

10,000 Degrees

FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT

June 30, 2017

## CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS	
STATEMENT OF FINANCIAL POSITION	4
STATEMENT OF ACTIVITIES	5
STATEMENT OF FUNCTIONAL EXPENSES	6
STATEMENT OF CASH FLOWS	7
NOTES TO FINANCIAL STATEMENTS	8

INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
10,000 Degrees

We have audited the accompanying financial statements of 10,000 Degrees (a non-profit organization) (the "Organization") which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, 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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' 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 from 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 auditors' judgment, including the assessment of the risks of 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 Organization'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 Organization'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, 2017, and the changes in its net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

The Organization's 2016 financial statements were audited by other auditors whose report dated December 8, 2016 expressed an unmodified opinion on those statements. The summarized comparative information is consistent, in all material respects, with the audited financial statements from which it has been derived.

*DZH Phillips LLP*

San Francisco, California  
October 30, 2017

10,000 Degrees

STATEMENT OF FINANCIAL POSITION

June 30, 2017 (with summarized comparative totals at June 30, 2016)

<b>ASSETS</b>		
	<u>2017</u>	<u>2016</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3,013,373	\$ 2,786,154
Investments in certificates of deposit (Note B)	500,923	500,672
Grants and contributions receivable - net - current portion (Note C)	4,397,205	3,315,391
Other receivables	12	7,500
Prepaid expenses	131,434	116,713
Beneficial interest in assets held by Marin		
Community Foundation - current portion (Note B)	79,954	65,038
Total current assets	<u>8,122,901</u>	<u>6,791,468</u>
PROPERTY AND EQUIPMENT - net (Note D)	<u>181,468</u>	<u>155,982</u>
<b>OTHER ASSETS</b>		
Cash held for long-term investment	9,300	45,458
Grants and contributions receivable - long-term - net (Note C)	578,336	879,667
Beneficial interest in assets held by Marin		
Community Foundation - long-term (Note B)	1,603,288	1,235,730
Deposits	17,469	17,469
Intangible assets, net (Note E)	<u>13,343</u>	<u>25,554</u>
Total other assets	<u>2,221,736</u>	<u>2,203,878</u>
Total Assets	<u><u>\$ 10,526,105</u></u>	<u><u>\$ 9,151,328</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Education grants and scholarships payable	\$ 44,861	\$ 190,093
Accounts payable and accrued expenses	69,910	172,838
Accrued vacation pay	92,963	92,984
Deferred revenue	<u>-</u>	<u>10,000</u>
Total current liabilities	207,734	465,915
Deferred rent (Note F)	<u>124,864</u>	<u>110,631</u>
Total liabilities	<u>332,598</u>	<u>576,546</u>
<b>NET ASSETS</b>		
Unrestricted (Note H)	461,957	407,403
Temporarily restricted (Note I)	8,224,625	6,915,562
Permanently restricted (Note J)	<u>1,506,925</u>	<u>1,251,817</u>
Total net assets	<u>10,193,507</u>	<u>8,574,782</u>
Total Liabilities and Net Assets	<u><u>\$ 10,526,105</u></u>	<u><u>\$ 9,151,328</u></u>

The accompanying notes are an integral part of this statement.

10,000 Degrees

STATEMENT OF ACTIVITIES

Year ended June 30, 2017 (with summarized comparative totals for the year ended June 30, 2016)

