

**DEGREES OF CHANGE**

Reviewed Financial Statements

June 30, 2018 and 2017

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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, 2018 and 2017, 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***

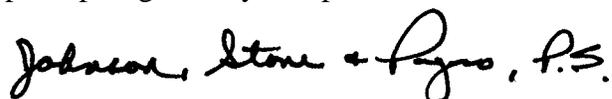
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair 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 10, 2018

**REVIEWED FINANCIAL STATEMENTS**

## DEGREES OF CHANGE

### STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b><u>ASSETS</u></b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 257,811	\$ 165,362
Accounts and grants receivable	87,245	60,119
Prepaid expenses	<u>49,397</u>	<u>4,297</u>
<b>Total Current Assets</b>	394,453	229,778
<b>FURNITURE AND EQUIPMENT, net</b>	1,868	2,758
<b>OTHER ASSETS</b>		
Act Six program, net	34,417	38,350
College enrollment data software, net	<u>65,435</u>	<u>60,240</u>
<b>Total Other Assets</b>	<u>99,852</u>	<u>98,590</u>
<b>TOTAL ASSETS</b>	<u>\$ 496,173</u>	<u>\$ 331,126</u>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 16,931	\$ 9,558
Accrued expenses	22,668	18,987
Unearned revenue	<u>75,710</u>	<u>29,585</u>
<b>Total Current Liabilities</b>	115,309	58,130
<b>NET ASSETS</b>		
Unrestricted	177,900	109,849
Temporarily restricted	<u>202,964</u>	<u>163,147</u>
<b>Total Net Assets</b>	<u>380,864</u>	<u>272,996</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 496,173</u>	<u>\$ 331,126</u>

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

## DEGREES OF CHANGE

### STATEMENTS OF ACTIVITIES

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>UNRESTRICTED REVENUES</b>		
Foundation grants	\$ 887,590	\$ 614,648
Contributions	166,055	81,377
Other earned income	216,166	241,592
Net assets released from restrictions	<u>163,147</u>	<u>56,086</u>
<b>Total Revenues</b>	1,432,958	993,703
<b>UNRESTRICTED EXPENSES</b>		
Program services		
Act Six	196,845	322,072
Ready to Rise	534,182	544,508
Consulting	64,579	39,179
TacSea Local programs	<u>293,901</u>	<u>          </u>
<b>Total Program Services</b>	1,089,507	905,759
Supporting services		
Management and general	112,427	53,037
Fundraising	<u>162,973</u>	<u>43,265</u>
<b>Total Supporting Services</b>	<u>275,400</u>	<u>96,302</u>
<b>Total Expenses</b>	<u>1,364,907</u>	<u>1,002,061</u>
<b>Increase (Decrease) in Unrestricted Net Assets</b>	68,051	(8,358)
<b>TEMPORARILY RESTRICTED NET ASSETS</b>		
Contributions	202,964	163,147
Net assets released from restrictions	<u>(163,147)</u>	<u>(56,086)</u>
<b>Increase in Temporarily Restricted Net Assets</b>	<u>39,817</u>	<u>107,061</u>
<b>INCREASE IN NET ASSETS</b>	107,868	98,703
<b>Net Assets at Beginning of Year</b>	<u>272,996</u>	<u>174,293</u>
<b>NET ASSETS AT END OF YEAR</b>	<u><u>\$ 380,864</u></u>	<u><u>\$ 272,996</u></u>

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

## DEGREES OF CHANGE

### STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2018 with Comparative Totals for 2017

	Program Services				Supporting Services			Total Expenses 2018	Total Expenses 2017	
	Act Six	Ready to Rise	Consulting	TacSea Local Programs	Total Program Services	Management and General	Fundraising			Total Supporting Services
Salaries and benefits	\$ 119,429	\$ 226,907	\$ 37,175	\$ 216,072	\$ 599,583	\$ 41,547	\$ 110,948	\$ 152,495	\$ 752,078	\$ 447,242
Activites and materials	1,935	60,803		26,254	88,992				88,992	13,594
Convention	32,759				32,759				32,759	67,941
Operations	9,454	1,535	1,704	2,106	14,799	10,740	3,680	14,420	29,219	15,089
Facility	8,704	13,139		11,398	33,241	21,648	3,729	25,377	58,618	31,798
Equipment and technology	8,489	13,080	1,092	11,869	34,530	24,836	325	25,161	59,691	31,462
Travel	6,531	5,546	3,332	7,795	23,204	467	978	1,445	24,649	22,842
Meetings and training	1,358	4,309	1,496	2,607	9,770	4,359	17,163	21,522	31,292	10,036
Consulting and contracts	750	189,397	1,001	15,800	206,948	8,830	26,150	34,980	241,928	329,301
Depreciation and amortization	<u>7,436</u>	<u>19,466</u>	<u>18,779</u>		<u>45,681</u>				<u>45,681</u>	<u>32,756</u>
<b>TOTAL</b>	<u>\$ 196,845</u>	<u>\$ 534,182</u>	<u>\$ 64,579</u>	<u>\$ 293,901</u>	<u>\$ 1,089,507</u>	<u>\$ 112,427</u>	<u>\$ 162,973</u>	<u>\$ 275,400</u>	<u>\$ 1,364,907</u>	<u>\$ 1,002,061</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, 2017

