

10,000 DEGREES

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



TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	3
FINANCIAL STATEMENTS	4
Statement of Financial Position	4
Statement of Activities and Changes in Net Assets.....	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to Financial Statements.....	8



Independent Auditor's Report

To the Board of Directors
10,000 Degrees
San Rafael, California

We have audited the accompanying financial statements of 10,000 Degrees (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, the related statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including an assessment of the risks of the material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of 10,000 Degrees as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the June 30, 2013 financial statements of 10,000 Degrees and our report dated August 22, 2013 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in blue ink that reads "Cook & Company". The signature is written in a cursive, flowing style.

Cook & Company
Certified Public Accountant
September 11, 2014

10,000 Degrees

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

ASSETS	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>6/30/14 Total</u>	<u>6/30/13 Total (Note 2)</u>
Current Assets:					
Cash & cash equivalents	\$476,036	\$3,449,881		\$3,925,917	\$3,268,961
Investment - certificates of deposit	610,449			610,449	610,434
Grants & contributions receivable - current (Note 4)	148,275	1,329,650		1,477,925	1,679,477
Due from related party	192,390	329,490		521,880	437,000
Other receivables	469			469	26,099
Prepaid expenses	65,696			65,696	81,793
Beneficial interest in assets held by Marin					
Community Foundation - current portion (Note 2)		70,969		70,969	65,857
Total current assets	1,493,315	5,179,990	0	6,673,305	6,169,621
Cash held for long-term investment			\$23,374	23,374	37,492
Grants & contributions receivable - long-term (Note 4)		328,207		328,207	144,193
Due from related party - long-term				0	253,807
Beneficial interest in assets held by Marin					
Community Foundation (Note 2)	19,646	101,870	1,226,900	1,348,416	1,251,285
Deposits	13,043			13,043	16,700
Property & equipment, net (Note 5)	74,522			74,522	49,565
Intangible assets, net (Note 6)	46,586			46,586	45,325
TOTAL ASSETS	\$1,647,112	\$5,610,067	\$1,250,274	\$8,507,453	\$7,967,988
LIABILITIES & NET ASSETS					
Current Liabilities:					
Education grants & scholarships payable (Note 16)	\$348,700			\$348,700	\$586,500
Due to related party (Note 15)	45,929			45,929	45,929
Accounts payable	116,243			116,243	123,039
Accrued vacation pay	69,765			69,765	60,930
Deferred rent - current portion	0			0	16,034
Total current liabilities	580,637	0	0	580,637	832,432
Deferred rent (Note 7)	37,220			37,220	0
TOTAL LIABILITIES	617,857	0	0	617,857	832,432
Net Assets:					
Unrestricted (Note 8)	1,029,255			1,029,255	1,125,895
Temporarily restricted (Note 9)		\$5,610,067		5,610,067	4,777,161
Permanently restricted (Note 11)			\$1,250,274	1,250,274	1,232,500
NET ASSETS	1,029,255	\$5,610,067	\$1,250,274	7,889,596	7,135,556
TOTAL LIABILITIES & NET ASSETS	\$1,647,112	\$5,610,067	\$1,250,274	\$8,507,453	\$7,967,988