	2017			2016	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
Revenues and support:					
Grants and contributions	\$ 1,405,279	\$ 6,702,054	\$ 255,108	\$ 8,362,441	\$ 7,120,138
In-kind contributions	55,530	-	-	55,530	65,959
Special events - net of direct expenses of \$167,710 in 2017 and \$96,173 in 2016	876,506	-	-	876,506	1,076,223
Change in value of beneficial interest in assets held by Marin Community Foundation	53,962	137,911	-	191,873	(11,998)
Program service fees	104,167	-	-	104,167	42,450
Investment return	5,464	-	-	5,464	2,177
Other income	45,929	-	-	45,929	-
	<u>2,546,837</u>	<u>6,839,965</u>	<u>255,108</u>	<u>9,641,910</u>	<u>8,294,949</u>
Net assets released from restrictions	5,530,902	(5,530,902)	-	-	-
Total revenues and support	<u>8,077,739</u>	<u>1,309,063</u>	<u>255,108</u>	<u>9,641,910</u>	<u>8,294,949</u>
Expenditures:					
Net grants and scholarships	2,555,392	-	-	2,555,392	2,643,054
Outreach programs and program support services	3,027,811	-	-	3,027,811	2,851,779
Total program expenses	<u>5,583,203</u>	<u>-</u>	<u>-</u>	<u>5,583,203</u>	<u>5,494,833</u>
Management and general	1,220,463	-	-	1,220,463	1,227,784
Fundraising	1,219,519	-	-	1,219,519	1,097,328
Total expenditures	<u>8,023,185</u>	<u>-</u>	<u>-</u>	<u>8,023,185</u>	<u>7,819,945</u>
CHANGE IN NET ASSETS	54,554	1,309,063	255,108	1,618,725	475,004
Net assets - beginning of year	<u>407,403</u>	<u>6,915,562</u>	<u>1,251,817</u>	<u>8,574,782</u>	<u>8,099,778</u>
Net assets - end of year	<u>\$ 461,957</u>	<u>\$ 8,224,625</u>	<u>\$ 1,506,925</u>	<u>\$ 10,193,507</u>	<u>\$ 8,574,782</u>

The accompanying notes are an integral part of this statement.

10,000 Degrees

STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2017 (with summarized comparative totals for the year ended June 30, 2016)

	Program Services	Supportive Services			Total Expenses 2017	Total Expenses 2016
	Programs	General & Administrative	Fundraising	Shared Costs		
Gross grants & scholarships	\$ 2,982,599	-	-	-	\$ 2,982,599	\$ 3,080,532
Less: modifications	(427,207)	-	-	-	(427,207)	(437,478)
Net grants & scholarships	2,555,392	-	-	-	2,555,392	2,643,054
Salaries	1,753,572	498,404	699,124	-	2,951,100	2,319,865
Payroll taxes and benefits	392,274	128,334	177,781	-	698,389	629,734
Rent	208,271	93,897	31,108	520	333,796	217,101
Accounting and audit	-	67,681	-	-	67,681	57,917
Legal	-	3,164	-	-	3,164	7,193
Consultants and contractors	233,885	153,973	113,289	7,516	508,663	628,346
Public relations / communications	20,009	127,560	12,110	270	159,949	202,187
Program supplies and facilities	-	-	-	-	-	261,628
Program transportation and meals	-	-	-	-	-	183,382
Honorariums stipends	59,770	-	-	-	59,770	-
Recruiting and training	17,284	478	241	-	18,003	-
Other supplies	31,783	11,340	25,151	17,575	85,849	59,963
Computer services	42,814	4,286	6,303	27,785	81,188	41,514
Grantmaking	-	-	-	-	-	4,525
Telephone and internet	9,331	3,561	613	41,475	54,980	59,652
Equipment rental and service	1,388	-	40,541	25,001	66,930	23,611
Staff development	1,165	-	-	-	1,165	35,351
Board expenses	-	7,901	-	-	7,901	6,016
Travel	13,759	5,986	173	-	19,918	62,491
Local mileage and transportation	48,871	3,726	7,376	9	59,982	-
Meals and catering	58,720	4,184	19,437	3,546	85,887	-
Event production	-	-	-	-	-	244,838
Postage	14	1,869	5,982	3,021	10,886	10,522
Dues and memberships	8,948	14,118	3,691	309	27,066	43,135
Print and copying	4,907	18,563	44,259	-	67,729	-
Depreciation	-	-	-	33,088	33,088	34,392
Other	-	48,433	1,991	14,285	64,709	43,528
Shared cost allocation	121,046	23,005	30,349	(174,400)	-	-
Total Expenses	\$ 5,583,203	\$ 1,220,463	\$ 1,219,519	\$ -	\$ 8,023,185	\$ 7,819,945

The accompanying notes are an integral part of this statement.

