

First Graduate

Financial Statements &
Independent Auditor's Report
for the Year Ended
June 30, 2020

COOK &
COMPANY

A PROFESSIONAL ACCOUNTANCY CORPORATION

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	3
FINANCIAL STATEMENTS	5
Statement of Financial Position	5
Statement of Activities and Changes in Net Assets.....	6
Statement of Functional Expenses	7
Statement of Cash Flows	8
Notes to Financial Statements.....	9



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, 2020, 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.

(continued on next page)

(continued from previous page)

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, 2020, 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, 2019, financial statements of First Graduate and our report dated May 12, 2020, 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, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.



A Professional Accountancy Corporation
San Francisco, California
April 14, 2021

First Graduate

Statement of Financial Position June 30, 2020 with Comparative Totals for June 30, 2019

	6/30/2020	6/30/2019 (Note 2)
ASSETS		
Current Assets:		
Cash & cash equivalents	\$ 927,557	\$ 310,032
Grants & pledges receivable, current (Note 3)	160,000	267,251
Government grants receivable	8,716	-
Other receivables	4,115	8,840
Prepaid expenses & other	3,250	-
Total current assets	1,103,638	586,123
Grants & pledges receivable, long-term (Note 3)	112,086	219,086
Deposits	6,500	6,500
Property & equipment, net (Note 4)	30,440	9,663
TOTAL ASSETS	\$ 1,252,664	\$ 821,372
LIABILITIES & NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 24,766	\$ 38,638
Accrued vacation pay	31,714	42,247
Deferred rent liability, current (Note 5)	2,075	-
Other	6,937	264
Total current liabilities	65,492	81,149
Forgivable government loan (Note 2)	167,400	-
Deferred rent liability, long-term (Note 5)	18,460	20,235
TOTAL LIABILITIES	251,352	101,384
Net Assets		
Without donor restrictions	235,187	(54,353)
With donor restrictions (Note 6)	766,125	774,341
TOTAL NET ASSETS	1,001,312	719,988
TOTAL LIABILITIES & NET ASSETS	\$ 1,252,664	\$ 821,372

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, 2020 with Comparative Totals for the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total (Note 2)
Support & Revenue:				
Foundation & corporate grants	\$ 526,017	\$ 815,228	\$ 1,341,245	\$ 1,038,152
Donations	121,621	-	121,621	239,687
Government grants	53,324		53,324	42,998
Net assets released from restriction:				
Satisfaction of donor restrictions	823,444	(823,444)	-	-
Special events - contributions	101,254	-	101,254	198,975
Special events - fair value portion	5,550		5,550	
Less: Direct event expenses	(5,258)		(5,258)	(50,800)
Other	53,592	-	53,592	55,804
Total support & revenue	1,679,544	(8,216)	1,671,328	1,524,816
Expenses:				
Program services	811,289		811,289	1,262,635
Management & general	318,204		318,204	379,514
Fundraising	260,511		260,511	208,189
Total expenses	1,390,004	-	1,390,004	1,850,338
CHANGE IN NET ASSETS	289,540	(8,216)	281,324	(325,522)
NET ASSETS, July 1	(54,353)	774,341	719,988	1,045,510
NET ASSETS, June 30	<u>\$ 235,187</u>	<u>\$ 766,125</u>	<u>\$ 1,001,312</u>	<u>\$ 719,988</u>

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

First Graduate

Statement of Functional Expenses for the Year Ended June 30, 2020 with Comparative Totals for the Year Ended June 30, 2019

	Program Services	Management & General	Fundraising	2020 Total	2019 Total (Note 2)
Salaries	\$ 394,793	\$ 120,959	\$ 131,552	\$ 647,304	\$ 1,034,185
Payroll taxes	31,368	9,610	10,452	51,430	78,636
Employee benefits	38,458	11,792	14,753	65,003	90,002
Staff development	170	-	40	210	2,772
Accounting services	-	65,014	-	65,014	51,868
Legal fees	-	85	-	85	1,850
Information technology support	5,529	10,512	8,455	24,496	-
Marketing consultants	-	-	36,912	36,912	2,670
Other fees for services	4,003	1,297	29,053	34,353	83,881
Rent & utilities	48,940	45,873	12,254	107,067	116,415
Office supplies	250	2,907	2,283	5,440	6,267
Telephone	1,651	536	413	2,600	5,200
Postage	200	353	15	568	2,423
Printing & copying	-	7,480	2,406	9,886	8,087
Travel & meetings	3,533	900	79	4,512	13,951
Dues & subscriptions	24,517	11,828	9,593	45,938	41,836
Insurance	6,558	2,127	1,642	10,327	9,977
Books & materials	709	-	-	709	4,488
Student fees & admissions	9,600	-	-	9,600	7,990
Student/mentor meals & snacks	2,758	-	37	2,795	7,364
Scholarships awarded	232,406	-	-	232,406	232,371
Awards & honoraria	3,426	178	-	3,604	837
Special event production	-	-	5,258	5,258	50,800
Depreciation	2,163	702	542	3,407	9,545
Other expenses	257	26,051	30	26,338	37,723
Total expenses by function	\$ 811,289	\$ 318,204	\$ 265,769	\$ 1,395,262	\$ 1,901,138
Less expenses included with revenues on the statement of activities					
Direct expenses of fundraising events			(5,258)	(5,258)	(50,800)
Total expenses included in the expense section on the statement of activities	\$ 811,289	\$ 318,204	\$ 260,511	\$ 1,390,004	\$ 1,850,338