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

10,000 Degrees

Statement of Activity and Changes in Net Assets for the Year Ended June 30, 2014 with Comparative Totals for the Year Ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>6/30/14 Total</u>	<u>6/30/13 Total (Note 2)</u>
Support & revenue:					
Grants & donations	\$767,533	\$3,495,700	\$10,000	\$4,273,233	\$3,470,763
Related party support-Marin Community Foundation					
Child Care Scholarship Fund		420,243		420,243	408,460
Donor-advised and other funds	351,427	1,104,433		1,455,860	627,226
Net assets released from restriction:					
Satisfaction of donor requirements (Note 10)	4,308,955	(4,308,955)		0	0
In-kind contributions	6,251			6,251	7,314
Special events, net of direct expenses of \$92,704 in 2014 and \$103,236 in 2013	417,596			417,596	372,880
Change in value of beneficial interest in assets held by Marin Community Foundation	40,321	121,485	7,774	169,580	116,357
Other income	2,496			2,496	7,106
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total support & revenue	5,894,579	832,906	17,774	6,745,259	5,010,106
Expenses:					
Net grants and scholarships (Note 16)	2,211,053			2,211,053	2,494,431
Outreach programs and program support services	2,359,893			2,359,893	1,873,232
Total program expenses	<hr/> 4,570,946	<hr/>	<hr/>	<hr/> 4,570,946	<hr/> 4,367,663
General & administrative	519,263			519,263	363,668
Fundraising	901,010			901,010	756,420
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	5,991,219	0	0	5,991,219	5,487,751
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Change in Net Assets	(96,640)	832,906	17,774	754,040	(477,645)
NET ASSETS, July 1	1,125,895	4,777,161	1,232,500	7,135,556	7,613,201
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
NET ASSETS, June 30	<u>\$1,029,255</u>	<u>\$5,610,067</u>	<u>\$1,250,274</u>	<u>\$7,889,596</u>	<u>\$7,135,556</u>

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

10,000 Degrees

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

	Programs	General & Administrative	Fundraising	6/30/14 Total	6/30/13 Total (Note 2)
Gross grants & scholarships (Note 16)	\$2,582,760			\$2,582,760	\$2,756,526
Less: modifications	(371,707)			(371,707)	(262,095)
Net grants & scholarships	2,211,053			2,211,053	2,494,431
Salaries	837,275	\$217,865	\$396,917	1,452,057	1,275,818
Payroll taxes & benefits	211,099	49,361	117,707	378,167	335,980
Rent	132,654	16,694	37,174	186,522	167,340
Accounting & audit		56,371		56,371	56,845
Legal		1,440		1,440	2,231
Consultants & contractors	519,072	106,221	126,859	752,152	431,061
Public relations / communications	12,897	1,114	74,160	88,171	85,053
Program supplies & facilities	313,290	2	335	313,627	261,990
Program transportation & meals	113,611	223	486	114,320	63,758
Other supplies	47,264	6,972	15,010	69,246	35,570
Computer services	19,838	2,445	6,045	28,328	52,818
Grantmaking	3,950			3,950	8,215
Telephone & internet	27,191	3,918	5,793	36,902	31,032
Equipment rental & service	14,666	1,846	4,110	20,622	18,065
Staff development	7,026	840	3,662	11,528	4,795
Board expenses		4,765		4,765	2,064
Travel	32,374	16,032	13,731	62,137	31,395
Events			70,415	70,415	62,688
Postage	2,105	391	810	3,306	4,394
Dues & memberships	9,763	1,821	10,535	22,119	17,216
Depreciation	14,687	1,848	4,116	20,651	10,400
Other	41,131	29,094	13,145	83,370	34,592
Total Expenses	\$4,570,946	\$519,263	\$901,010	\$5,991,219	\$5,487,751

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

10,000 Degrees

Statement of Cash Flows for the Year Ended June 30, 2014 with Comparative Totals for the Year Ended June 30, 2013

	<u>6/30/14</u>	<u>6/30/13</u>
Cash flows from operating activities:		
Change in net assets	\$754,040	(\$477,645)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation & amortization expense	44,391	27,738
Amortization of deferred rent	21,186	(24,673)
Realized and unrealized (gains)/losses on beneficial interest in assets held by Marin Community Foundation	(153,161)	(97,818)
Changes in assets and liabilities:		
Decrease (increase) in grants/contributions receivable	17,538	(299,083)
Decrease (increase) in receivable from related party	168,927	271,727
Decrease (increase) in other receivables	25,630	(26,099)
Decrease (increase) in prepaid expenses & deposits	19,754	(26,502)
Increase (decrease) in accounts payable	(6,796)	80,047
Increase (decrease) in accrued vacation pay	8,835	(693)
Increase (decrease) in grants & scholarships payable	(237,800)	396,183
Cash provided (used) by operating activities:	662,544	(176,818)
Cash flows from investing activities:		
Liquidation of (additional investment in) beneficial interest in assets held by Marin Community Foundation	50,919	36,645
Liquidation of (investment in) cash held for long-term purposes	14,118	27,241
Liquidation of (investment in) certificates of deposit	(15)	(500,430)
Purchase of fixed assets	(45,610)	(13,649)
Purchase of intangible assets	(25,000)	(20,050)
Cash provided (used) by investing activities:	(5,588)	(470,243)
Increase (decrease) in cash	656,956	(647,061)
Cash & cash equivalents, July 1	3,268,961	3,916,022
Cash & cash equivalents, June 30	\$3,925,917	\$3,268,961