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

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

**DEGREES OF CHANGE****STATEMENTS OF CASH FLOWS**

Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 107,868	\$ 98,703
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	45,681	32,756
(Increase) decrease in assets		
Accounts and grants receivable	(27,126)	(59,980)
Prepaid expenses	(45,100)	13,664
Increase (decrease) in liabilities		
Accounts payable	7,373	8,648
Accrued expenses	3,681	8,617
Unearned revenue	46,125	(12,523)
	<u>138,502</u>	<u>89,885</u>
<b>Net Cash Provided by Operating Activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of other assets	<u>(46,053)</u>	<u>(36,969)</u>
<b>NET INCREASE IN CASH</b>	92,449	52,916
<b>Cash at Beginning of Year</b>	<u>165,362</u>	<u>112,446</u>
<b>CASH AT END OF YEAR</b>	<u>\$ 257,811</u>	<u>\$ 165,362</u>

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

## **DEGREES OF CHANGE**

### **NOTES TO FINANCIAL STATEMENTS**

June 30, 2018 and 2017

#### **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, 2018 or 2017.

##### ***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, 2018 and 2017

#### 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, 2018.

##### *Furniture and Equipment*

Furniture and equipment are recorded at cost when purchased or at fair 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 \$44,790 and \$31,865 for the years ended June 30, 2018 and 2017, respectively.

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

Year ending June 30	2019	\$ 41,683
	2020	26,011
	2021	9,541
	2022	3,933
	2023	<u>3,933</u>
		\$ <u>85,101</u>

##### *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, 2018 and 2017

#### 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.

##### *New Accounting Pronouncement*

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, to improve the presentation of net asset classifications and other information, presented or disclosed in the financial statements, regarding a not-for-profit entity's liquidity and availability of financial resources, board designations of net assets, financial performance and expenses on a functional basis. The ASU's requirements are broadly applicable, and will be effective for years beginning after December 15, 2017. Management is currently evaluating how the new requirements will affect the Organization's financial statements.

##### *Subsequent Events*

The management of the Organization evaluated subsequent events and transactions for potential recognition and disclosure through October 10, 2018, 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, 2018, 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>2018</u>	<u>2017</u>
Furniture and equipment	\$ 6,232	\$ 6,232
Less accumulated depreciation	<u>4,364</u>	<u>3,473</u>
	<u>\$ 1,868</u>	<u>\$ 2,758</u>

## DEGREES OF CHANGE

### NOTES TO FINANCIAL STATEMENTS

June 30, 2018 and 2017

#### NOTE 3 - FURNITURE AND EQUIPMENT (Continued)

Depreciation expense was \$891 and \$891 for the years ended June 30, 2018 and 2017, respectively.

#### NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

The balance in temporarily restricted net assets as of June 30, 2018 and 2017 consisted of \$202,964 and \$163,147 in foundation grants to be used to operate specific programs, respectively.

#### NOTE 5 - OPERATING LEASES

Beginning July 26, 2015, the Organization leased office space under two noncancelable leases. Total rent expense for the year ended June 30, 2018 and 2017 was \$32,165 and \$22,590, respectively. During 2018, the Organization renewed the leases under similar terms. The combined monthly rental rate was \$1,984, and both leases expired in June 2018. Beginning in July 2018, the Organization signed a new lease with a base rent of \$5,900, with a 3% increase each year until the lease terminates in June 2021.

Minimum future lease payments and the noncancelable operating lease as of June 30, 2018 are as follows:

2019	\$ 70,800
2020	72,924
2121	<u>75,112</u>
	\$ <u>218,836</u>

#### NOTE 6 - RETIREMENT PLAN

The Organization 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 Organization matches employees' contributions based on a percentage of salary contributed by participants. The Organization's contribution expense for the years ended June 30, 2018 and 2017 was \$19,965 and \$13,712, respectively.