

DEGREES OF CHANGE

Audited Financial Statements

June 30, 2022 and 2021

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Independent Auditor's Report

Board of Directors
Degrees of Change
Tacoma, Washington

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Degrees of Change (a nonprofit organization) (the "Organization"), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2022 and 2021, 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 ("U.S. GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. GAAP; 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are issued.

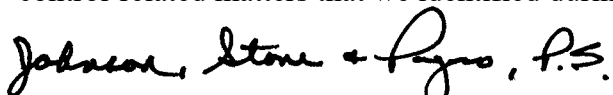
Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not absolute assurance, and, therefore, is not a guarantee that an audit conducted in accordance with U.S. GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.



JOHNSON, STONE & PAGANO, P.S.

November 3, 2022

AUDITED FINANCIAL STATEMENTS

DEGREES OF CHANGE

STATEMENTS OF FINANCIAL POSITION

June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 1,384,747	\$ 2,725,394
Accounts and grants receivable	171,901	307,830
Prepaid expenses	133,401	29,800
Total Current Assets	<u>1,690,049</u>	<u>3,063,024</u>
FURNITURE AND EQUIPMENT, net	24,582	44,103
OTHER ASSETS		
Act Six program, net	18,683	22,617
GuidEd Insight, net	359,275	654,842
Total Other Assets	<u>377,958</u>	<u>677,459</u>
TOTAL ASSETS	<u>\$ 2,092,589</u>	<u>\$ 3,784,586</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 47,368	\$ 52,250
Accrued expenses	52,154	50,151
Current portion of long-term debt		42,982
Total Current Liabilities	<u>99,522</u>	<u>145,383</u>
LONG-TERM LIABILITIES		
Long-term debt		286,777
Total Liabilities	<u>99,522</u>	<u>432,160</u>
NET ASSETS		
Without donor restrictions	1,438,578	1,546,213
With donor restrictions	554,489	1,806,213
Total Net Assets	<u>1,993,067</u>	<u>3,352,426</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,092,589</u>	<u>\$ 3,784,586</u>

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

DEGREES OF CHANGE

STATEMENTS OF ACTIVITIES

Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
REVENUES WITHOUT DONOR RESTRICTIONS		
Foundation grants	\$ 441,964	\$ 394,474
Government grant	404,758	289,947
Contributions	297,907	386,175
Other earned income	418,150	247,428
Net assets released from restrictions	<u>1,385,359</u>	<u>2,434,068</u>
Total Revenues without Donor Restrictions	2,948,138	3,752,092
EXPENSES		
Program services		
GuidEd Insight	1,292,729	579,934
Act Six	698,228	247,948
Seed Internships	450,521	
Ready to Rise		633,820
TacSea Local (Act Six and Seed)		<u>710,615</u>
Total Program Services	2,441,478	2,172,317
Supporting services		
Management and general	257,522	153,238
Fundraising	<u>356,773</u>	<u>332,799</u>
Total Supporting Services	614,295	486,037
Total Expenses	<u>3,055,773</u>	<u>2,658,354</u>
Increase (Decrease) in Net Assets without Donor Restrictions	(107,635)	1,093,738
NET ASSETS WITH DONOR RESTRICTIONS		
Foundation grants	133,635	1,806,213
Net assets released from restrictions	<u>(1,385,359)</u>	<u>(2,434,068)</u>
Decrease in Net Assets with Donor Restrictions	<u>(1,251,724)</u>	<u>(627,855)</u>
INCREASE (DECREASE) IN NET ASSETS	(1,359,359)	465,883
Net Assets at Beginning of Year	<u>3,352,426</u>	<u>2,886,543</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,993,067</u>	<u>\$ 3,352,426</u>

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

DEGREES OF CHANGE

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2022 with Comparative Totals for 2021