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

10,000 Degrees

Notes to Financial Statements June 30, 2014

1. The Organization

The mission of 10,000 Degrees (a nonprofit organization) is to achieve educational equity, and support students with need to access and complete higher education, to positively impact their communities and the world. Our vision is that regardless of race, ethnicity, and socioeconomic status, every student should have the support and resources to earn a college degree and achieve their potential.

10,000 Degrees was founded in 1981 and is a nationally recognized college access and success organization serving students annually from low-income families in the North Bay.

The Key Elements of Our Programs Include:

Community Outreach & Advocacy – spreading the word to every student and family that college is important, is possible, and that support and funding are available.

Getting In and Getting the Money – helping students navigate the college and financial aid application process, maximize and leverage free financial aid – including the 10,000 Degrees Scholarships.

10,000 Degrees Institute – 2-year intense College Readiness and Success support program including 1:1 mentoring to support the college navigation process.

Earning the Degree – supporting students all the way to the Degree with multiple touch points: ongoing financial aid management throughout college, renewable scholarships and leveraging free financial aid, peer support, JC transfer support.

Paying it Forward – many ways for students and alumni to lead and influence the next generation -- as board, staff, mentors, field interns, peer advisors and high school ambassadors.

Funding

10,000 Degrees receives major funding in the form of grants from the Marin Community Foundation and its affiliates. Additional funding is received from private foundations and individuals, as well as community organizations. Over the past couple of years, the Organization has begun receiving a substantial amount of support in Sonoma County from local government and other organizations.

2. Summary of Significant Accounting Policies

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 require permanent investment by the Organization.

(continued)

10,000 Degrees

Notes to Financial Statements June 30, 2014

(continued)

Accounting for Restricted Support

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Support received directly from the Marin Community Foundation is recorded as related party support.

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 into service.

Cash & Cash Equivalents

Cash & cash equivalents include funds on deposit with banks, money market funds held with an investment brokerage and undeposited checks held by the Organization. All accounts are highly liquid and immediately accessible.

Short Term Investments

Short-term investments consist of bank certificates of deposit with an initial maturity period greater than 3 months. All certificates mature within one year of the balance sheet date.

Grants & Contributions Receivable

Grants & contributions receivable consist of amounts committed by donors that have not been received by 10,000 Degrees. The vast majority of these are restricted for student scholarship awards. Amounts receivable beyond one year have been classified as long-term and discounted to present value using a risk-adjusted rate (currently ranging from 3.11% to 4.62%) that is predicated upon the *Daily Treasury Yield Curve Rate*. All amounts presented as *Due from Related Party* are deemed collectible within one year of the balance sheet and stated at face value.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables, and accounts payable approximate fair value because of the short maturity of these instruments.

Beneficial Interest in Assets Held by Marin Community Foundation

Beneficial interest in assets held by MCF consists of assets transferred to MCF for investment purposes, with the understanding that the income pertaining to these assets would be distributed to 10,000 Degrees.

Although 10,000 Degrees' board of directors recommends distributions from the fund, the trustees of MCF have the power to modify any restriction or condition on the distribution of funds for any specified charitable purposes or to a specified organization, if, in the sole judgment of the Board of Trustees, such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment, or inconsistent with the needs of the community served by the Foundation.