## 10,000 Degrees

## STATEMENT OF CASH FLOWS

Year ended June 30, 2017 (with summarized comparative totals for the year ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
Cash flows provided by operating activities:		
Change in net assets	\$ 1,618,725	\$ 475,004
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	47,549	50,736
Accrual of deferred rent	14,233	42,991
(Gains)/Losses on beneficial interest in assets held by Marin Community Foundation	(27,468)	27,576
Changes in operating assets and liabilities:		
Grants and contributions receivable	(780,483)	(793,380)
Other receivables	7,488	(7,103)
Prepaid expenses and deposits	(14,721)	(19,231)
Grants and scholarships payable	(145,232)	14,340
Accounts payable	(102,928)	(315)
Accrued vacation pay	(21)	21,396
Deferred revenue	<u>(10,000)</u>	<u>(13,750)</u>
Net cash provided by (used in) operating activities:	<u>607,142</u>	<u>(201,736)</u>
Cash flows provided by (used in) investing activities:		
Liquidation of (additional investment in) beneficial interest in assets held by Marin Community Foundation	(364,306)	47,658
Liquidation of (investment in) cash held for long-term purposes	45,458	(16,407)
Liquidation of (investment in) certificates of deposit	(251)	(250)
Purchase of property and equipment	(58,574)	(37,058)
Purchase of intangible assets	<u>(2,250)</u>	<u>(6,809)</u>
Net cash used in investing activities	<u>(379,923)</u>	<u>(12,866)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	227,219	(214,602)
Cash and cash equivalents - beginning of year	<u>2,786,154</u>	<u>3,000,756</u>
Cash and cash equivalents - end of year	<u>\$ 3,013,373</u>	<u>\$ 2,786,154</u>

The accompanying notes are an integral part of this statement.

10,000 Degrees

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE A – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of activities

10,000 Degrees (the “Organization”) is a nonprofit, 501(c)(3) public benefit organization incorporated in the State of California. The mission of the 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.

**Key Elements of Programs**

*College Awareness* - 10,000 Degrees College Awareness initiatives start in elementary and middle school to help establish a college-going culture and nurture a college success mindset through interactive events including in-school “college days” and local college campus tours.

*College Access* - 10,000 Degrees College Access support for high school juniors and seniors includes A-G course planning, in-school financial aid workshops, college application assistance, and year-round mentoring, highlighted by the 10,000 Degrees Institute, a 2-year college readiness program -- 99% of 10,000 Degrees high school students enroll in college within one year of graduation.

*College Persistence* - Through personalized support and renewable scholarships, the 10,000 Degrees College Persistence program helps students navigate and ultimately graduate from four-year colleges and includes Summer Bridge programs, financial aid advising, and four-year college transfer guidance -- 86% of 10,000 Degrees four-year college students earn bachelor’s degrees, compared to 31% of their peers nationally.

*Leadership Development* - Starting in high school through college graduation and beyond, 10,000 Degrees students receive hands-on 21st-century leadership skills training, improving access and opportunity on school campuses and in their communities -- the 10,000 Degrees Fellowship Program employs recent graduates as near-peer role models throughout our programs.

10,000 Degrees

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE A – DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Nature of activities (continued)

**Funding**

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

**Relationship to Marin Community Foundation**

The Organization has operated as a supporting organization to the MCF since 1986. In April 2015, the board of directors of 10,000 Degrees voted to change the Organization's corporate structure so that it would be an independent nonprofit public benefit corporation and no longer be a supporting organization to the MCF. This change was effective November 1, 2015 for financial reporting purposes.

A summary of significant accounting policies follows:

Basis of presentation

The Organization maintains its records using the accrual method of accounting in accordance with generally accepted accounting principles in the United States of America.

