

First Graduate

Financial Statements &
Independent Auditor's Report
for the Year Ended
June 30, 2019

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, 2019, 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)

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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, 2019, 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, 2018, financial statements of First Graduate and our report dated September 23, 2019, 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, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.



A Professional Accountancy Corporation
San Francisco, California
May 12, 2020

First Graduate

Statement of Financial Position June 30, 2019 with Comparative Totals for June 30, 2018

	6/30/2019	6/30/2018 (Note 2)
ASSETS		
Current Assets:		
Cash & cash equivalents	\$ 310,032	\$ 320,190
Grants & pledges receivable, current (Note 3)	267,251	269,380
Other receivables	8,840	4,403
Prepaid expenses & other	-	19,826
Total current assets	586,123	613,799
Grants & pledges receivable, long-term (Note 3)	219,086	498,569
Deposits	6,500	9,350
Property & equipment, net of accumulated depreciation of \$38,607 in 2019 and \$75,694 in 2018	9,663	19,208
TOTAL ASSETS	\$ 821,372	\$ 1,140,926
LIABILITIES & NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 38,638	\$ 17,158
Accrued vacation pay	42,247	56,691
Deferred rent liability, current (Note 4)	-	11,930
Other	264	9,637
Total current liabilities	81,149	95,416
Deferred rent liability, long-term (Note 4)	20,235	-
TOTAL LIABILITIES	101,384	95,416
Net Assets		
Without donor restrictions	(54,353)	(230,588)
With donor restrictions (Note 5)	774,341	1,276,098
TOTAL NET ASSETS	719,988	1,045,510
TOTAL LIABILITIES & NET ASSETS	\$ 821,372	\$ 1,140,926

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, 2019 with Comparative Totals for the Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total (Note 2)
Support & Revenue:				
Foundation & corporate grants	\$ 674,042	\$ 364,110	\$ 1,038,152	\$ 1,221,516
Donations	239,687	-	239,687	537,424
Government grants	42,998		42,998	-
Net assets released from restriction:				
Satisfaction of donor restrictions	865,867	(865,867)	-	-
Special events	198,975	-	198,975	251,178
Less: Direct event expenses	(50,800)		(50,800)	(38,774)
Other	55,804	-	55,804	39,803
Total support & revenue	2,026,573	(501,757)	1,524,816	2,011,147
Expenses:				
Program services	1,262,635		1,262,635	1,637,889
Management & general	379,514		379,514	318,180
Fundraising	208,189		208,189	282,619
Total expenses	1,850,338	-	1,850,338	2,238,688
CHANGE IN NET ASSETS	176,235	(501,757)	(325,522)	(227,541)
NET ASSETS, July 1	(230,588)	1,276,098	1,045,510	1,273,051
NET ASSETS, June 30	\$ (54,353)	\$ 774,341	\$ 719,988	\$ 1,045,510

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

First Graduate

Statement of Functional Expenses for the Year Ended June 30, 2019 with Comparative Totals for the Year Ended June 30, 2018

	Program Services	Management & General	Fundraising	2019 Total	2018 Total (Note 2)
Salaries	\$ 740,443	\$ 165,780	\$ 127,962	\$ 1,034,185	\$ 1,212,568
Payroll taxes	56,301	12,605	9,730	78,636	99,581
Employee benefits	64,727	14,306	10,969	90,002	154,441
Staff development	212	2,560	-	2,772	6,789
Consultants & contractors	8,720	89,484	42,065	140,269	164,744
Rent & utilities	88,442	19,964	8,009	116,415	160,054
Office supplies	3,121	2,515	631	6,267	28,312
Telephone	3,962	879	359	5,200	4,363
Postage	340	1,211	872	2,423	3,658
Printing & copying	212	5,965	1,910	8,087	12,529
Travel & meetings	13,091	532	328	13,951	46,990
Dues & subscriptions	15,108	23,148	3,580	41,836	35,896
Insurance	7,602	1,686	689	9,977	14,190
Books & materials	4,337	-	151	4,488	599
Student fees & admissions	7,990	-	-	7,990	21,596
Student/mentor meals & snacks	7,336	28	-	7,364	16,904
Scholarships awarded	232,371	-	-	232,371	228,532
Awards & honoraria	574	-	263	837	8,296
Special event production	-	-	50,800	50,800	38,774
Depreciation	7,274	1,613	658	9,545	13,861
Other expenses	472	37,238	13	37,723	4,785
Total expenses by function	<u>\$ 1,262,635</u>	<u>\$ 379,514</u>	<u>\$ 258,989</u>	<u>\$ 1,901,138</u>	<u>\$ 2,277,462</u>
Less expenses included with revenues on the statement of activities					
Direct expenses of fundraising events			(50,800)	(50,800)	(38,774)
Total expenses included in the expense section on the statement of activities	<u>\$ 1,262,635</u>	<u>\$ 379,514</u>	<u>\$ 208,189</u>	<u>\$ 1,850,338</u>	<u>\$ 2,238,688</u>