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

First Graduate

Statement of Cash Flows for the Year Ended June 30, 2020 with Comparative Totals for the Year Ended June 30, 2019

	2020	2019 (Note 2)
<i>Cash flows from operating activities:</i>		
Change in net assets	\$ 281,324	\$ (325,522)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	3,407	9,545
Amortization of deferred rent	300	8,305
Loss on disposal of fixed assets		(2,850)
Changes in assets and liabilities:		
(Increase) decrease in grants & pledges receivable	214,251	281,612
(Increase) decrease in government grants receivable	(8,716)	-
(Increase) decrease in other receivables	4,725	(1,587)
(Increase) decrease in prepaid expenses & deposits	(3,250)	22,676
Increase (decrease) in accounts payable	(13,872)	21,480
Increase (decrease) in accrued vacation pay	(10,533)	(14,444)
Increase (decrease) in other liabilities	6,673	(9,373)
Cash provided (used) by operating activities:	474,309	(10,158)
<i>Cash flows from investing activities:</i>		
Purchases of capital assets	(24,184)	-
Cash provided (used) by investing activities:	(24,184)	-
<i>Cash flows from financing activities:</i>		
Cash proceeds from PPP loan	167,400	-
Cash provided (used) by financing activities:	167,400	-
Cash provided (used) during year	617,525	(10,158)
Cash & cash equivalents balance, beginning of year	310,032	320,190
Cash & cash equivalents balance, end of year	\$ 927,557	\$ 310,032

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

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2020

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

Contributions are 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.

Cash & Cash Equivalents

Cash and cash equivalents consist of funds held in a bank checking account, as well as undeposited checks.

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 \$1,000. Purchased items are stated at cost, while

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2020

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 7 years for fixed assets currently on the books.

Forgivable Government Loan

In connection with economic uncertainties resulting from the Coronavirus pandemic, First Graduate applied for and received a forgivable loan from through the U.S. Small Business Administration's Paycheck Protection Program (PPP). Nonprofit organizations have the option of treating the funding from this program as a conditional government grant in accordance with ASC 958 or as debt in accordance with ASC 470. Because the Organization has elected the latter method, the total amount received is presented as a long-term liability on the *statement of financial position*. Any amounts forgiven at a future date will be recognized as revenue on the date when the formal act of forgiveness occurs. Any amounts not forgiven must be repaid during the fiscal year ending June 30, 2022.

Net Assets

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:

Net assets without donor restrictions, which includes resources not subject to, or no longer subject to, donor-imposed stipulations.

Net assets with donor restrictions, which includes resources whose use is limited by donor-imposed time and/or purpose restrictions.

Recognition of Contributions

The Organization recognizes contributions when it receives cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest.

Contributions are reported as increases in *net assets without donor restrictions* unless use of the contributed assets is limited by donor-imposed stipulations. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in *net assets without donor restrictions* unless they are encumbered by explicit donor stipulation or by law. Expirations of donor-restrictions (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time-period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met. The Organization's contracts with government agencies are conditioned upon certain performance requirements and the incurrence of allowable qualifying expenses. Consequently, at June 30, 2020, conditional contributions approximating \$130,000, for which no amounts had been received in advance, have not been recognized in the accompanying financial statements.

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.

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2020

Functional Expenses

The Organization presents its expenses by function and natural category. *Program services* include the direct conduct and direct supervision of specific program activities. *Fundraising* includes efforts to solicit monetary and nonmonetary contributions. *Management & general* includes general oversight, recordkeeping, regulatory compliance, governance, financial management, and all other activities that do not constitute the direct conduct or direct supervision of specific program services or fundraising activities.

During the course of preparing the Organization's annual financial statements, management estimates the percentages of time that each employee has spent on each function over the course of the past year. These estimates are used to allocate each employee's compensation amongst the *program services*, *management & general*, and *fundraising* columns of the *statement of functional expenses*. Overall time and effort percentages are then developed for the agency as a whole and used to allocate rent and other shared facility costs amongst the three major functions.

