

10,000 DEGREES

Financial Statements &
Independent Auditor's Report
for the year ended
June 30, 2013



TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
FINANCIAL STATEMENTS	2
Statement of Financial Position	2
Statement of Activities and Changes in Net Assets.....	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements.....	6



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, 2013, 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, 2013, 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, 2012 financial statements of 10,000 Degrees and our report dated August 24, 2012 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, 2012 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

Cook & Company
Certified Public Accountant
August 22, 2013

10,000 Degrees

Statement of Financial Position June 30, 2013 with Comparative Totals for June 30, 2012

ASSETS	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>6/30/13 Total</u>	<u>6/30/12 Total (Note 2)</u>
Current Assets:					
Cash & cash equivalents	\$1,001,622	\$2,267,339		\$3,268,961	\$3,916,022
Investment - certificates of deposit	110,218	500,216		610,434	110,004
Grants & contributions receivable - current (Note 4)	490,477	1,189,000		1,679,477	1,236,797
Due from related party (Note 5)	122,000	315,000		437,000	412,500
Other receivables	26,099			26,099	0
Prepaid expenses	81,793			81,793	54,588
Beneficial interest in assets held by Marin					
Community Foundation - current portion (Note 2)		65,857		65,857	62,799
Total current assets	<u>1,832,209</u>	<u>4,337,412</u>	<u>0</u>	<u>6,169,621</u>	<u>5,792,710</u>
Cash held for long-term investment			\$37,492	37,492	64,733
Grants & contributions receivable - long-term (Note 4)		144,193		144,193	287,790
Due from related party - long-term (Note 5)		253,807		253,807	550,034
Beneficial interest in assets held by Marin					
Community Foundation (Note 2)	14,528	41,749	1,195,008	1,251,285	1,193,172
Furniture, equipment & leasehold improvements, net (Note 6)	49,565			49,565	46,316
Other assets	<u>62,025</u>			<u>62,025</u>	<u>60,014</u>
TOTAL ASSETS	<u>\$1,958,327</u>	<u>\$4,777,161</u>	<u>\$1,232,500</u>	<u>\$7,967,988</u>	<u>\$7,994,769</u>
LIABILITIES & NET ASSETS					
Current Liabilities:					
Education grants & scholarships payable (Note 16)	\$586,500			\$586,500	\$190,317
Due to related party (Note 15)	45,929			45,929	45,929
Accounts payable	123,039			123,039	42,992
Accrued vacation pay	60,930			60,930	61,623
Deferred rent - current portion (Note 7)	16,034			16,034	24,668
Total current liabilities	<u>832,432</u>	<u>0</u>	<u>0</u>	<u>832,432</u>	<u>365,529</u>
Deferred rent	<u>0</u>			<u>0</u>	<u>16,039</u>
TOTAL LIABILITIES	832,432	0	0	832,432	381,568
Net Assets:					
Unrestricted (Note 8)	1,125,895			1,125,895	1,179,493
Temporarily restricted (Note 9)		\$4,777,161		4,777,161	5,206,964
Permanently restricted (Note 11)			\$1,232,500	1,232,500	1,226,744
NET ASSETS	<u>1,125,895</u>	<u>\$4,777,161</u>	<u>\$1,232,500</u>	<u>7,135,556</u>	<u>7,613,201</u>
TOTAL LIABILITIES & NET ASSETS	<u>\$1,958,327</u>	<u>\$4,777,161</u>	<u>\$1,232,500</u>	<u>\$7,967,988</u>	<u>\$7,994,769</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, 2013 with Comparative Totals for the Year Ended June 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>6/30/13 Total</u>	<u>6/30/12 Total (Note 2)</u>
Support & revenue:					
Grants & donations	\$271,771	\$3,198,492	\$500	\$3,470,763	\$3,070,000
Related party support-Marin Community Foundation					
Child Care Scholarship Fund		408,460		408,460	391,475
Donor-advised and other funds	56,000	571,226		627,226	579,204
Net assets released from restriction:					
Satisfaction of donor requirements (Note 10)	4,908,310	(4,908,310)		0	0
In-kind contributions	7,314			7,314	27,095
Special events, net of direct expenses of \$103,236 in 2013 and \$89,169 in 2012	155,119	217,761		372,880	301,495
Program revenue	2,605			2,605	5,950
Change in value of beneficial interest in assets held by Marin Community Foundation	28,533	82,568	5,256	116,357	5,768
Interest	2,846			2,846	5,803
Other income	1,655			1,655	3,862
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total support & revenue	5,434,153	(429,803)	5,756	5,010,106	4,390,652
Expenses:					
Net grants and scholarships (Note 16)	2,494,431			2,494,431	1,740,849
Outreach programs and program support services	1,873,232			1,873,232	1,360,849
Total program expenses	4,367,663			4,367,663	3,101,698
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
General & administrative	363,668			363,668	319,512
Fundraising	756,420			756,420	632,155
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total expenses	5,487,751	0	0	5,487,751	4,053,365
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Change in Net Assets	(53,598)	(429,803)	5,756	(477,645)	337,287
NET ASSETS, July 1	1,179,493	5,206,964	1,226,744	7,613,201	7,275,914
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
NET ASSETS, June 30	<u>\$1,125,895</u>	<u>\$4,777,161</u>	<u>\$1,232,500</u>	<u>\$7,135,556</u>	<u>\$7,613,201</u>

