

DEGREES OF CHANGE

Audited Financial Statements

June 30, 2020 and 2019

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Independent Auditor's Report

Board of Directors
Degrees of Change
Tacoma, Washington

We have audited the accompanying financial statements of Degrees of Change (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years 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 audited financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

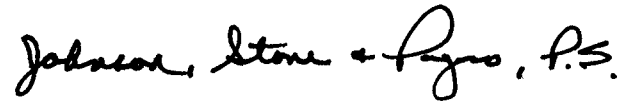
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the audited financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the audited 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 audited financial statements referred to above present fairly, in all material respects, the financial position of Degrees of Change as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Johnson, Stone & Pagano, P.S." in a cursive script.

JOHNSON, STONE & PAGANO, P.S.

October 19, 2020

AUDITED FINANCIAL STATEMENTS

DEGREES OF CHANGE

STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 2,164,772	\$ 297,722
Accounts and grants receivable	746,471	52,587
Prepaid expenses	40,248	85,811
Total Current Assets	<u>2,951,491</u>	<u>436,120</u>
FURNITURE AND EQUIPMENT, net	15,140	4,176
OTHER ASSETS		
Act Six program, net	26,550	30,483
College enrollment data software, net	258,078	27,685
Total Other Assets	<u>284,628</u>	<u>58,168</u>
TOTAL ASSETS	<u>\$ 3,251,259</u>	<u>\$ 498,464</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 35,190	\$ 7,529
Accrued expenses	39,579	40,065
Unearned revenue		19,185
Total Current Liabilities	<u>74,769</u>	<u>66,779</u>
LONG-TERM LIABILITIES		
Long-term debt	289,947	
Total Liabilities	<u>364,716</u>	<u>66,779</u>
NET ASSETS		
Without donor restrictions	452,475	208,227
With donor restrictions	2,434,068	223,458
Total Net Assets	<u>2,886,543</u>	<u>431,685</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,251,259</u>	<u>\$ 498,464</u>

The accompanying notes are an integral part of these financial statements.

DEGREES OF CHANGE

STATEMENTS OF ACTIVITIES

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
REVENUES WITHOUT DONOR RESTRICTIONS		
Foundation grants	\$ 1,646,289	\$ 1,587,716
Contributions	277,937	205,614
Other earned income	288,760	291,029
Net assets released from restrictions	<u>223,458</u>	<u>202,964</u>
Total Revenues without Donor Restrictions	2,436,444	2,287,323
EXPENSES		
Program services		
Visualizer	36,172	387,737
Act Six	293,017	292,994
Ready to Rise	466,985	508,204
TacSea Local programs	839,351	582,111
Yakima Local programs	<u>104,000</u>	<u>239,033</u>
Total Program Services	1,739,525	2,010,079
Supporting services		
Management and general	171,022	103,584
Fundraising	<u>281,649</u>	<u>143,333</u>
Total Supporting Services	452,671	246,917
Total Expenses	<u>2,192,196</u>	<u>2,256,996</u>
Increase in Net Assets without Donor Restrictions	244,248	30,327
NET ASSETS WITH DONOR RESTRICTIONS		
Foundation grants	2,434,068	223,458
Net assets released from restrictions	<u>(223,458)</u>	<u>(202,964)</u>
Increase in Net Assets with Donor Restrictions	<u>2,210,610</u>	<u>20,494</u>
INCREASE IN NET ASSETS	2,454,858	50,821
Net Assets at Beginning of Year	<u>431,685</u>	<u>380,864</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,886,543</u>	<u>\$ 431,685</u>

The accompanying notes are an integral part of these financial statements.

DEGREES OF CHANGE

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2020 with Comparative Totals for 2019

	Program Services					Supporting Services			Total Expenses 2020	Total Expenses 2019	
	Visualizer	Act Six	Ready to Rise	TacSea Local Programs	Yakima Local Programs	Total Program Services	Management and General	Fundraising			Total Supporting Services
Salaries and benefits	\$ 6,509	\$ 160,453	\$ 176,747	\$ 663,973	\$ 85,294	\$ 1,092,976	\$ 123,291	\$ 264,205	\$ 387,496	\$ 1,480,472	\$ 1,246,696
Program activities and materials		76,755	81,595	31,486	6,536	196,372				196,372	216,884
Operations	350	5,921	2,708	17,241	995	27,215	3,879	3,139	7,018	34,233	46,218
Facility	14,122	16,471	15,128	57,650	5,087	108,458	6,893	8,298	15,191	123,649	131,454
Equipment and technology	4,193	11,385	11,584	22,021	2,796	51,979	2,783	1,605	4,388	56,367	71,504
Travel	105	5,263	3,315	8,848	3,026	20,557	580	737	1,317	21,874	35,142
Meetings and training	40	3,035	734	5,263	266	9,338	5,045	1,766	6,811	16,149	18,523
Consulting and contracts	10,853	13,734	175,174	32,869		232,630	28,551	1,899	30,450	263,080	490,575
TOTAL	<u>\$ 36,172</u>	<u>\$ 293,017</u>	<u>\$ 466,985</u>	<u>\$ 839,351</u>	<u>\$ 104,000</u>	<u>\$ 1,739,525</u>	<u>\$ 171,022</u>	<u>\$ 281,649</u>	<u>\$ 452,671</u>	<u>\$ 2,192,196</u>	<u>\$ 2,256,996</u>

The accompanying notes are an integral part of these financial statements.