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

First Graduate

Statement of Cash Flows for the Year Ended June 30, 2019 with Comparative Totals for the Year Ended June 30, 2018

	2019	2018 (Note 2)
<i>Cash flows from operating activities:</i>		
Change in net assets	\$ (325,522)	\$ (227,541)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	9,545	13,861
Amortization of deferred rent	8,305	(9,213)
Loss on disposal of fixed assets	(2,850)	-
Changes in assets and liabilities:		
(Increase) decrease in grants & pledges receivable	281,612	(70,070)
(Increase) decrease in other receivables	(1,587)	14,053
(Increase) decrease in prepaid expenses & deposits	22,676	29,962
Increase (decrease) in accounts payable	21,480	10,901
Increase (decrease) in accrued vacation pay	(14,444)	6,174
Increase (decrease) in other liabilities	(9,373)	6,780
	(10,158)	(225,093)
Cash provided (used) by operating activities:	(10,158)	(225,093)
Cash provided (used) during year	(10,158)	(225,093)
Cash & cash equivalents balance, beginning of year	320,190	545,283
Cash & cash equivalents balance, end of year	\$ 310,032	\$ 320,190

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

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2019

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.

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:

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.

Revenue and support are reported as increases in *net assets without donor restrictions* unless use of the contributed assets is limited by donor-imposed stipulations. All expenses, including those funded by restricted contributions, are reported as decreases in *net assets without donor restrictions*. 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

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2019

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.

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 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.

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

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

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2019

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.

New Accounting Pronouncement

These financial statements reflect the provisions of Accounting Standards Update No. 2016-14—*Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14), which was issued by the Financial Accounting Standards Board (FASB) in August 2016 and effective for calendar years ending in 2019 and beyond.

This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return amongst not-for-profit entities. A key change required by ASU 2016-14 is the net asset class captions displayed in not-for-profit financial statements. Amounts previously reported as *unrestricted net assets* are now reported as *net assets without donor restrictions*, and amounts previously reported as *temporarily restricted net assets* and *permanently restricted net assets* are now reported as *net assets with donor restrictions*. A footnote on liquidity has also been added (Note 8).

Comparative Data

The financial statement information for the year ended June 30, 2018, presented for comparative purposes, is not intended to be a complete financial statement presentation. For a complete presentation of June 30, 2018, please refer to the financial statements for that year.

Reclassification

Certain amounts in the 2019 financial statements have been reclassified to conform to the 2018 presentation.

3. Grants & Pledges Receivable

<i>Current</i>	
Due within one year	\$267,251
<i>Long-term</i>	
Due in one to five years	214,000
Due beyond five years	7,000
Less: present value discount	(1,914)
Subtotal – long-term	219,086
Grand total	\$486,337

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2019

4. 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 balance of the liability was \$20,235 as of June 30, 2019.

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>	
2020	\$81,654
2021	84,029
2022	86,475
2023	88,995
2024	<u>67,743</u>
Total	\$408,896

5. 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	\$464,341
General operating & program support for future periods	<u>310,000</u>
Total net assets with donor restrictions	\$774,341

6. Retirement Plan

First Graduate maintains a 403(b) retirement savings plan for its employees. Employer contributions to employee accounts were approximately \$1,294 for the year ended June 30, 2019.

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2019

7. Contingencies

Liquidity Issues

As of June 30, 2019, the Organization's balance of *net assets without donor restrictions* was negative, meaning that liabilities exceed the Organization's available unrestricted assets. As such, First Graduate has borrowed from its *net assets with donor restrictions* 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 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 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.

8. 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 held in bank checking accounts.

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 youth development 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 strives to operate 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 for fiscal years 2018 and 2019.

Financial assets available to meet cash needs for general expenditures within one year are as follows:

Cash & equivalents	\$310,032
Grants & pledges receivable	267,251
Other receivables	<u>8,840</u>
Total	\$586,123

First Graduate

Notes to Financial Statements for the Year Ended June 30, 2019

9. Subsequent Events

In preparing these financial statements, management has evaluated events for potential recognition or disclosure through May 12, 2020, the date the financial statements were available to be issued. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which are likely to negatively impact the Organization's ability to hold fundraising events or raise other forms of contributions. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration.

First Graduate has applied for and received a loan of approximately \$167,000 from the federal government's Payroll Protection Program (PPP) to partially offset the financial impact of this crisis, which cannot be reasonably estimated at this time.