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

10,000 Degrees

Statement of Functional Expenses for the Year Ended June 30, 2013 With Comparative Totals for the Year Ended June 30, 2012

	Programs	General & Administrative	Fundraising	Shared Costs	6/30/13 Total	6/30/12 Total (Note 2)
Gross grants & scholarships (Note 16)	\$2,756,526				\$2,756,526	\$1,959,073
Less: modifications	(262,095)				(262,095)	(218,224)
Net grants & scholarships	2,494,431				2,494,431	1,740,849
Salaries	759,194	\$155,380	\$361,244		1,275,818	1,106,222
Payroll taxes & benefits	168,024	43,240	87,073	\$37,643	335,980	267,970
Rent				167,340	167,340	183,571
Accounting & audit		56,845			56,845	59,409
Legal	575	1,080	576		2,231	6,660
Consultants & contractors	309,253	49,052	51,366	21,390	431,061	146,116
Public relations / communications	4,600		75,394	5,059	85,053	46,168
Program supplies & facilities	261,675			315	261,990	173,361
Program transportation & meals	62,837		921		63,758	29,006
Other supplies	5,176	603	2,373	27,418	35,570	36,299
Computer services	2,105	510	10,221	39,982	52,818	39,588
Grantmaking	8,037	178			8,215	4,019
Telephone & internet	6,827			24,205	31,032	22,322
Equipment rental & service				18,065	18,065	15,245
Staff development	460	150	935	3,250	4,795	8,676
Board expenses		2,064			2,064	12,310
Travel	14,816	1,162	4,442	10,975	31,395	26,890
Events			62,688		62,688	61,102
Postage	411	74	220	3,689	4,394	5,647
Dues & memberships	7,206	150	5,152	4,708	17,216	15,282
Depreciation				10,400	10,400	12,635
Other	15	13,607	7,251	13,719	34,592	34,018
Allocation of shared costs	262,021	39,573	86,564	(388,158)	0	0
Total Expenses	\$4,367,663	\$363,668	\$756,420	\$0	\$5,487,751	\$4,053,365

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

10,000 Degrees

Statement of Cash Flows for the Year Ended June 30, 2013 with Comparative Totals for the Year Ended June 30, 2012