Property & Equipment

Property and equipment with an initial cost of at least \$2,500 consist of leasehold improvements, office equipment, software and furnishings. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, which range from three to seven years.

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10,000 Degrees

Notes to Financial Statements June 30, 2014

(continued)

Intangible Assets

Intangible assets consist of costs relating to the development of the Organization's website infrastructure. In addition, 10,000 Degrees has capitalized the cost of videos developed for current and future marketing purposes. Amortization expense is computed using the straight-line method over the estimated useful lives of the assets in their current form, which is three years.

Grants & Scholarships

Grants & scholarships are recorded as expenses after the approval process is completed and recipients are notified. Scholarship modifications represent amounts rescinded by 10,000 Degrees, which occur primarily because recipient eligibility has changed (i.e. the student did not enroll for sufficient college coursework).

Scholarships payable consist of amounts approved, but awaiting payment to the individual or educational institution.

Functional Expenses

10,000 Degrees allocates its expenses on a functional basis among its 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 the amount of collective staff time spent on the respective functions.

Income Tax Status

10,000 Degrees is a tax-exempt supporting organization of the Marin Community Foundation under the Internal Revenue Code, Section 501(c)(3), and related California code sections. Accordingly, no provision for income taxes has been reflected in these financial statements.

10,000 Degrees follows the guidelines of the Financial Accounting Standards Board (FASB) ASC Topic 740 for accounting for uncertainty in income taxes. As of June 30, 2014, management evaluated its tax positions and concluded that 10,000 Degrees had maintained its tax-exempt status and has taken no uncertain tax positions that require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

The Organization's federal Return of Organization Exempt from Income Tax (Form 990) for the tax years ending in 2012, 2013 and 2014 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comparative Data

The financial statement information for the year ended June 30, 2013, presented for comparative purposes, is not intended to be a complete financial statement presentation. For a complete presentation, please refer to the financial statements for that year.

Reclassification

Certain amounts in the June 30, 2013 financial statements have been reclassified to conform to the June 30, 2014 presentation.

10,000 Degrees

Notes to Financial Statements June 30, 2014

3. Fair Value Measurements

The Organization values its investments on a recurring basis in accordance with FASB ASC #820, which establishes a fair value framework in accordance with generally accepted accounting principles. ASC #820 clarifies the definition of fair value, taking the position that fair value is the exchange price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date.

There are three defined levels in the fair value hierarchy:

Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets that are accessible at the measurement date.

Level 2 – Prices or valuations based on observable inputs other than quoted prices in active markets for identical assets and liabilities

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and are unobservable (i.e. supported by little or no market activity).

Fair values of assets measured on a recurring basis at June 30, 2014 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of Deposit	\$610,449	\$610,449		
Beneficial Interest in Assets held by Marin Community Foundation	\$1,419,385		\$1,419,385	

Assets measured at fair value on a recurring basis using significant unobservable inputs:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
July 1, 2014	\$1,317,142
Investment Income	169,581
Contributions / Purchases	15,000
Distributions	(70,737)
Investment Fees	(11,601)
Transfers from Level 3 to Level 2	<u>(1,419,385)</u>
June 30, 2014	\$0

All investments have been valued using a market approach. Fair value of the Beneficial Interest in Assets held by Marin Community Foundation, consisting of approximately 66% equities, 31% fixed income securities and 3% cash equivalents, is calculated by MCF and predicated upon the published fair value of the underlying investment funds' holdings as of the balance sheet date.

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10,000 Degrees

Notes to Financial Statements June 30, 2014

(continued)

The beneficial interest was transferred from a Level 3 measurement to Level 2 for the year ended June 30, 2014 after the Organization evaluated MCF's valuation methodology and considered the current practice among other similar nonprofit entities for classifying beneficial interests in community foundations.

The total gain for the year attributable to non-level 1 assets still held by the Organization at year-end is \$169,581.

