

10,000 Degrees

Financial Statements &
Independent Auditor's Report
for the Year Ended
June 30, 2015

**COOK &
COMPANY**

A PROFESSIONAL ACCOUNTANCY CORPORATION

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

COOK & COMPANY

A PROFESSIONAL ACCOUNTANCY CORPORATION

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, 2015, 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, 2015, 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, 2014, financial statements of 10,000 Degrees and our report dated September 11, 2014, 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, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.



A Professional Accountancy Corporation
October 14, 2015

10,000 Degrees

Statement of Financial Position June 30, 2015 with Comparative Totals for June 30, 2014

ASSETS	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	6/30/15 <u>Total</u>	6/30/14 <u>Total</u> (Note 2)
Current Assets:					
Cash & cash equivalents	\$ 446,278	\$ 2,554,478		\$ 3,000,756	\$ 3,925,917
Investment - certificates of deposit	422	500,000		500,422	610,449
Grants & contributions receivable - current (Note 4)	196,960	2,521,300		2,718,260	1,477,925
Due from related party - current (Note 5)	99,390	123,750		223,140	521,880
Other receivables	397			397	469
Prepaid expenses	101,711			101,711	65,696
Beneficial interest in assets held by Marin					
Community Foundation - current portion (Note 2)		68,800		68,800	70,969
Total current assets	845,158	5,768,328	-	6,613,486	6,673,305
Cash held for long-term investment			\$ 29,051	29,051	23,374
Grants & contributions receivable - long-term (Note 4)		436,586		436,586	328,207
Due from related party - long-term (Note 5)		23,692		23,692	-
Beneficial interest in assets held by Marin					
Community Foundation (Note 2)	19,821	65,115	1,222,266	1,307,202	1,348,416
Deposits	13,240			13,240	13,043
Property & equipment, net (Note 6)	153,315			153,315	74,522
Intangible assets, net (Note 7)	35,090			35,090	46,586
TOTAL ASSETS	\$ 1,066,624	\$ 6,293,721	\$ 1,251,317	\$ 8,611,662	\$ 8,507,453
LIABILITIES & NET ASSETS					
Current Liabilities:					
Education grants & scholarships payable (Note 17)	\$ 175,753			\$ 175,753	\$ 348,700
Due to related party (Note 16)	45,929			45,929	45,929
Accounts payable	127,224			127,224	116,243
Accrued vacation pay	71,588			71,588	69,765
Deferred Revenue	23,750			23,750	-
Total current liabilities	444,244	-	-	444,244	580,637
Deferred rent (Note 8)	67,640			67,640	37,220
TOTAL LIABILITIES	511,884	-	-	511,884	617,857
Net Assets:					
Unrestricted (Note 9)	554,740			554,740	1,029,255
Temporarily restricted (Note 10)		\$ 6,293,721		6,293,721	5,610,067
Permanently restricted (Note 12)			\$ 1,251,317	1,251,317	1,250,274
NET ASSETS	554,740	6,293,721	1,251,317	8,099,778	7,889,596
TOTAL LIABILITIES & NET ASSETS	\$ 1,066,624	\$ 6,293,721	\$ 1,251,317	\$ 8,611,662	\$ 8,507,453

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, 2015 with Comparative Totals for the Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>6/30/15 Total</u>	<u>6/30/14 Total (Note 2)</u>
Support & revenue:					
Grants & donations	\$1,127,666	\$4,561,431	\$ 500	\$5,689,597	\$4,273,233
Related party support-Marin Community Foundation					
Child Care Scholarship Fund		431,385		431,385	420,243
Donor-advised and other funds	210,000	665,577		875,577	1,455,860
Net assets released from restriction:					
Satisfaction of donor requirements (Note 11)	4,990,864	(4,990,864)		-	-
In-kind contributions	16,380			16,380	6,251
Special events, net of direct expenses of \$92,704 in 2014 and \$103,236 in 2013	616,428			616,428	417,596
Change in value of beneficial interest in assets held by Marin Community Foundation	6,511	16,125	543	23,179	169,580
Other income	2,159			2,159	2,496
Total support & revenue	6,970,008	683,654	1,043	7,654,705	6,745,259
Expenses:					
Net grants and scholarships (Note 17)	2,842,301			2,842,301	2,211,053
Outreach programs and program support services	2,583,750			2,583,750	2,359,893
Total program expenses	5,426,051			5,426,051	4,570,946
General & administrative	976,032			976,032	519,263
Fundraising	1,042,440			1,042,440	901,010
Total expenses	7,444,523	-	-	7,444,523	5,991,219
Change in Net Assets	(474,515)	683,654	1,043	210,182	754,040
NET ASSETS, July 1	1,029,255	5,610,067	1,250,274	7,889,596	7,135,556
NET ASSETS, June 30	\$ 554,740	\$6,293,721	\$1,251,317	\$8,099,778	\$7,889,596

