

DEGREES OF CHANGE

Reviewed Financial Statements

June 30, 2017 and 2016

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Independent Accountant's Review Report

Board of Directors
Degrees of Change
Tacoma, Washington

We have reviewed the accompanying financial statements of Degrees of Change (a nonprofit organization) (the "Organization"), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses and cash flows for the years then ended and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Organization management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

JOHNSON, STONE & PAGANO, P.S.

October 17, 2017

REVIEWED FINANCIAL STATEMENTS

DEGREES OF CHANGE

STATEMENTS OF FINANCIAL POSITION

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 165,362	\$ 112,446
Accounts and grants receivable	60,119	139
Prepaid expenses	<u>4,297</u>	<u>17,961</u>
Total Current Assets	229,778	130,546
FURNITURE AND EQUIPMENT, net	2,758	3,649
OTHER ASSETS		
Act Six program, net	38,350	42,283
College enrollment data software, net	<u>60,240</u>	<u>51,203</u>
Total Other Assets	<u>98,590</u>	<u>93,486</u>
TOTAL ASSETS	<u>\$ 331,126</u>	<u>\$ 227,681</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 9,558	\$ 910
Accrued expenses	18,987	10,370
Unearned revenue	<u>29,585</u>	<u>42,108</u>
Total Current Liabilities	58,130	53,388
NET ASSETS		
Unrestricted	109,849	118,207
Temporarily restricted	<u>163,147</u>	<u>56,086</u>
Total Net Assets	<u>272,996</u>	<u>174,293</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 331,126</u>	<u>\$ 227,681</u>

See independent accountant's review report and accompanying notes to financial statements.

DEGREES OF CHANGE

STATEMENTS OF ACTIVITIES

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
UNRESTRICTED REVENUES		
Foundation grants	\$ 614,648	\$ 310,777
Contributions	81,377	41,541
Other earned income	241,592	198,692
Net assets released from restrictions	<u>56,086</u>	
Total Revenues	993,703	551,010
UNRESTRICTED EXPENSES		
Program services		
Act Six	322,072	191,560
Ready to Rise	544,508	236,614
Consulting	<u>39,179</u>	<u>26,185</u>
Total Program Services	905,759	454,359
Supporting services		
Management and general	53,037	66,841
Fundraising	<u>43,265</u>	
Total Supporting Services	<u>96,302</u>	<u>66,841</u>
Total Expenses	<u>1,002,061</u>	<u>521,200</u>
Increase (Decrease) in Unrestricted Net Assets	(8,358)	29,810
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	163,147	56,086
Net assets released from restrictions	<u>(56,086)</u>	
Increase in Temporarily Restricted Net Assets	<u>107,061</u>	<u>56,086</u>
INCREASE IN NET ASSETS	98,703	85,896
Net Assets at Beginning of Year	<u>174,293</u>	<u>88,397</u>
NET ASSETS AT END OF YEAR	<u>\$ 272,996</u>	<u>\$ 174,293</u>

See independent accountant's review report and accompanying notes to financial statements.

DEGREES OF CHANGE

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2017 with Comparative Totals for 2016

	Program Services			Total Program Services	Supporting Services		Total Supporting Services	Total Expenses 2017	Total Expenses 2016
	Act Six	Ready to Rise	Consulting		Management and General	Fundraising			
Salaries and benefits	\$ 201,112	\$ 179,422	\$ 13,675	\$ 394,209	\$ 27,177	\$ 25,856	\$ 53,033	\$ 447,242	\$ 306,961
Program	1,143	12,451		13,594				13,594	5,255
Convention	67,941			67,941				67,941	
Operations	5,523	1,574	800	7,897	6,937	255	7,192	15,089	15,331
Facility	13,564	13,680		27,244	3,254	1,300	4,554	31,798	26,346
Equipment and technology	13,648	9,007	74	22,729	5,567	3,166	8,733	31,462	33,351
Travel	6,420	13,617	1,507	21,544	265	1,033	1,298	22,842	16,574
Meetings and training	735	4,198	499	5,432	2,949	1,655	4,604	10,036	6,856
Consulting and contracts	2,745	309,668		312,413	6,888	10,000	16,888	329,301	93,444
Depreciation and amortization	9,241	891	22,624	32,756				32,756	17,082
TOTAL	<u>\$ 322,072</u>	<u>\$ 544,508</u>	<u>\$ 39,179</u>	<u>\$ 905,759</u>	<u>\$ 53,037</u>	<u>\$ 43,265</u>	<u>\$ 96,302</u>	<u>\$ 1,002,061</u>	<u>\$ 521,200</u>

See independent accountant's review report and accompanying notes to financial statements.

DEGREES OF CHANGE

STATEMENTS OF FUNCTIONAL EXPENSES (Continued)

Year Ended June 30, 2016

	Program Services			Total Program Services	Supporting Services	Total Expenses 2016
	Act Six	Ready to Rise	Consulting		Management and General	
Salaries and benefits	\$ 114,241	\$ 144,414	\$ 10,860	\$ 269,515	\$ 37,446	\$ 306,961
Program	5,255			5,255		5,255
Operations	4,946	1,947	908	7,801	7,530	15,331
Facility	11,627	10,069	201	21,897	4,449	26,346
Equipment and technology	11,931	18,164	164	30,259	3,092	33,351
Travel	5,097	8,738	1,907	15,742	832	16,574
Meetings and training	640	3,258	171	4,069	2,787	6,856
Consulting and contracts	33,000	49,739		82,739	10,705	93,444
Depreciation and amortization	4,823	285	11,974	17,082		17,082
TOTAL	\$ 191,560	\$ 236,614	\$ 26,185	\$ 454,359	\$ 66,841	\$ 521,200

See independent accountant's review report and accompanying notes to financial statements.

