

First Graduate

Financial Statements &
Independent Auditor's Report
for the Year Ended
June 30, 2021

COOK &
COMPANY

A PROFESSIONAL ACCOUNTANCY CORPORATION

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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, 2021, 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.

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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, 2021, 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, 2020, financial statements of First Graduate and our report dated April 14, 2021, 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, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.



A Professional Accountancy Corporation
San Francisco, California
November 29, 2021

First Graduate

Statement of Financial Position June 30, 2021 with Comparative Totals for June 30, 2020

	<u>6/30/2021</u>	<u>6/30/2020</u> (Note 2)
ASSETS		
Current Assets:		
Cash & cash equivalents	\$ 1,257,391	\$ 927,557
Grants & pledges receivable, current (Note 3)	311,837	160,000
Government grants receivable	6,721	8,716
Other receivables	-	4,115
Prepaid expenses & other	11,787	3,250
Total current assets	<u>1,587,736</u>	<u>1,103,638</u>
Grants & pledges receivable, long-term (Note 3)	133,180	112,086
Deposits	6,500	6,500
Property & equipment, net (Note 4)	15,593	30,440
TOTAL ASSETS	<u>\$ 1,743,009</u>	<u>\$ 1,252,664</u>
LIABILITIES & NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 11,138	\$ 24,766
Accrued vacation pay	56,288	31,714
Deferred rent liability, current (Note 5)	4,521	2,075
Other	1,325	6,937
Total current liabilities	<u>73,272</u>	<u>65,492</u>
Long-term debt (Note 6)	168,093	167,400
Deferred rent liability, long-term (Note 5)	13,939	18,460
TOTAL LIABILITIES	255,304	251,352
Net Assets		
Without donor restrictions	831,075	235,187
With donor restrictions (Note 7)	656,630	766,125
TOTAL NET ASSETS	<u>1,487,705</u>	<u>1,001,312</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$ 1,743,009</u>	<u>\$ 1,252,664</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, 2021 with Comparative Totals for the Year Ended June 30, 2020

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total (Note 2)
Support & Revenue:				
Foundation & corporate grants	\$ 561,031	\$ 849,303	\$ 1,410,334	\$ 1,341,245
Donations	91,012	-	91,012	121,621
Government grants	45,619	-	45,619	53,324
In-kind support	2,625	-	2,625	-
Net assets released from restriction:				
Satisfaction of donor restrictions	958,798	(958,798)	-	-
Special events - contributions	140,990	-	140,990	101,254
Special events - fair value portion	9,320	-	9,320	5,550
Less: Direct event expenses	(20,238)	-	(20,238)	(5,258)
Forgiveness of debt	169,096	-	169,096	-
Other income	34,410	-	34,410	53,592
Total support & revenue	1,992,663	(109,495)	1,883,168	1,671,328
Expenses:				
Program services	861,595	-	861,595	811,289
Management & general	294,408	-	294,408	318,204
Fundraising	240,772	-	240,772	260,511
Total expenses	1,396,775	-	1,396,775	1,390,004
CHANGE IN NET ASSETS	595,888	(109,495)	486,393	281,324
NET ASSETS, July 1	235,187	766,125	1,001,312	719,988
NET ASSETS, June 30	\$ 831,075	\$ 656,630	\$ 1,487,705	\$ 1,001,312

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

First Graduate

Statement of Functional Expenses for the Year Ended June 30, 2021 with Comparative Totals for the Year Ended June 30, 2020

	Program Services	Management & General	Fundraising	2021 Total	2020 Total (Note 2)
Salaries	\$ 470,845	\$ 100,092	\$ 148,586	\$ 719,523	\$ 647,304
Payroll taxes	39,371	8,253	11,991	59,615	51,430
Employee benefits	52,072	9,290	11,325	72,687	65,003
Staff development	1,931	721	300	2,952	210
Accounting services	-	60,545	-	60,545	65,014
Legal fees	-	-	-	-	-
Information technology support	-	6,480	-	6,480	24,496
Marketing consultants	-	-	32,177	32,177	36,912
Other fees for services	14,842	164	820	15,826	34,353
In-kind professional services	-	2,000	-	2,000	-
Rent & utilities	52,132	32,423	9,976	94,531	107,067
Office supplies	9,336	2,361	2,544	14,241	5,440
Telephone	4,614	1,594	-	6,208	2,600
Postage	14	-	7,435	7,449	568
Printing & copying	-	2,638	-	2,638	9,886
Travel & meetings	4,366	554	125	5,045	4,512
Dues & subscriptions	1,777	21,046	4,020	26,843	45,938
Insurance	7,780	2,257	1,489	11,526	10,327
Books & materials	3,979	-	-	3,979	709
Student fees & admissions	4,924	-	-	4,924	9,600
Student/mentor meals & snacks	-	-	-	-	2,795
Scholarships awarded	177,172	-	-	177,172	232,406
Awards & honoraria	6,010	-	-	6,010	3,604
Special event production	-	-	28,097	28,097	5,258
Depreciation	10,022	2,907	1,918	14,847	3,407
Bad debt expense	-	11,955	-	11,955	-
Other expenses	408	29,128	207	29,743	26,423
Total expenses by function	\$ 861,595	\$ 294,408	\$ 261,010	\$ 1,417,013	\$ 1,395,262
Less expenses included with revenues on the statement of activities					
Direct expenses of fundraising events			(20,238)	(20,238)	(5,258)
Total expenses included in the expense section on the statement of activities	\$ 861,595	\$ 294,408	\$ 240,772	\$ 1,396,775	\$ 1,390,004