DEGREES OF CHANGE

STATEMENTS OF FUNCTIONAL EXPENSES (Continued)

Year Ended June 30, 2019

	Program Services					Supporting Services			Total Expenses 2019	
	Visualizer	Act Six	Ready to Rise	TacSea Local Programs	Yakima Local Programs	Total Program Services	Management and General	Fundraising		Total Supporting Services
Salaries and benefits	\$ 90,004	\$ 176,637	\$ 236,177	\$ 381,590	\$ 192,291	\$ 1,076,699	\$ 45,575	\$ 124,422	\$ 169,997	\$ 1,246,696
Program activities and materials		62,251	94,049	46,915	13,638	216,853		31	31	216,884
Operations	579	6,794	5,469	11,569	4,989	29,400	14,703	2,115	16,818	46,218
Facility	9,905	12,647	11,734	76,944	1,050	112,280	11,838	7,336	19,174	131,454
Equipment and technology	5,447	16,915	20,575	14,722	9,269	66,928		4,576	4,576	71,504
Travel	54	10,542	9,179	6,607	7,246	33,628	292	1,222	1,514	35,142
Meetings and training	4,541	1,082	1,407	2,878	2,050	11,958	5,409	1,156	6,565	18,523
Consulting and contracts	<u>277,207</u>	<u>6,126</u>	<u>129,614</u>	<u>40,886</u>	<u>8,500</u>	<u>462,333</u>	<u>25,767</u>	<u>2,475</u>	<u>28,242</u>	<u>490,575</u>
TOTAL	<u>\$ 387,737</u>	<u>\$ 292,994</u>	<u>\$ 508,204</u>	<u>\$ 582,111</u>	<u>\$ 239,033</u>	<u>\$ 2,010,079</u>	<u>\$ 103,584</u>	<u>\$ 143,333</u>	<u>\$ 246,917</u>	<u>\$ 2,256,996</u>

The accompanying notes are an integral part of these financial statements.

DEGREES OF CHANGE

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 2,454,858	\$ 50,821
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	39,851	42,974
(Increase) decrease in assets		
Accounts and grants receivable	(693,884)	34,658
Prepaid expenses	45,563	(36,414)
Increase (decrease) in liabilities		
Accounts payable	27,661	(9,402)
Accrued expenses	(486)	17,397
Unearned revenue	(19,185)	(56,525)
	<u>1,854,378</u>	<u>43,509</u>
Net Cash Provided by Operating Activities		
	1,854,378	43,509
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of furniture and equipment	(14,096)	(3,598)
Acquisition of college enrollment data software	(263,179)	
	<u>(277,275)</u>	<u>(3,598)</u>
Net Cash Used by Investing Activities		
	(277,275)	(3,598)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan	289,947	
	<u>289,947</u>	<u></u>
Net Cash Provided by Financing Activities		
	289,947	
NET INCREASE IN CASH	1,867,050	39,911
Cash at Beginning of Year	<u>297,722</u>	<u>257,811</u>
CASH AT END OF YEAR	<u>\$ 2,164,772</u>	<u>\$ 297,722</u>

The accompanying notes are an integral part of these financial statements.

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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 and 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 audited 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.

Degrees of Change is required to report information regarding its financial position and activities according to two classes of net assets based on the absence or existence and nature of donor-imposed restrictions as follows:

Net Assets without Donor Restrictions

Net assets that are not subject to donor-imposed stipulations.

Net Assets with Donor Restrictions

Net assets subject to donor-imposed stipulations that can be fulfilled by actions of Degrees of Change pursuant to those stipulations or that expire by the passage of time and net assets subject to donor-imposed stipulations that are to be maintained in perpetuity by Degrees of Change. The Organization does not have any net assets that a donor has stipulated to be maintained in perpetuity.

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 support with or without donor restrictions 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.

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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

Contributions, Accounts and Grants Receivable (Continued)

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, net assets with donor restrictions are reported as a transfer to net assets without donor restrictions (restrictions released) in the statement of activities. Contributions of cash or other assets that are restricted to acquire long-lived assets are reported as increases in net assets with donor restrictions until the assets are acquired and placed into service.

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, 2020.

Revenue Recognition

Revenue earned from providing services in conjunction with the college enrollment data software is based on contractual amounts and is recorded straight-line over the term of the contract.

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.

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.

Use of Estimates

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

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

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

Functional Allocation of Expenses

The costs of program and supporting services have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Subsequent Events

The management of the Organization evaluated subsequent events and transactions for potential recognition and disclosure through October 19, 2020, the date the audited financial statements were available to be issued, and determined that no events have occurred that require disclosure.