4. Grants & Contributions Receivable

	Due in One Year	Due in 1 – 5 Years	Total
Grants & Contributions Receivable, face value	\$1,477,925	\$345,950	\$1,823,875
Discount to Present Value		(17,743)	(17,743)
Grants & Contributions Receivable, net	\$1,477,925	\$328,207	\$1,806,132

5. Property & Equipment

Fixed assets consisted of the following at June 30, 2014:

	Cost	Accumulated Depreciation	Net Book Value
Office Furniture & Equipment	\$179,075	\$137,446	\$41,629
Software	27,780	15,652	12,128
Leasehold Improvements	21,618	853	20,765
Total	\$228,473	\$153,951	\$74,522

6. Intangible Assets

Intangible assets consisted of the following at June 30, 2014:

	Cost	Accumulated Amortization	Net Book Value
Videos	\$75,050	\$32,244	\$42,806
Website	17,000	13,220	3,780
Total	\$92,050	\$45,464	\$46,586

Amortization for the year was \$23,740 and is reflected within public relations expense on the statement of functional expenses. The future estimated amortization expense for intangible assets on the books as of June 30, 2014 is as follows:

Fiscal Year Ending in:

2015	\$26,296
2016	13,345
2017	6,945
Total	\$46,586

10,000 Degrees

Notes to Financial Statements June 30, 2014

7. Deferred Rent

When 10,000 Degrees moved into its current premises in February 2014, it received a two-month rent abatement. As such, this amount was deferred to future periods so that rent expense is recorded properly over the period of the lease. Deferred rent will be fully amortized at the end of the lease in December 2023.

8. Unrestricted Net Assets

Unrestricted net assets consists of the following:

General	\$659,617
Board-designated operating reserve	300,000
Board-designated endowment (see Note 11)	93,012
Less: deficit of permanently restricted endowment funds (see Note 11)	<u>(23,374)</u>
Total unrestricted net assets	\$1,029,255

9. Temporarily Restricted Net Assets

Temporarily restricted net assets represent donations, grants and gifts to 10,000 Degrees that have been restricted for a specific purpose, as follows:

Scholarships & scholarship administration	\$4,239,873
General support for future periods	998,369
Collective Impact / Marin Promise	196,825
10,000 Degrees Institute Program	<u>175,000</u>
Total temporarily restricted net assets	\$5,610,067

10. Net Assets Released from Restriction

During the fiscal year, donor restrictions were satisfied and net assets released from restriction by spending funds as follows:

Scholarships & scholarship administration	\$2,429,460
10,000 Degrees Institute Program	204,000
Marin Kids Program	181,653
Collective Impact / Marin Promise	145,933
Other operating and program activities	<u>1,347,909</u>
Total net assets released from restriction	\$4,308,955

11. Endowment Funds

The Organization's endowments consist of eight individual funds established for a variety of purposes. Its endowments include both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(continued)

10,000 Degrees

Notes to Financial Statements June 30, 2014

(continued)

The Board of Directors of the Organization has interpreted the California Uniform Prudent Management of Institutional Funds Act (California UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by California UPMIFA. In accordance with California UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies: The Organization has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, the Organization expects its endowment assets, over time, to produce an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy: The Organization has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value of the prior 12 quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Endowment net asset composition by type of fund as of June 30, 2014 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$99,473	\$1,226,900	\$1,326,373
Deficit of endowment funds (owed by Unrestricted to Permanently Restricted)	(\$23,374)		23,374	0
Board-designated endowment funds	<u>93,012</u>			<u>93,013</u>
Total	\$69,638	<u>\$99,473</u>	<u>\$1,250,274</u>	<u>\$1,419,385</u>

(continued)

10,000 Degrees

Notes to Financial Statements June 30, 2014

(continued)