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

10,000 Degrees

Statement of Functional Expenses for the Year Ended June 30, 2015 with Comparative Totals for the Year Ended June 30, 2014

	Programs	General & Administrative	Fundraising	Shared Costs	6/30/15 Total	6/30/14 Total (Note 2)
Gross grants & scholarships (Note 17)	\$ 3,227,530				\$ 3,227,530	\$ 2,582,760
Less: modifications	(385,229)				(385,229)	(371,707)
Net grants & scholarships	2,842,301				2,842,301	2,211,053
Salaries	1,039,530	\$ 404,385	\$ 499,960		1,943,875	1,452,057
Payroll taxes & benefits	270,151	101,383	146,907		518,441	378,167
Rent				\$ 166,087	166,087	186,522
Accounting & audit		57,306			57,306	56,371
Legal	3,350	7,384			10,734	1,440
Consultants & contractors	445,396	188,587	75,232	61,619	770,834	752,152
Public relations / communications	14,270	63,206	45,122	2,594	125,192	88,171
Program supplies & facilities	291,658	323	39	114	292,134	313,627
Program transportation & meals	155,244		141		155,385	114,320
Other supplies	297	1,642	1,537	69,774	73,250	69,246
Computer services	125	2,332	6,286	62,176	70,919	28,328
Grantmaking	4,025				4,025	3,950
Telephone & internet	11,615	1,063	177	34,388	47,243	36,902
Equipment rental & service	914			18,115	19,029	20,622
Staff development	2,380	16,497	5,131	5,320	29,328	11,528
Board expenses		4,500			4,500	4,765
Travel	9,787	14,207	11,508	20,010	55,512	62,137
Event production			147,774	1,270	149,044	70,415
Postage	285	189	2,292	8,958	11,724	3,306
Dues & memberships	7,975	1,675	3,297	8,618	21,565	22,119
Depreciation				28,206	28,206	20,651
Other	37	28,353	5,633	13,866	47,889	83,370
Shared cost allocation	326,711	83,000	91,404	(501,115)	-	-
Total Expenses	\$ 5,426,051	\$ 976,032	\$ 1,042,440	\$ -	\$ 7,444,523	\$ 5,991,219

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

10,000 Degrees

Statement of Cash Flows for the Year Ended June 30, 2015 with Comparative Totals for the Year Ended June 30, 2014

	<u>6/30/15</u>	<u>6/30/14</u> <u>(Note 2)</u>
Cash flows from operating activities:		
Change in net assets	\$ 210,182	\$ 754,040
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation & amortization expense	54,502	44,391
Amortization of deferred rent	30,420	21,186
(Gains)/losses on beneficial interest in assets held by Marin Community Foundation	(5,585)	(153,161)
Changes in assets and liabilities:		
Decrease (increase) in grants/contributions receivable	(1,348,714)	17,538
Decrease (increase) in receivable from related party	275,048	168,927
Decrease (increase) in other receivables	72	25,630
Decrease (increase) in prepaid expenses & deposits	(36,212)	19,754
Increase (decrease) in grants & scholarships payable	(172,947)	(237,800)
Increase (decrease) in accounts payable	10,981	(6,796)
Increase (decrease) in accrued vacation pay	1,823	8,835
Increase (decrease) in deferred revenue	23,750	-
Cash provided (used) by operating activities:	(956,680)	662,544
 Cash flows from investing activities:		
Liquidation of (additional investment in) beneficial interest in assets held by Marin Community Foundation	48,968	50,919
Liquidation of (investment in) cash held for long-term purposes	(5,677)	14,118
Liquidation of (investment in) certificates of deposit	110,028	(15)
Purchase of fixed assets	(107,000)	(45,610)
Purchase of intangible assets	(14,800)	(25,000)
Cash provided (used) by investing activities:	31,519	(5,588)
 Increase (decrease) in cash	 (925,161)	 656,956
Cash & cash equivalents, July 1	3,925,917	3,268,961
Cash & cash equivalents, June 30	\$ 3,000,756	\$ 3,925,917

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

10,000 Degrees

Notes to Financial Statements June 30, 2015

1. The Organization

The mission of 10,000 Degrees, a nonprofit organization and supporting organization to Marin Community Foundation, 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 10,000 Degrees Scholarships.