	<u>6/30/13</u>	<u>6/30/12</u>
Cash flows from operating activities:		
Change in net assets	(\$477,645)	\$337,287
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation & amortization expense	27,738	17,022
Loss on disposal of fixed assets	0	6,780
Amortization of deferred rent	(24,673)	(20,147)
Realized and unrealized (gains)/losses on beneficial interest in assets held by Marin Community Foundation	(97,818)	3,931
Changes in assets and liabilities:		
Decrease (increase) in grants/contributions receivable	(299,083)	914,522
Decrease (increase) in receivable from related party	271,727	159,352
Decrease (increase) in other receivables	(26,099)	7,491
Decrease (increase) in prepaid expenses & deposits	(26,502)	(15,774)
Increase (decrease) in accounts payable	80,047	20,044
Increase (decrease) in accrued payroll liabilities	0	(366)
Increase (decrease) in accrued vacation pay	(693)	18,303
Increase (decrease) in grants & scholarships payable	396,183	(124,683)
Cash provided (used) by operating activities:	(176,818)	1,323,762
Cash flows from investing activities:		
Liquidation of (additional investment in) beneficial interest in assets held by Marin Community Foundation	36,645	61,803
Investment in cash held for long-term purposes	27,241	(41,296)
Liquidation of (investment in) certificates of deposit	(500,430)	(272)
Purchase of fixed assets	(13,649)	(42,085)
Purchase of intangible assets	(20,050)	(47,000)
Cash provided (used) by investing activities:	(470,243)	(68,850)
Increase (decrease) in cash	(647,061)	1,254,912
Cash & cash equivalents, July 1	3,916,022	2,661,110
Cash & cash equivalents, June 30	<u><u>\$3,268,961</u></u>	<u><u>\$3,916,022</u></u>

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

10,000 Degrees

Notes to Financial Statements June 30, 2013

1. The Organization

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

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

The Key Elements of Our Programs Include:

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

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

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

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

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

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.

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.

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10,000 Degrees

Notes to Financial Statements June 30, 2013

(continued)

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 as well as money market funds held with an investment brokerage. 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 of 4.41%, which is predicated upon the *Daily Treasury Yield Curve Rate*. An allowance for doubtful accounts has been recorded based on management's estimate of uncollectible amounts.

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, 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 \$1,000 consist of leasehold improvements, office equipment 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.

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 occurs primarily because recipient eligibility has changed (i.e. they did not enroll for sufficient college coursework).

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

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10,000 Degrees

Notes to Financial Statements June 30, 2013

(continued)

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, 2013, 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.

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, 2012, 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, 2012 financial statements have been reclassified to conform to the June 30, 2013 presentation.

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).

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10,000 Degrees

**Notes to Financial Statements
June 30, 2013**

(continued)

Fair values of assets measured on a recurring basis at June 30, 2013 are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of Deposit	\$610,434	\$610,434		
Beneficial Interest in Assets held by Marin Community Foundation	\$1,317,142			\$1,317,142

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
July 1, 2012	\$1,255,971
Investment Income	116,357
Contributions / Purchases	1,500
Distributions	(47,070)
Investment Fees	(9,616)
June 30, 2013	\$1,317,142

All investments have been valued using a market approach. Fair value of the Beneficial Interest in Assets held by Marin Community Foundation (level 3), consisting of approximately 65% equities, 31% fixed income securities and 4% cash equivalents, is determined by the management of the underlying investment funds held at MCF. The total unrestricted gain for the year attributable to level 3 assets still held by the Organization at year-end is \$28,533.

4. Grants & Contributions Receivable

	Due in One Year	Due in 1 – 5 Years	Total
Grants & Contributions Receivable, face value	\$1,698,477	\$152,500	\$1,850,977
Allowance for Doubtful Accounts	(19,000)		(19,000)
Discount to Present Value		(8,307)	(8,307)
Grants & Contributions Receivable, net	\$1,679,477	\$144,193	\$1,823,670

10,000 Degrees

**Notes to Financial Statements
June 30, 2013**

5. Due from Related Party

	Due in One Year	Due in 1 – 5 Years	Total
Due from Related Party, face value	\$437,000	\$265,000	\$702,000
Discount to Present Value		<u>(11,193)</u>	<u>(11,193)</u>
Due from Related Party, net	<u>\$437,000</u>	\$253,807	\$690,807

6. Property & Equipment

	Cost	Accumulated Depreciation	Net Book Value
Office Furniture & Equipment	\$183,616	\$134,051	\$49,565
Leasehold Improvements	<u>11,137</u>	<u>11,137</u>	<u>0</u>
Total	\$194,753	\$145,188	\$49,565

7. Deferred Rent

When 10,000 Degrees moved into its current premises in July 2003, the first six months of rent were “free”. 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 2013.