Description of net assets

The Organization reports information regarding its financial position and activities according to three classes of net assets as follows:

*Unrestricted Net Assets*

The portion of net assets that is neither temporarily restricted nor permanently restricted by donor restriction.

10,000 Degrees

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

NOTE A - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES (continued)

Description of net assets (continued)

*Temporarily Restricted Net Assets*

The portion of net assets for which use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization.

*Permanently Restricted Net Assets*

Permanently restricted net assets are net assets for which use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can otherwise be removed by actions of the Organization.

Contributions

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.

The Organization reports gifts of property and equipment 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 and cash equivalents

For the purpose of the statement of cash flows, the Organization considers all unrestricted, highly liquid investments with an initial maturity of three months or less to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE A - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES (continued)

Investments

The Organization's investments consist of certificates of deposits with an initial maturity greater than 3 months. All certificates mature within one year of the Statement of Financial Position date.

Grants and contributions receivable

Grants and contributions receivable consist of amounts committed by donors that have not been received by the Organization. The vast majority of these are restricted for student scholarship awards. Amounts receivable beyond one year are classified as long-term and discounted to present value using a risk-adjusted rate (currently ranging from 1.24% to 1.89%, based on the Daily Treasury Yield Curve Rate).

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.

The funds held by MCF consist of endowment funds as well as spendable funds. Asset allocations for the funds differ based on the investment policy for each fund.

Property and equipment

Property and equipment with a cost of \$2,500 or more, with estimated useful lives in excess of one year are capitalized at cost if purchase, or fair market value, if donated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The asset lives range from three to ten years.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE A - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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. Amortization expense was \$14,462 for the year ended June 30, 2017.

Fair value measurements

The Organization is required to consider the use of market-based information over entity-specific information in valuing its financial assets measured at fair value, using a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

*Level 1* inputs to the valuation methodology include unadjusted quoted prices for identical assets or liabilities in active markets.

*Level 2* inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in inactive markets, inputs other than quoted prices that are observable for the asset or liability, and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

*Level 3* inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the observable inputs and minimize the use of unobservable inputs. At June 30, 2017, there have been no changes in the methodologies used.

10,000 Degrees

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE A - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES (continued)

Fair value of financial instruments

The carrying amounts of cash and cash equivalents, receivables and accounts payable approximate fair value due to the short maturities of these financial instruments.

Grants and scholarships

Grants and 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 (e.g. 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 allocation of expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on the full time equivalents determined by management. Office rent expenses are allocated based upon square footage. Shared costs are costs that are providing benefit to two or more departments in the Organization.

Income taxes

The Organization is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code, Section 23701d (or other states and code sections, as relevant). Accordingly, it has not provided for income taxes in these financial statements.

Each year, management considers whether any material tax position the Organization has taken is more likely than not to be sustained upon examination by the applicable taxing authority. Management believes that any positions the Organization has taken are supported by substantial authority and, hence, do not need to be measured or disclosed in these financial statements.

## NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

## NOTE A - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated materials and services

The Organization records various types of in-kind contributions. Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or additions to property and equipment.

For the year ended June 30, 2017, the Organization received donated goods and services consisting of the following:

Design services	\$ 16,875
Computers	6,258
Food	26,797
Auction services	4,000
Other	1,600
	<u>\$ 55,530</u>

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the June 30, 2016 financial statements have been reclassified to conform with the current year's presentation.

## NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

## NOTE A - DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Comparative financial information

The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Subsequent events

Management has evaluated events and transactions for potential recognition or disclosure through October 30, 2017, which represents the date the financial statements were available to be issued.

## NOTE B – INVESTMENTS/FAIR VALUE MEASUREMENTS

The Organization's investments consist of certificates of deposit and beneficial interests in assets held by MCF, which are invested in pooled funds consisting of an equity fund, fixed income fund, and enhanced cash fund.

The following are major categories of investments measured at fair value on a recurring basis at June 30, 2017.