Changes in endowment net assets as of June 30, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$56,401	\$28,239	\$1,232,500	\$1,317,140
Contributions	5,000		10,000	15,000
Investment Income	4,323	12,096		16,419
Net appreciation (depreciation)	35,998	109,389	7,774	153,161
Amounts appropriated for expenditure	<u>(32,084)</u>	<u>(50,251)</u>		<u>(82,335)</u>
Endowment net assets, end of year	\$69,638	\$99,473	\$1,250,274	\$1,419,385

Due to investment losses that occurred during previous fiscal years, the fair value of assets held in the donor-restricted endowment funds is \$23,374 less than the amount initially contributed by the donors. In accordance with the original donor agreements, such losses may not reduce the balance of permanently restricted net assets. As such, the deficiency is shown above as a reduction in unrestricted net assets.

12. Operating Leases

During the 2013-2014 fiscal year, 10,000 Degrees' lease on its office expired and the Organization relocated to different facility in San Rafael. Under the terms of a 120-month non-cancelable operating lease, the initial monthly rent for the new location is \$10,532 and will increase by 3% each year. In addition, 10,000 Degrees is responsible for its pro-rata share of increases in building operating expenses and property taxes. At the end of the lease term, there is an option to extend the lease period for an additional 60 months at the prevailing fair market value. The future minimum lease payments are as follows:

Fiscal Year Ending in:

2015	\$128,274
2016	132,122
2017	146,475
2018	161,258
2019	166,096
Thereafter	<u>810,583</u>
Total future minimum lease payments	\$1,544,808

13. Retirement Plan

10,000 Degrees maintains a 401(k) plan that allows for employer contributions of 5% of each eligible employee's annual salary. Eligible employees include those individuals who work at least 20 hours per week and are employed by the organization for at least one year. Employees are also permitted to make voluntary contributions. All deposits are fully vested at the time of contribution. During the fiscal year ended June 30, 2014, 10,000 Degrees contributed a total of \$42,159 to employee retirement benefits.

10,000 Degrees

Notes to Financial Statements June 30, 2014

14. Concentrations

For the year ended June 30, 2014, revenue received from childcare scholarship funds and donor advised funds and other funds held at MCF was approximately 24% of total revenue. Revenue received from the Buck Fund Distribution, another fund managed by MCF, consisting primarily of a \$1,800,000 grant awarded on a competitive basis, was approximately 30% of revenues for the year.

10,000 Degrees maintains its cash and cash equivalents in bank accounts that from time to time may exceed federally insured limits. As of June 30, 2014, the Organization had approximately \$3,300,000 of cash and cash equivalents over the FDIC limits.

In addition, 10,000 Degrees' Beneficial Interest in Marin Community Foundation, which totaled approximately \$1,400,000, is invested in various securities that are subject to market fluctuation.

15. Related Party Transactions

As 10,000 Degrees is a supporting organization of the Marin Community Foundation, financial dealings with the Foundation are considered related party transactions. These are summarized as follows:

Statement of Financial Position – June 30, 2014

Due from Related Party	\$521,880
Beneficial Interest in Assets held by MCF	\$1,419,385
Due to the Buck Trust	\$45,929

Statement of Activity – July 1, 2013 to June 30, 2014

Support - Child Care Scholarship Fund grant	\$420,243
Support - Donor Advised Funds & grants	\$1,455,860
Revenue – change in value of beneficial interest in assets held by MCF	\$169,580

In addition, a relative of a board member was compensated \$1,575 for services performed, and reimbursed \$50,537 for out-of-pocket costs incurred, in connection with the Organization's office relocation.

16. Significant Estimate

Scholarships are awarded to students based on each student's anticipated enrollment status at the time of the award. Scholarship expense is recorded at the time the award is made. If a student's enrollment status changes, the amount of that individual's scholarship will be reduced accordingly. This is reflected as a scholarship modification, which is a decrease to scholarship expense.

Although management has made its best estimate based on experience, it is possible that the scholarship expense and associated liability for June 30, 2014 may differ materially from what is currently reflected in the financial statements.

17. Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 11, 2014, which is the date the financial statements were available to be issued.