DEGREES OF CHANGE

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 98,703	\$ 85,896
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	32,756	17,082
(Increase) decrease in assets		
Accounts and grants receivable	(59,980)	10,001
Prepaid expenses	13,664	(16,224)
Increase (decrease) in liabilities		
Accounts payable	8,648	(1,187)
Accrued expenses	8,617	10,309
Unearned revenue	<u>(12,523)</u>	<u>33,108</u>
Net Cash Provided by Operating Activities	89,885	138,985
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of other assets	<u>(36,969)</u>	<u>(41,492)</u>
NET INCREASE IN CASH	52,916	97,493
Cash at Beginning of Year	<u>112,446</u>	<u>14,953</u>
CASH AT END OF YEAR	<u>\$ 165,362</u>	<u>\$ 112,446</u>

See independent accountant's review report and accompanying notes to financial statements.

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Degrees of Change (the "Organization") is a Washington nonprofit corporation. The purpose of the Organization is to develop and provide leadership training, college scholarships, support for college access and success and career development services. The Organization's funding is received under grants with local agencies, from program service fees and donations.

Basis of Accounting and Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this accounting method, revenues are recognized in the year earned, support is recognized in the year in which it is unconditionally promised and expenses are recorded in the year incurred.

Information regarding financial position and activities are reported as unrestricted, temporarily restricted or permanently restricted based on the existence or absence of donor-imposed restrictions. There are no permanently restricted net assets held at June 30, 2017 or 2016.

Cash

For purposes of the statements of cash flows, the Organization considers cash to be cash on hand and in checking and savings accounts.

Contributions, Accounts and Grants Receivable

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor imposed restrictions. Contributions, including unconditional promises to give, are recognized in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate using the U.S. Treasury rates corresponding to the period in which the contribution is to be received.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reported as a transfer to unrestricted net assets (restrictions released) in the statements of activities. Contributions of cash or other assets that are restricted to acquire long-lived assets are reported as increases in temporarily restricted net assets until the assets are acquired and placed into service.

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions, Accounts and Grants Receivable (Continued)

Grant revenue and the related receivable are realized when unconditionally promised. Grants received with conditions are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Management considers accounts and grants receivable to be fully collectible; accordingly, no allowance for doubtful accounts is recorded. If an amount becomes uncollectible, it will be charged to operations when that determination is made. All accounts and grants receivable are current at June 30, 2017.

Furniture and Equipment

Furniture and equipment are recorded at cost when purchased or at fair market value when donated; the recorded cost is capitalized with depreciation provided over the estimated useful lives (ranging from 3 to 7 years) of the respective assets using the straight-line method when the cost or fair value exceeds \$1,000.

Other Assets

During the year ended June 30, 2012, the Organization purchased the rights for the Act Six program that it developed over several years from another nonprofit organization, Northwest Leadership Foundation ("NLF"). During the year ended June 30, 2015, the Organization began to internally develop a college enrollment data software program that was placed into service during the year ended June 30, 2016. These costs are amortized using the straight-line method over 15 years for the Act Six program and over 3 years for the software.

Amortization expense was \$31,865 and \$16,192 for the years ended June 30, 2017 and 2016, respectively.

The estimated aggregate amortization expense for subsequent years is as follows:

Year ending June 30:

2018	\$ 35,048
2019	\$ 26,332
2020	\$ 10,660
2021	\$ 3,933
2022	\$ 3,933

Unearned Revenue

The Organization's unearned revenue reflects amounts received for events or activities that will occur or be provided and the revenue earned in the following fiscal year.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of 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 the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The management of the Organization evaluated subsequent events and transactions for potential recognition and disclosure through October 17, 2017, the date of completion of the accountant's review procedures. Material subsequent events requiring recognition or disclosure have been recorded or disclosed as required.

NOTE 2 - CONCENTRATION OF CREDIT RISK

Cash includes cash on deposit with a financial institution. Accounts at this financial institution are insured by the Federal Deposit Insurance Corporation ("FDIC") with basic coverage up to \$250,000. At June 30, 2017, the Organization's cash balances at this institution did not exceed the insured amounts.

NOTE 3 - FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Furniture and equipment	\$ 6,232	\$ 7,232
Less accumulated depreciation	<u>3,473</u>	<u>3,583</u>
	<u>\$ 2,758</u>	<u>\$ 3,649</u>

Depreciation expense was \$891 and \$890 for the years ended June 30, 2017 and 2016, respectively.

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

The balance in temporarily restricted net assets as of June 30, 2017 and 2016 consisted of \$163,147 and \$56,086 in foundation grants to be used to operate specific programs, respectively.

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NOTES TO FINANCIAL STATEMENTS

June 30, 2017 and 2016

NOTE 5 - OPERATING LEASES

Beginning July 26, 2015, the Organization leased office space under two noncancelable leases. In 2017, the monthly rental rate was \$1,890. Total rent expense for the year ended June 30, 2017 and 2016 was \$22,590 and \$19,751, respectively. Subsequent to year-end, the Organization renewed the leases under similar terms. The combined monthly rental rate is \$1,984 and both leases expire in June 2018.

NOTE 6 - RETIREMENT PLAN

The Company has a 401(k) retirement plan that allows employees who have met certain eligibility requirements to contribute part of their pay to the plan. The Company matches employees' contributions based on a percentage of salary contributed by participants. The Company's contribution expense for the years ended June 30, 2017 and 2016 was \$13,712 and \$8,550, respectively.