	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Certificates of deposit	\$ 500,923	\$ 500,923	\$ -	\$ -
Beneficial interests in assets held by MCF	1,683,242		1,683,242	
	<u>\$ 2,184,165</u>	<u>\$ 500,923</u>	<u>\$ 1,683,242</u>	<u>\$ -</u>

All investments have been valued using a market approach. The fair value of Beneficial Interests in Assets held by MCF is calculated by MCF and predicated on the published fair value of the underlying investment funds' holdings at June 30, 2017.

10,000 Degrees

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE B – INVESTMENTS/FAIR VALUE MEASUREMENTS (continued)

The total gain for the year attributable to non-level 1 assets still held by the Organization at year-end is \$191,873.

NOTE C – GRANTS AND CONTRIBUTIONS RECEIVABLE

At June 30, 2017, unconditional promises to give are as follows:

	<u>Current</u>	<u>Due in 2 to 5 Years</u>	<u>Thereafter</u>	<u>Total</u>
Grants and contributions receivable (net of allowance for uncollectible amounts of \$19,136)	\$ 4,412,395	\$ 599,903	\$ -	\$ 5,012,298
Discount to net present value	<u>(15,190)</u>	<u>(21,567)</u>	<u>-</u>	<u>(36,757)</u>
	<u>\$ 4,397,205</u>	<u>\$ 578,336</u>	<u>\$ -</u>	<u>\$ 4,975,541</u>

NOTE D – PROPERTY AND EQUIPMENT

As of June 30, 2017, property and equipment consists of the following:

Office furniture and equipment	\$ 275,759
Leasehold improvements	<u>107,620</u>
	383,379
Less: accumulated amortization	<u>(201,911)</u>
	<u>\$ 181,468</u>

For the year ended June 30, 2017, depreciation expense amounted to \$33,088.

10,000 Degrees

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE E – INTANGIBLE ASSETS

At June 30, 2017, intangible assets consisted of the following:

Videos	\$	75,050
Website		38,609
Trademark		2,250
		<u>115,909</u>
Less: accumulated amortization		<u>(102,566)</u>
Remaining book value	\$	<u><u>13,343</u></u>

The future estimated annual amortization expense is as follows:

Year ending June 30,		
2018	\$	7,516
2019		4,952
2020		438
2021		<u>437</u>
Total	\$	<u><u>13,343</u></u>

NOTE F – DEFERRED RENT

The Organization received a two-month rent abatement on its premises in San Rafael. Generally accepted accounting principles require rent to be recorded on a straight-line basis over the life of the lease. Accordingly, accrued rent is recorded to the extent that rent expense exceeds amounts paid through June 30, 2017. Deferred rent will be fully amortized at the end of the lease term in December 2023.

10,000 Degrees

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE G – RETIREMENT PLAN

The Organization has a defined contribution plan (the “Plan”) that provides 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 to the Plan, to the extent allowed by law. All contributions to the Plan are fully vested when received. During the year ended June 30, 2017, the Organization contributed \$96,994 to the Plan.

NOTE H – BOARD DESIGNATED NET ASSETS

At June 30, 2017, board designated net assets consist of the following:

Board designated operating reserve	\$ 300,000
Board designated for long-term purposes	<u>93,159</u>
	<u>\$ 393,159</u>

NOTE I – TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2017, temporarily restricted net assets consist of the following:

Scholarships	\$ 3,750,770
General and scholarship support	2,155,000
Collective Impact/Marin Promise	535,420
10,000 Degrees College Access & Success	1,759,488
Other	<u>23,947</u>
	<u>\$ 8,224,625</u>

10,000 Degrees

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE I – TEMPORARILY RESTRICTED NET ASSETS (continued)

Temporarily restricted net assets released from restriction during the year ended June 30, 2017 consist of the following:

Scholarships	\$ 2,681,900
General and scholarships support	1,633,444
Collective Impact/Marin Promise	444,956
10,000 Degrees College Access & Success	668,000
Other	<u>102,602</u>
	<u>\$ 5,530,902</u>

NOTE J – ENDOWMENTS

The Organization's endowments consist of approximately 8 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 Organization is subject to the requirements of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) governing endowments. The Organization has interpreted this law 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, 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 time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund, that is not classified as 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 under law.