Other expenses are charged directly to the appropriate function based on specific identification. All advertising costs are expensed as incurred.

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 2017 through 2020 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 2016 through 2020 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.

Upcoming Accounting Pronouncement

Accounting Standards Update No. 2014-09— *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09) was issued by the Financial Accounting Standards Board (FASB) in May 2014 and is effective for nonpublic entities in calendar years ending in 2020 and beyond.

This update supersedes or replaces nearly all GAAP revenue recognition guidance for reciprocal transactions. These standards establish a new five-step contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. The enactment of this pronouncement will be reflected in the Organization's financial statements for the year ending June 30, 2021.

New Accounting Pronouncement in Effect

These financial statements reflect the provisions Accounting Standards Update No. 2018-08— *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Made and Contributions Received* (ASU 2018-08), which the FASB enacted in June 2018 in response to concerns and questions relating to the applicability of ASU 2014-09 to nonprofit organizations.

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2020

This update provides enhanced guidance to assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal) or exchange transactions (reciprocal) and (2) determining whether a contribution is conditional. The update will result in more governmental contracts being accounted for as contributions and may delay recognition for certain grants and contributions that no longer meet the definition of unconditional. This pronouncement is effective for calendar years ending in 2019 and beyond. There is no effect on the Organization's beginning net assets in connection with the enactment of ASU 2018-08.

Comparative Data

The financial statement information for the year ended June 30, 2019, presented for comparative purposes, is not intended to be a complete financial statement presentation. For a complete presentation of June 30, 2019, please refer to the financial statements for that year.

Reclassification

Certain amounts in the 2019 financial statements have been reclassified to conform to the 2020 presentation.

3. Grants & Pledges Receivable

<i>Current</i>	
Due within one year	\$160,000
<i>Long-term</i>	
Due in one to five years	114,000
Less: present value discount @ 0.45%	<u>(1,914)</u>
Subtotal – long-term	112,086
Grand total	\$272,086

4. Property & Equipment

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Computers & equipment	\$40,349	\$24,711	\$15,638
Furnishings	<u>32,105</u>	<u>17,303</u>	<u>14,802</u>
Total	\$72,454	\$42,014	\$30,440

5. Operating Leases

The Organization rents its San Francisco office under a 63-month operating lease which commenced in January 2019. The lease agreement established minimum monthly rent at \$6,500, followed by annual increases of approximately 3% for the duration of the lease term. The lease contains a three-month rent abatement which has been deferred to future periods so that rent expense is properly recognized on a straight-line basis over the term of the lease. The current portion of the liability (\$2,075) will be amortized during 2020-2021, while the non-current portion (\$18,460) will be amortized in 2021-2024.

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2020

The lease also calls for the tenant's pro rata share of increases in building insurance and property taxes.

In addition, the Organization rents a copier under a five-year operating lease which commenced in January 2019. Future minimum rental payments under both leases are as follows:

<u>Year ending June 30:</u>	
2021	\$84,029
2022	86,475
2023	88,995
2024	<u>67,743</u>
Total	\$327,242

6. Net Assets with Donor Restrictions

The balance of *net assets with donor restrictions* represents contributions to First Graduate that have been restricted for a specific purpose or time period. Details are as follows:

College scholarships and related program support	\$419,125
General operating & program support for future periods	<u>347,000</u>
Total net assets with donor restrictions	\$766,125

7. Retirement Plan

First Graduate maintains a 403(b) retirement savings plan for its employees. There were no employer contributions to employee accounts for the year ended June 30, 2020.

8. Contingencies

COVID-19

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may impact the Organization's ability to conduct program activities or raise contributions. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration. As such, the financial impact of this situation cannot be reasonably estimated at this time.

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 requirements have been met for contributions that have been released from *net assets with donor restrictions* or recorded directly to *net assets without donor restrictions*.

Concentration of Cash Deposits

First Graduate maintains its cash within a single 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, 2020

9. Liquidity & Availability of Financial Assets

First Graduate regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. First Graduate has various sources of liquidity at its disposal, including cash and cash equivalents, and lines of credit.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, First Graduate considers all expenditures related to its ongoing activities of supporting college access and persistence, youth development, research, and public service as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, First Graduate operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Refer to the statement of cash flows which identifies the sources and uses of the Organization's cash and shows positive cash generated by operations for fiscal year 2020.

As of June 30, 2020, the following table shows the total financial assets held by First Graduate and the amounts of those financial assets could readily be made available within one year of the balance sheet date to meet general expenditures:

Cash & equivalents	\$927,557
Grants & pledges receivable	160,000
Government grant receivable	8,716
Other receivables	<u>4,115</u>
Total	\$1,100,388

10. Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through April 14, 2021, the date the financial statements were available to be issued.