

10,000 Degrees

Financial Statements &
Independent Auditor's Report
for the Year Ended
June 30, 2016

**COOK &
COMPANY**

A PROFESSIONAL ACCOUNTANCY CORPORATION

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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, 2016, 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, 2016, 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, 2015, financial statements of 10,000 Degrees and our report dated October 14, 2015, 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, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.



A Professional Accountancy Corporation
December 8, 2016

10,000 Degrees

Statement of Financial Position June 30, 2016 with Comparative Totals for June 30, 2015

ASSETS	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	6/30/16 <u>Total</u>	6/30/15 Total (Note 2)
Current Assets:					
Cash & cash equivalents	\$ 454,458	\$ 2,331,696		\$ 2,786,154	\$ 3,000,756
Investment - certificates of deposit	672	500,000		500,672	500,422
Grants & contributions receivable - current (Note 4)	184,811	3,130,580		3,315,391	2,941,400
Other receivables	7,500			7,500	397
Prepaid expenses	116,713			116,713	101,711
Beneficial interest in assets held by Marin					
Community Foundation - current portion (Note 2)		65,038		65,038	68,800
Total current assets	<u>764,154</u>	<u>6,027,314</u>	<u>-</u>	<u>6,791,468</u>	<u>6,613,486</u>
Cash held for long-term investment (Note 11)			\$ 45,458	45,458	29,051
Grants & contributions receivable - long-term (Note 4)		879,667		879,667	460,278
Beneficial interest in assets held by Marin					
Community Foundation (Note 2)	20,790	8,581	1,206,359	1,235,730	1,307,202
Deposits	17,469			17,469	13,240
Property & equipment, net (Note 5)	155,982			155,982	153,315
Intangible assets, net (Note 6)	25,554			25,554	35,090
 TOTAL ASSETS	 <u>\$ 983,949</u>	 <u>\$ 6,915,562</u>	 <u>\$ 1,251,817</u>	 <u>\$ 9,151,328</u>	 <u>\$ 8,611,662</u>
 LIABILITIES & NET ASSETS					
Current Liabilities:					
Education grants & scholarships payable (Note 17)	\$ 190,093			\$ 190,093	\$ 175,753
Accounts payable & accrued expenses	172,838			172,838	173,153
Accrued vacation pay	92,984			92,984	71,588
Deferred revenue	10,000			10,000	23,750
Total current liabilities	<u>465,915</u>	<u>-</u>	<u>-</u>	<u>465,915</u>	<u>444,244</u>
Deferred rent (Note 7)	110,631			110,631	67,640
TOTAL LIABILITIES	576,546	-	-	576,546	511,884
Net Assets:					
Unrestricted (Note 8)	407,403			407,403	554,740
Temporarily restricted (Note 9)		\$ 6,915,562		6,915,562	6,293,721
Permanently restricted (Note 11)			\$ 1,251,817	1,251,817	1,251,317
NET ASSETS	<u>407,403</u>	<u>6,915,562</u>	<u>1,251,817</u>	<u>8,574,782</u>	<u>8,099,778</u>
 TOTAL LIABILITIES & NET ASSETS	 <u>\$ 983,949</u>	 <u>\$ 6,915,562</u>	 <u>\$ 1,251,817</u>	 <u>\$ 9,151,328</u>	 <u>\$ 8,611,662</u>