10,000 Degrees Institute – 2-year intensive 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, junior college 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 citizens, 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, 2015

(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 3.28% to 4.63%) 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.

(continued)

10,000 Degrees

Notes to Financial Statements June 30, 2015

(continued)

Intangible Assets

Intangible assets consist of the cost of videos developed for current and future marketing purposes, as well as investments in the development of the Organization's website infrastructure. 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, 2015, 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) filings for the tax years ending in 2013 through 2015 are subject to examination by the Internal Revenue Service, generally for three years after they were filed. The Organization's California *Exempt Organization Information Return* (Form 199) filings for the tax years ending in 2012 through 2015 are subject to examination by the Franchise Tax Board, generally for four years after they were filed.

Use of Estimates

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

Comparative Data

The financial statement information for the year ended June 30, 2014, 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.

10,000 Degrees

Notes to Financial Statements June 30, 2015

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, 2015 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	\$500,422	\$500,422		
Beneficial Interest in Assets held by Marin Community Foundation	\$1,376,002		\$1,376,002	

All investments have been valued using a market approach. Fair value of the Beneficial Interest in Assets held by Marin Community Foundation, representing pooled funds that consist 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.

The total gain for the year attributable to non-level 1 assets still held by the Organization at year-end is \$23,179.

4. Grants & Contributions Receivable

	Due in One Year	Due in 1 – 5 Years	Total
Grants & Contributions Receivable, face value	\$2,718,260	\$470,000	\$3,188,260
Discount to Present Value		(33,414)	(33,414)
Grants & Contributions Receivable, net	\$2,718,260	\$436,586	\$3,154,846

10,000 Degrees

Notes to Financial Statements June 30, 2015

5. Related Party Receivables

	Due in One Year	Due in 1 – 5 Years	Total
Grants & Pledges Receivable, face value	\$223,140	\$25,000	\$248,140
Discount to Present Value		<u>(1,308)</u>	<u>(1,308)</u>
Grants & Contributions Receivable, net	<u>\$223,140</u>	<u>\$23,692</u>	<u>\$246,832</u>

6. Property & Equipment

Fixed assets consisted of the following at June 30, 2015:

	Cost	Accumulated Depreciation	Net Book Value
Office Furniture & Equipment	\$192,539	\$124,966	\$67,573
Software	27,780	22,453	5,327
Leasehold Improvements	<u>87,497</u>	<u>7,082</u>	<u>80,415</u>
Total	<u>\$307,816</u>	<u>\$154,501</u>	<u>\$153,315</u>

7. Intangible Assets

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

	Cost	Accumulated Amortization	Net Book Value
Videos	\$75,050	\$54,760	\$20,290
Website	<u>31,800</u>	<u>17,000</u>	<u>14,800</u>
Total	<u>\$106,850</u>	<u>\$71,760</u>	<u>\$35,090</u>

Amortization for the year was \$26,296 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, 2015 is as follows:

Fiscal Year Ending in:

2016	13,345
2017	11,878
2018	4,933
2019	<u>4,934</u>
Total	<u>\$35,090</u>

8. 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.

10,000 Degrees

Notes to Financial Statements June 30, 2015

9. Unrestricted Net Assets

The balance of unrestricted net assets consists of the following:

General	\$194,604
Board-designated operating reserve	300,000
Board-designated endowment (see Note 12)	88,687
Less: deficit of permanently restricted endowment funds (see Note 12)	<u>(28,551)</u>
Total unrestricted net assets	\$554,740

10. 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	\$3,810,726
General support for future periods	1,410,600
Collective Impact / Marin Promise	680,895
10,000 Degrees Institute Program	383,167
Other activities	<u>8,333</u>
Total temporarily restricted net assets	\$6,293,721

11. 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	\$2,931,074
Collective Impact / Marin Promise	329,078
10,000 Degrees Institute Program	258,616
Other operating and program activities	<u>1,472,096</u>
Total net assets released from restriction	\$4,990,864

10,000 Degrees

Notes to Financial Statements June 30, 2015

12. 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.