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

First Graduate

Statement of Cash Flows for the Year Ended June 30, 2021 with Comparative Totals for the Year Ended June 30, 2020

	2021	2020 (Note 2)
<i>Cash flows from operating activities:</i>		
Change in net assets	\$ 486,393	\$ 281,324
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Forgiveness of debt	(169,096)	-
Interest accrued on forgivable government loan	2,389	-
Depreciation expense	14,847	3,407
Amortization of deferred rent	(2,075)	300
Changes in assets and liabilities:		
(Increase) decrease in grants & pledges receivable	(172,931)	214,251
(Increase) decrease in government grants receivable	1,995	(8,716)
(Increase) decrease in other receivables	4,115	4,725
(Increase) decrease in prepaid expenses & deposits	(8,537)	(3,250)
Increase (decrease) in accounts payable	(13,628)	(13,872)
Increase (decrease) in accrued vacation pay	24,574	(10,533)
Increase (decrease) in other liabilities	(5,612)	6,673
Cash provided (used) by operating activities:	162,434	474,309
<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 forgivable government loan	167,400	167,400
Cash provided (used) by financing activities:	167,400	167,400
Cash provided (used) during year	329,834	617,525
Cash & cash equivalents balance, beginning of year	927,557	310,032
Cash & cash equivalents balance, end of year	\$ 1,257,391	\$ 927,557

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

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2021

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's program is designed to help ensure that students 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 computers, other office equipment and furnishings with an initial cost of at least \$1,500. 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

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2021

method over the estimated useful lives of the respective assets, which range from 3 to 7 years for fixed assets currently on the books.

Long-Term Debt

Long-term debt consists of forgivable loans received from the Paycheck Protection Program (PPP) through the U.S. Small Business Administration. 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 long-term debt on the *statement of financial position*.

One loan was received in early 2020 and subsequently forgiven during the fiscal year ending June 30, 2021. This loan was recognized as *forgiveness of debt* on the *statement of activities*. A second loan was received in early 2021 and is reflected as long-term debt on the *statement of financial position*. The second loan was subsequently forgiven in July 2021 and will be recognized as revenue in the financial statements for the 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, 2021, conditional contributions approximating \$83,000, 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, 2021

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 2018 through 2021 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 999) filings for the tax years ending in 2017 through 2021 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.

New Accounting Pronouncements

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 is reflected in the Organization's financial statements for the year ended June 30, 2021. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis.

These financial statements also 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

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2021

June 2018 in response to concerns and questions relating to the applicability of ASU 2014-09 to nonprofit organizations.

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.

Comparative Data

The financial statement information for the year ended June 30, 2020, presented for comparative purposes, is not intended to be a complete financial statement presentation. For a complete presentation of June 30, 2020, please refer to the financial statements for that year.

Reclassification

Certain amounts in the 2020 financial statements have been reclassified to conform to the 2021 presentation.

3. Grants & Pledges Receivable

Current

Due within one year	\$311,837
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Long-term

Due in one to five years	135,000
Less: present value discount @ 0.45%	<u>(1,820)</u>
Subtotal – long-term	133,180

Grand total	\$445,017
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4. Property & Equipment

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Furnishings	\$31,477	\$24,313	\$7,164
Computers & equipment	<u>15,780</u>	<u>7,351</u>	<u>8,429</u>
Total	\$47,257	\$31,664	\$15,593

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 (\$4,521) will be amortized during 2021-2022, while the non-current portion (\$13,939) will be amortized in 2022-2024.

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2021

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.

The combined future minimum rental payments under the office lease and copier lease are as follows:

<u>Year ending June 30:</u>	
2022	\$86,475
2023	88,995
2024	<u>67,743</u>
Total	\$243,213

6. Long-Term Debt

Long-term debt consists of a Paycheck Protection Program loan that originated in early 2021. Under the terms of the promissory note, any principal that is not forgiven shall be repaid within five years and interest shall accrue at an annual rate of 1%. The future scheduled maturities as of June 30, 2021, were as follows:

<u>Year ending June 30:</u>	
2023	\$47,924
2024	46,149
2025	46,613
2026	<u>27,407</u>
Total	\$168,093

This loan was subsequently forgiven in July 2021.

7. 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	\$381,851
General operating & program support for future periods	<u>274,779</u>
Total	\$656,630

8. 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, 2021.

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2021

9. 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.

10. 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 a credit card.

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 and 2021.

As of June 30, 2021, 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	\$1,257,391
Grants & pledges receivable	311,837
Government grant receivable	<u>6,721</u>
Total	\$1,575,949

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2021

11. Subsequent Events

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through November 29, 2021, the date the financial statements were available to be issued.