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, 2016 with Comparative Totals for the Year Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>6/30/16 Total</u>	<u>6/30/15 Total (Note 2)</u>
Support & revenue:					
Grants, donations & awards	\$1,143,113	\$5,976,525	\$ 500	\$7,120,138	\$6,996,559
Net assets released from restriction:					
Satisfaction of donor requirements (Note 10)	5,397,208	(5,397,208)		-	-
In-kind contributions	65,959			65,959	16,380
Special events, net of direct expenses of \$96,173 in 2016 and \$113,537 in 2015	1,026,223	50,000		1,076,223	616,428
Change in value of beneficial interest in assets held by Marin Community Foundation	(4,522)	(7,476)		(11,998)	23,179
Other income	44,627			44,627	2,159
Total support & revenue	7,672,608	621,841	500	8,294,949	7,654,705
Expenses:					
Net grants and scholarships (Note 16)	2,643,054			2,643,054	2,842,301
Outreach programs and program support services	2,851,779			2,851,779	2,583,750
Total program expenses	5,494,833			5,494,833	5,426,051
General & administrative	1,227,784			1,227,784	976,032
Fundraising	1,097,328			1,097,328	1,042,440
Total expenses	7,819,945	-	-	7,819,945	7,444,523
Change in Net Assets	(147,337)	621,841	500	475,004	210,182
NET ASSETS, July 1	554,740	6,293,721	1,251,317	8,099,778	7,889,596
NET ASSETS, June 30	\$ 407,403	\$6,915,562	\$1,251,817	\$8,574,782	\$8,099,778

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

10,000 Degrees

Statement of Functional Expenses for the Year Ended June 30, 2016 with Comparative Totals for the Year Ended June 30, 2015

	Programs	General & Administrative	Fundraising	Shared Costs	6/30/16 Total	6/30/15 Total (Note 2)
Gross grants & scholarships (Note 17)	\$ 3,080,532	\$ -	\$ -	\$ -	\$ 3,080,532	\$ 3,227,530
Less: modifications	(437,478)	-	-	-	(437,478)	(385,229)
Net grants & scholarships	2,643,054	-	-	-	2,643,054	2,842,301
Salaries	1,332,553	444,138	543,174	-	2,319,865	1,943,875
Payroll taxes & benefits	334,035	128,683	167,016	-	629,734	518,441
Rent	-	1,972	-	215,129	217,101	166,087
Accounting & audit	-	57,917	-	-	57,917	57,306
Legal	2,085	5,108	-	-	7,193	10,734
Consultants & contractors	331,360	282,790	9,020	5,176	628,346	770,834
Public relations / communications	37,099	142,254	22,845	(11)	202,187	125,192
Program supplies & facilities	261,365	-	263	-	261,628	292,134
Program transportation & meals	183,382	-	-	-	183,382	155,385
Other supplies	7,838	15,064	3,802	33,259	59,963	73,250
Computer services	2,343	3,484	4,800	30,887	41,514	70,919
Grantmaking	4,525	-	-	-	4,525	4,025
Telephone & internet	13,693	4,820	619	40,520	59,652	47,243
Equipment rental & service	-	1,005	-	22,606	23,611	19,029
Staff development	17,119	9,803	7,829	600	35,351	29,328
Board expenses	-	6,016	-	-	6,016	4,500
Travel	15,651	29,038	14,228	3,574	62,491	55,512
Event production	-	-	244,838	-	244,838	149,044
Postage	1,488	78	7,343	1,613	10,522	11,724
Dues & memberships	35,796	2,759	4,206	374	43,135	21,565
Depreciation	-	-	-	34,392	34,392	28,206
Other	2,699	35,400	3,633	1,796	43,528	47,889
Shared cost allocation	268,748	57,455	63,712	(389,915)	-	-
Total Expenses	\$ 5,494,833	\$ 1,227,784	\$ 1,097,328	\$ -	\$ 7,819,945	\$ 7,444,523

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

10,000 Degrees

Statement of Cash Flows for the Year Ended June 30, 2016 with Comparative Totals for the Year Ended June 30, 2015