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.

10,000 Degrees

Notes to Financial Statements June 30, 2015

(continued)

Endowment net asset composition by type of fund as of June 30, 2015 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$64,549	\$1,222,766	\$1,287,315
Deficit of endowment funds (owed by Unrestricted to Permanently Restricted)	(\$28,551)		28,551	0
Board-designated endowment funds	<u>88,687</u>			<u>88,687</u>
Total	\$60,136	\$64,549	\$1,251,317	\$1,376,002

Changes in endowment net assets as of June 30, 2015 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$69,638	\$99,473	\$1,250,274	\$1,419,385
Contributions	10,000		500	10,500
Investment income	4,708	12,886		17,594
Net appreciation (depreciation)	1,803	3,239	543	5,585
Amounts appropriated for expenditure	<u>(26,013)</u>	<u>(51,049)</u>		<u>(77,062)</u>
Endowment net assets, end of year	\$60,136	\$64,549	\$1,251,317	\$1,376,002

Due to investment losses that occurred during previous fiscal years, the fair value of assets held in the donor-restricted endowment funds is \$28,551 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.

13. Operating Leases

10,000 Degrees rents its San Rafael office under a 120-month non-cancelable operating lease that commenced in 2014. As part of the agreement, the initial monthly rent was \$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 Organization also rents a copy machine for \$1,205 per month under a 63-month operating agreement that expires in 2019. The future minimum lease payments for the two leases are as follows:

<u>Fiscal Year Ending in:</u>		
2016		\$146,582
2017		160,935
2018		175,718
2019		180,556
2020		174,694
Thereafter		<u>639,504</u>
Total future minimum lease payments		\$1,477,989

10,000 Degrees

Notes to Financial Statements June 30, 2015

14. 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, 2015, 10,000 Degrees contributed a total of \$60,610 to employee retirement benefits.

15. Concentrations

For the year ended June 30, 2015, revenue received from childcare scholarship funds and donor advised funds and other funds held at MCF (and presented as related party support on the statement of activity) was approximately 23% of total revenue and support. Support received from the Buck Fund Distribution, another fund managed by MCF, consisting of approximately \$2,400,000 in grants awarded on a competitive basis, was approximately 31% of revenue and support 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, 2015, the Organization had approximately \$755,000 of cash and cash equivalents over the FDIC limits.

In addition, 10,000 Degrees' Beneficial Interest in Marin Community Foundation, which was valued at approximately \$1,400,000 as of the balance sheet date, is invested in various securities that are subject to market fluctuation.

16. 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, 2015

Due from Related Party	\$246,832
Beneficial Interest in Assets held by MCF	\$1,376,002
Due to the Buck Trust	\$45,929

Statement of Activity – July 1, 2014 to June 30, 2015

Support - Child Care Scholarship Fund grant	\$431,385
Support - Donor Advised Funds & grants	\$875,577
Revenue – change in value of beneficial interest in assets held by MCF	\$23,179

In addition, a relative of a board member was compensated \$6,806 for services performed, and reimbursed \$63,919 for out-of-pocket costs incurred, in connection with the Organization's office renovation.

17. 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, 2015 may differ materially from what is currently reflected in the financial statements.

10,000 Degrees

Notes to Financial Statements June 30, 2015

18. Subsequent Events

Organizational Status Change

During the year ended June 30, 2015, the Organization's board of directors voted to change the corporate structure of 10,000 Degrees so that it would be an independent nonprofit public benefit corporation and no longer be a supporting organization to the Marin Community Foundation for federal tax purposes. It is anticipated that this transition will be completed during the fiscal year ending June 30, 2016.

New Office Lease

In July 2015, the Organization executed a 7-year operating lease for office space in Sonoma County. The initial monthly base rent is \$4,729, and will increase by 3% each year of the lease term.

Financial Statement Preparation

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 14, 2015, which is the date the financial statements were available to be issued.