From time to time, the fair market value of assets associated with the endowment funds may fall below the level required to be retained as funds of perpetual duration. At June 30, 2017, the fair market value of endowment assets was less than the required corpus of the funds by \$9,300.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE J – ENDOWMENTS (continued)

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 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 approximately 8% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of 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 had a policy of appropriating for distribution each year 5% of its endowment fund's average fair value of the prior 12 quarters through calendar year-end proceeding the fiscal year in which the distribution is planned. Effective for the year ending June 30, 2018, this percentage was reduced to 4.75%. 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 (continued)

June 30, 2017

## NOTE J – ENDOWMENTS (continued)

Endowment net asset composition by type of fund as of June 30, 2017 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 92,458	\$ 1,497,625	\$ 1,590,083
Deficit in endowment funds	<u>(9,300)</u>	<u>-</u>	<u>9,300</u>	<u>-</u>
	<u>\$ (9,300)</u>	<u>\$ 92,458</u>	<u>\$ 1,506,925</u>	<u>\$ 1,590,083</u>

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets - July 1, 2016	\$ 42,469	\$ 6,482	\$ 1,251,817	\$ 1,300,768
Contributions	-	-	255,108	255,108
Investment income	5,021	12,425	-	17,446
Net appreciation	48,941	125,486	-	174,427
Amounts appropriated for expenditure	<u>(105,731)</u>	<u>(51,935)</u>	<u>-</u>	<u>(157,666)</u>
Endowment net assets, June 30, 2017	<u>\$ (9,300)</u>	<u>\$ 92,458</u>	<u>\$ 1,506,925</u>	<u>\$ 1,590,083</u>

Due to cumulative investment losses incurred through June 30, 2017, the donor restricted endowment funds are \$9,300 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.

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE K – CONCENTRATIONS

Cash and cash equivalents

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents. Risks associated with cash and cash equivalents are mitigated by banking with creditworthy institutions. Such balances with any one institution may, at times, be in excess of federally insured amounts (currently \$250,000 per depositor). The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

Funding

The Organization received approximately 22% of its revenue and support from childcare scholarship funds, donor advised funds, and other funds held at the MCF during the year ended June 30, 2017. Support received from the Buck Fund (another fund managed by the MCF) of approximately \$1.9 million in grants awarded on a competitive basis, was approximately 20% of revenue and support for the year ended June 30, 2017.

Investments

The Organization's Beneficial Interest in MCF, which was valued at approximately \$1,638,000 at June 30 2017, is invested in pooled funds of maintained by the MCF that are subject to market fluctuation.

NOTE L – COMMITMENTS

The Organization rents its San Rafael office under a 10-year non-cancelable operating lease that commenced in 2014. The agreement provides for initial monthly rent of \$10,532, increased by 3% each year. In addition, the Organization 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 for an additional 60 months at the prevailing fair market rent.

The Organization rents an office in Santa Rosa under a 7-year lease that commenced in 2015. The initial monthly base rent is \$4,729, with annual increases of 3%. The Organization is also responsible for its pro-rata share of increases in building operating costs. The agreement includes an option to renew the lease for an additional 60 months at the prevailing fair market rent.

10,000 Degrees

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2017

NOTE L – COMMITMENTS (continued)

The Organization also leases two copy machines, a printer and a postage meter under operating leases with various terms.

The future minimum lease payments under the leases are as follows:

<u>Year ending June 30,</u>	
2018	\$ 244,558
2019	251,347
2020	246,417
2021	249,645
2022	255,103
Thereafter	<u>158,205</u>
Total future minimum lease payments	<u><u>\$ 1,405,275</u></u>

NOTE M – 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 the scholarship will be reduced accordingly. This is reflected as a scholarship modification, which is a decrease to scholarship expense. Accordingly, scholarship expense is a significant estimate, subject to change.