	<u>6/30/16</u>	<u>6/30/15</u> <u>(Note 2)</u>
Cash flows from operating activities:		
Change in net assets	\$ 475,004	\$ 210,182
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation & amortization expense	50,736	54,502
Accrual of deferred rent	42,991	30,420
(Gains)/losses on beneficial interest in assets held by Marin Community Foundation	27,576	(5,585)
Changes in assets and liabilities:		
Decrease (increase) in grants/contributions receivable	(793,380)	(1,073,666)
Decrease (increase) in other receivables	(7,103)	72
Decrease (increase) in prepaid expenses & deposits	(19,231)	(36,212)
Increase (decrease) in grants & scholarships payable	14,340	(172,947)
Increase (decrease) in accounts payable	(315)	10,981
Increase (decrease) in accrued vacation pay	21,396	1,823
Increase (decrease) in deferred revenue	<u>(13,750)</u>	<u>23,750</u>
Cash provided (used) by operating activities:	(201,736)	(956,680)
 Cash flows from investing activities:		
Liquidation of (additional investment in) beneficial interest in assets held by Marin Community Foundation	47,658	48,968
Liquidation of (investment in) cash held for long-term purposes	(16,407)	(5,677)
Liquidation of (investment in) certificates of deposit	(250)	110,028
Purchase of fixed assets	(37,058)	(107,000)
Purchase of intangible assets	<u>(6,809)</u>	<u>(14,800)</u>
Cash provided (used) by investing activities:	(12,866)	31,519
 Increase (decrease) in cash	 (214,602)	 (925,161)
Cash & cash equivalents, July 1	<u>3,000,756</u>	<u>3,925,917</u>
 Cash & cash equivalents, June 30	 <u>\$ 2,786,154</u>	 <u>\$ 3,000,756</u>

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

10,000 Degrees

Notes to Financial Statements June 30, 2016

1. The Organization

The mission of 10,000 Degrees (a nonprofit corporation) 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 (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

10,000 Degrees was established as a supporting organization to the MCF. 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. For financial reporting purposes, this change was effective November 2015.

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.

(continued)

10,000 Degrees

Notes to Financial Statements June 30, 2016

(continued)

Permanently restricted net assets, which includes resources subject to donor-imposed restrictions that require permanent investment by the Organization.

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 MCF through October 2015 is disclosed as related party support in Note 15.

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 3.45% to 4.01%) that is predicated upon the *Daily Treasury Yield Curve Rate*.

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 MCF

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, 2016

(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 (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 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 recognized public charity 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, 2016, 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 2016 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 2016 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, 2015, 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, 2015, financial statements have been reclassified to conform to the June 30, 2016, presentation.

10,000 Degrees

Notes to Financial Statements June 30, 2016

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, 2016 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	\$500,672	\$500,672		
Beneficial Interest in Assets held by MCF	\$1,300,768		\$1,300,768	

All investments have been valued using a market approach. Fair value of the Beneficial Interest in Assets held by MCF, representing pooled funds that consist of approximately 65% equities, 31% fixed income securities and 4% 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/(loss) for the year attributable to non-level 1 assets still held by the Organization at year-end is (\$11,998).

4. Grants & Contributions Receivable

	Due in One Year	Due in 1 – 5 Years	Total
Grants & Contributions Receivable, face value	\$3,315,391	\$934,379	\$4,249,770
Discount to Present Value		(54,712)	(54,712)
Grants & Contributions Receivable, net	\$3,315,391	\$879,667	\$4,195,058

10,000 Degrees

Notes to Financial Statements June 30, 2016

5. Property & Equipment

Fixed assets consisted of the following at June 30, 2016:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Office Furniture & Equipment	\$216,623	\$143,399	\$73,224
Leasehold Improvements	100,472	17,714	82,758
Software	<u>27,780</u>	<u>27,780</u>	<u>0</u>
Total	\$344,875	\$188,893	\$155,982

6. Intangible Assets

Intangible assets consisted of the following at June 30, 2016:

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Videos	\$75,050	\$68,104	\$6,946
Website	<u>38,609</u>	<u>20,001</u>	<u>18,608</u>
Total	\$113,659	\$88,105	\$25,554

Amortization expense for the year was \$16,344. The future estimated amortization expense for intangible assets on the books as of June 30, 2016 is as follows:

Fiscal Year Ending in:

2016	\$14,149
2017	7,203
2018	<u>4,202</u>
Total	\$25,554

7. Deferred Rent

When 10,000 Degrees moved into its current premises, 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

The balance of unrestricted net assets consists of the following:

General	\$64,934
Board-designated operating reserve	300,000
Board-designated endowment (see Note 11)	87,927
Less: deficit of permanently restricted endowment funds (see Note 11)	<u>(45,458)</u>
Total unrestricted net assets	\$407,403

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Notes to Financial Statements June 30, 2016

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	\$3,750,721
General & scholarship support	2,330,944
Collective Impact / Marin Promise	415,006
10,000 Degrees Institute Program	410,000
Other	<u>8,891</u>
Total temporarily restricted net assets	\$6,915,562

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	\$2,693,591
General & scholarships support	1,696,906
Collective Impact / Marin Promise	459,244
10,000 Degrees Institute Program	481,521
Other	<u>65,946</u>
Total net assets released from restriction	\$5,397,208

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.

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

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10,000 Degrees

Notes to Financial Statements June 30, 2016

(continued)

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, 2016 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds		\$6,482	\$1,251,817	\$1,258,299
Deficit of endowment funds (owed by Unrestricted to Permanently Restricted)	(\$45,458)			(45,458)
Board-designated endowment funds	<u>87,927</u>			<u>87,927</u>
Total	\$42,469	\$6,482	\$1,251,817	\$1,300,768

Changes in endowment net assets as of June 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$60,136	\$64,549	\$1,251,317	\$1,376,002
Contributions			500	500
Investment income	5,047	10,531		15,578
Net appreciation (depreciation)	(9,569)	(18,007)		(27,576)
Amounts appropriated for expenditure	<u>(13,145)</u>	<u>(50,591)</u>		<u>(63,736)</u>
Endowment net assets, end of year	\$42,469	\$6,482	\$1,251,817	\$1,300,768

Due to investment losses incurred, the fair value of assets held in the donor-restricted endowment funds is \$45,458 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.

10,000 Degrees

Notes to Financial Statements June 30, 2016

12. Operating Leases

10,000 Degrees rents its San Rafael office under a 10-year 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 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%. 10,000 Degrees 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 5 years at the prevailing fair market value.

10,000 Degrees also rents two copy machines and a postage meter under operating leases with various terms.

The future minimum lease payments for all leases are as follows:

<u>Fiscal Year Ending in:</u>	
2017	\$223,052
2018	237,391
2019	243,828
2020	239,817
2021	242,201
Thereafter	<u>542,021</u>
Total future minimum lease payments	\$1,728,310

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, 2016, 10,000 Degrees contributed a total of \$87,810 to employee retirement benefits.

14. Concentrations

Funding

For the year ended June 30, 2016, revenue received from childcare scholarship funds and donor advised funds and other funds held at MCF was approximately 20% of total revenue and support. Support received from the Buck Fund distribution, another fund managed by MCF, consisting of approximately \$1.9 in grants awarded on a competitive basis, was approximately 23% of revenue and support for the year.

Cash Deposits

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, 2016, the Organization had approximately \$366,000 of cash and cash equivalents over the FDIC limits.

Investments

In addition, 10,000 Degrees' Beneficial Interest in MCF, which was valued at approximately \$1,300,000 as of the balance sheet date, is invested in various securities that are subject to market fluctuation.

10,000 Degrees

Notes to Financial Statements June 30, 2016

15. Related Party Transactions

As discussed in Note 1, 10,000 Degrees was a supporting organization of the MCF through October 2015. During the period of July through October 2015, funding from MCF totaling approximately \$428,000 constituted related party support.

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, 2016 may differ materially from what is currently reflected in the financial statements.

17. Management's Review of Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 8, 2016, which is the date the financial statements were available to be issued.