NOTE 2 - CONCENTRATION OF CREDIT RISK

Accounts at the Organization's financial institutions are insured by the Federal Deposit Insurance Corporation ("FDIC") with basic coverage up to \$250,000 per institution. At June 30, 2020, the Organization's cash balances exceeded the insured amounts by \$1,681,731.

NOTE 3 - LIQUIDITY AND AVAILABILITY

Financial assets available for expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30:

	<u>2020</u>	<u>2019</u>
Cash	\$ 2,164,772	\$ 297,722
Accounts and grants receivable	<u>746,471</u>	<u>52,587</u>
Total Financial Assets	2,911,243	350,309
Less financial assets restricted by donors	<u>2,434,068</u>	<u>223,458</u>
Financial Assets Available to Meet General Expenditure Needs	\$ <u>477,175</u>	\$ <u>126,851</u>

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 4 - FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Furniture and equipment	\$ 23,926	\$ 9,830
Less accumulated depreciation	<u>8,786</u>	<u>5,654</u>
	<u>\$ 15,140</u>	<u>\$ 4,176</u>

Depreciation expense was \$3,132 and \$1,290 for the years ended June 30, 2020 and 2019, respectively.

NOTE 5 - 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"). The costs associated with the program were capitalized and are being amortized using the straight-line method over 15 years.

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. The Organization continues to incur costs to make substantive improvements and modifications to the software for enhanced functionality on an ongoing basis. Costs incurred during the preliminary project phase, or the post implementation phase of projects to make substantive changes to the software are expensed as incurred. Costs incurred during the application development stage, which may include costs associated with software design, configuration, interface development, coding, installation of related hardware, testing and parallel processing, are capitalized and amortized using the straight-line method over 3 years. The Organization capitalized costs totaling \$263,179 during the year ended June 30, 2020. There were no capitalized costs during the year ended June 30, 2019. Activities associated with the college enrollment data software are included in visualizer in the accompanying statements of activities and statements of functional expenses.

Amortization expense associated with the Act Six program and the college enrollment data software was \$36,719 and \$41,684 for the years ended June 30, 2020 and 2019, respectively.

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 5 - OTHER ASSETS (Continued)

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

Year ending June 30, 2021	\$ 95,919
2022	90,312
2023	80,277
2024	3,933
2025	3,933
Thereafter	<u>6,833</u>
	\$ <u>281,207</u>

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

The balance in net assets with donor restrictions as of June 30, 2020 and 2019 consisted of foundation grant funds or promises to give that are to be used to operate specific programs. The nature of net assets with donor restrictions is as follows:

	<u>2020</u>	<u>2019</u>
Donor-restricted as to purpose	\$ 1,781,043	\$ 150,958
Donor-restricted as to time	<u>653,025</u>	<u>72,500</u>
	\$ <u>2,434,068</u>	\$ <u>223,458</u>

Net assets with donor restrictions includes grant funds totaling \$2,004,921 that are restricted for the development of the college enrollment data software.

NOTE 7 - OPERATING LEASES

Beginning in July 2018, the Organization signed a lease with a base rent of \$5,900, with a 3% increase each year until the lease terminates in June 2021. Monthly rent during the year ended July 30, 2020 was \$6,100. In February 2020, the Organization amended the lease to include additional space through June 30, 2021 with an additional base rent of \$4,100 through December 31, 2020 increasing to \$4,300 through June 30, 2021. Total rent expense for the years ended June 30, 2020 and 2019 was \$108,187 and \$83,901, respectively. Future minimum lease payments associated with the noncancelable operating leases for 2021 total \$125,520.

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2020 and 2019

NOTE 8 - 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, 2020 and 2019 was \$50,020 and \$36,480, respectively.

NOTE 9 - FUNCTIONALIZED EXPENSES

The audited financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include facility expenses, which is allocated on a square footage basis, as well as salaries and benefits, activities and materials, operations, equipment and technology, meetings and training, depreciation and other, which are allocated on the basis of management's estimates of time and effort.

NOTE 10 - RISKS AND UNCERTAINTIES

The Organization has been negatively affected by the effects of the world-wide COVID-19 pandemic. The Organization is closely monitoring its operations, liquidity, capital and financial resources, and is actively working to minimize the current and future effects of this unprecedented situation. As of the date of these financial statements, the full impact to the Organization's financial position or operations is not known.

In April 2020, the Organization received loan proceeds in the amount of \$289,947 under the Paycheck Protection Program ("PPP"). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act, and later modified by the PPP Flexibility Act, provides for loans to qualifying organizations for amounts up to 2.5 times the average monthly payroll expenses of the qualifying organization. The loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities during the twenty-four weeks commencing from the date the organization received loan proceeds or through December 31, 2020, whichever period is shorter (the "covered period"). The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the covered period.

The Organization has ten months from the end of the covered period to apply for loan forgiveness. The unforgiven portion of the PPP loan, if any, is payable over five years at an interest rate of 1% beginning at the end of the ten months. The Organization intends to use the proceeds for purposes consistent with the PPP. While the Organization currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, the total amount of loan forgiveness is not known as of the date of these financial statements.