8. Unrestricted Net Assets

Unrestricted net assets consists of the following:

General	\$769,494
Board-designated operating reserve	300,000
Board-designated endowment (see Note 11)	93,893
Less: deficit of permanently restricted endowment funds (see Note 11)	<u>(37,492)</u>
Total unrestricted net assets	\$1,125,895

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	\$3,825,653
General support for future periods	810,000
Collective Impact / Marin Promise	90,508
10,000 Degrees Institute Program	45,000
Other program support	<u>6,000</u>
Total temporarily restricted net assets	\$4,777,161

10,000 Degrees

Notes to Financial Statements June 30, 2013

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:

Scholarship awards	\$2,494,431
General support for future periods	1,484,016
10,000 Degrees Institute Program	182,000
Marin Kids Program	177,360
Scholarship administration	124,995
Sonoma County program support	121,315
College completion / student support	100,914
Collective Impact / Marin Promise	99,692
College & financial aid counseling	46,087
College Knowledge Project	40,000
Richmond pilot project	<u>37,500</u>
Total net assets released from restriction	\$4,908,310

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 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

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10,000 Degrees

Notes to Financial Statements June 30, 2013

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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, 2013 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$28,239	\$1,195,008	\$1,223,247
Deficit of endowment funds (owed by Unrestricted to Permanently Restricted)	(\$37,492)		37,492	0
Board-designated endowment funds	<u>93,893</u>	<u> </u>	<u> </u>	<u>93,893</u>
Total	\$56,401	\$28,239	\$1,232,500	\$1,317,140

Changes in endowment net assets as of June 30, 2013 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$25,861	\$3,366	\$1,226,744	\$1,255,971
Contributions			500	500
Transfers in	54,980			54,980
Investment Income	5,494	13,045		18,539
Net appreciation (depreciation)	23,039	69,523	5,256	97,818
Amounts appropriated for expenditure	<u>(52,973)</u>	<u>(57,695)</u>	<u>0</u>	<u>(110,668)</u>
Endowment net assets, end of year	\$56,401	\$28,239	\$1,232,500	\$1,317,140

Due to investment losses that occurred during previous fiscal years, the fair value of assets held in the donor-restricted endowment funds is \$37,492 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, 2013

12. Operating Leases

10,000 Degrees leases its office space on Lincoln Avenue in San Rafael under an operating lease that extends through 2013. As mentioned in Note 7, the initial six months of the lease were rent-free. During the fiscal year ended June 30, 2013, monthly rent was \$15,277 during the first six months and \$15,680 during the second six months. 10,000 Degrees also leases its copier and postage meter. Future minimum lease payments are \$94,080 for the 2013-2014 fiscal year and \$4,960 for each of the three subsequent fiscal years.

13. Retirement Plan

10,000 Degrees maintains a 401(k) plan which 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, 2013, 10,000 Degrees contributed a total of \$36,476 to employee retirement benefits.

14. Concentrations

For the year-ended June 30, 2013, revenue directly received from MCF was approximately 24% of total revenue and support comprised of child care scholarship funds and donor advised and other funds. Revenue indirectly received from MCF was approximately 41% of income for the year comprised primarily of a \$1,800,000 grant awarded on a competitive basis and received from a fund that is managed by MCF.

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, 2013, the Organization had approximately \$2,800,000 of cash and cash equivalents over the FDIC limits.

In addition, 10,000 Degrees' Beneficial Interest in Marin Community Foundation, which totaled approximately \$1,300,000, is invested in various securities that are subject to market fluctuation.

15. Related Party Transactions

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

Statement of Financial Position – June 30, 2013

Due from Related Party	\$690,807
Beneficial Interest in Assets held by MCF	\$1,317,142
Due to the Buck Trust	\$45,929

Statement of Activity – July 1, 2012 to June 30, 2013

Support - Child Care Scholarship Fund grant	\$408,460
Support - Donor Advised Funds & grants	\$627,226
Revenue – change in value of beneficial interest in assets held by MCF	\$116,357

10,000 Degrees

Notes to Financial Statements June 30, 2013

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 past experience, it is possible that the scholarship expense and associated liability for June 30, 2013 may differ materially from what is currently reflected in the financial statements.

17. Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through August 22, 2013, which is the date the financial statements were available to be issued.