balance, beginning of year</b>	<b>545,283</b>	<b>207,895</b>
<b>Cash balance, end of year</b>	<b>\$ 320,190</b>	<b>\$ 545,283</b>

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

# First Graduate

## Notes to Financial Statements for the Year Ended June 30, 2018

### 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, 2018

### 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, 2018

### 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 2016 through 2019 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 2015 through 2019 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, 2017, presented for comparative purposes, is not intended to be a complete financial statement presentation. For a complete presentation of June 30, 2017, please refer to the financial statements for that year.

### Reclassification

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation.

### **3. Grants & Pledges Receivable**

<i>Current</i>	
Due within one year	\$269,380
<i>Long-term</i>	
Due in one to five years	444,690
Due beyond five years	55,000
Less: present value discount	<u>(1,121)</u>
Subtotal – long-term	498,569
Grand total	\$767,949

# First Graduate

## Notes to Financial Statements for the Year Ended June 30, 2018

### 4. Operating Leases

During fiscal year 2017-2018, the Organization rented its San Francisco office under a five-year operating lease with a January 2019 expiration date. The lease agreement established 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 \$72,877 for 2018-2019.

In connection with this lease, First Graduate received a four-month rent abatement. The "free" rent was deferred to future periods so that rent expense is properly recorded on a straight-line basis over the term of the lease. The balance of the liability will be fully amortized during 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:

College scholarships and related program support	\$1,124,098
General operating & program support for future periods	<u>152,000</u>
Total temporarily restricted net assets at June 30, 2018	\$1,276,098

### 6. Retirement Plan

First Graduate maintains a 403(b) retirement plan for its employees. Employer contributions to employee accounts were approximately \$25,757 for the year ended June 30, 2018.

### 7. Contingencies

#### Liquidity Issues

As of June 30, 2018, the Organization's unrestricted net asset balance was negative, meaning that liabilities exceed the Organization's available assets. As such, First Graduate has borrowed from its temporarily restricted net assets to cover its immediate cash flow needs. This borrowing will need to be repaid through future unrestricted revenue and support.

#### Satisfaction of Donor Requirements

First Graduate receives contributions 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 contributions that have been released from temporarily restricted net assets or recorded directly to unrestricted net assets.

#### Concentration of Cash Deposits

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, 2018**

### **8. Management's Review of Subsequent Events**

In preparing these financial statements, management has evaluated events for potential recognition or disclosure through September 23, 2019, the date the financial statements were available to be issued.