	Program Services			Supporting Services			Total Expenses		
	GuidEd Insight	Act Six	Seed Internships	Total Program Services	Management and General	Fundraising	Total Supporting Services	2022	2021
Salaries and benefits	\$ 690,453	\$ 477,985	\$ 362,012	\$ 1,530,450	\$ 212,565	\$ 331,899	\$ 544,464	\$ 2,074,914	\$ 1,628,739
Program activities and materials		26,557	11,225	37,782				37,782	32,605
Operations	19,613	16,044	3,902	39,559	7,001	6,010	13,011	52,570	41,905
Facility		49,131	16,876	66,007	8,186	8,186	16,372	82,379	126,026
Equipment and technology	150,360	20,245	6,471	177,076	3,319	3,405	6,724	183,800	94,468
Travel	6,206	13,044	81	19,331	183	22	205	19,536	724
Meetings and training	2,864	6,291	2,024	11,179	1,001	3,459	4,460	15,639	4,638
Consulting and contracts	423,233	88,931	47,930	560,094	25,267	3,792	29,059	589,153	729,249
TOTAL	<u>\$ 1,292,729</u>	<u>\$ 698,228</u>	<u>\$ 450,521</u>	<u>\$ 2,441,478</u>	<u>\$ 257,522</u>	<u>\$ 356,773</u>	<u>\$ 614,295</u>	<u>\$ 3,055,773</u>	<u>\$ 2,658,354</u>

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

DEGREES OF CHANGE

STATEMENTS OF FUNCTIONAL EXPENSES (Continued)

Year Ended June 30, 2021

	Program Services				Supporting Services			Total Expenses 2021	
	GuidEd Insight	Act Six	Ready to Rise	TacSea Local (Act Six and Seed)	Total Program Services	Management and General	Fundraising		Total Supporting Services
Salaries and benefits	\$ 272,776	\$ 197,185	\$ 203,261	\$ 570,666	\$ 1,243,888	\$ 114,683	\$ 270,168	\$ 384,851	\$ 1,628,739
Program activities and materials		6,744	4,020	21,841	32,605				32,605
Operations	4,327	5,459	3,031	19,841	32,658	3,319	5,928	9,247	41,905
Facility	17,500	10,850	10,850	67,814	107,014	5,425	13,587	19,012	126,026
Equipment and technology	50,960	8,472	8,446	19,324	87,202	2,263	5,003	7,266	94,468
Travel		683		2	685		39	39	724
Meetings and training	475	632	1,022	810	2,939	300	1,399	1,699	4,638
Consulting and contracts	<u>233,896</u>	<u>17,923</u>	<u>403,190</u>	<u>10,317</u>	<u>665,326</u>	<u>27,248</u>	<u>36,675</u>	<u>63,923</u>	<u>729,249</u>
TOTAL	<u>\$ 579,934</u>	<u>\$ 247,948</u>	<u>\$ 633,820</u>	<u>\$ 710,615</u>	<u>\$ 2,172,317</u>	<u>\$ 153,238</u>	<u>\$ 332,799</u>	<u>\$ 486,037</u>	<u>\$ 2,658,354</u>

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

DEGREES OF CHANGE

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (1,359,359)	\$ 465,883
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	319,022	243,794
Conversion of loan to government grant	(329,759)	(289,947)
(Increase) decrease in assets		
Accounts and grants receivable	135,929	438,641
Prepaid expenses	(103,601)	10,448
Increase (decrease) in liabilities		
Accounts payable	(4,882)	17,060
Accrued expenses	2,003	10,572
	<u>(1,340,647)</u>	<u>896,451</u>
Net Cash Provided (Used) by Operating Activities		
	(1,340,647)	896,451
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of furniture and equipment		(42,068)
Acquisition costs of GuidEd Insight software		(623,520)
		<u>(665,588)</u>
Net Cash Used by Investing Activities		
		(665,588)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loans		<u>329,759</u>
		<u>329,759</u>
Net Cash Provided by Financing Activities		
		<u>329,759</u>
NET INCREASE (DECREASE) IN CASH	(1,340,647)	560,622
Cash at Beginning of Year	<u>2,725,394</u>	<u>2,164,772</u>
CASH AT END OF YEAR	<u>\$ 1,384,747</u>	<u>\$ 2,725,394</u>

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

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

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, 2022 and 2021

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, 2022.

Revenue Recognition

Revenue earned from providing services in conjunction with the GuidEd Insight software is based on contractual amounts and is recorded straight-line over the term of the contract in conjunction with how the services are being utilized.

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.

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, 2022 and 2021

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.

New Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842). The purpose of the new standard is to increase the transparency and comparability in financial reporting by requiring lessees to report an asset and a corresponding liability on the statement of financial position for most leases. Lessor accounting for leases was substantially unchanged. The ASU's requirements are broadly applicable, will be effective for years beginning after December 15, 2021, and will require a modified retrospective application approach for existing leases whereby the effects of implementing the new standard will be applied to the earliest period presented. 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 November 3, 2022, the date the audited financial statements were available to be issued.

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, 2022, the Organization's cash balances exceeded the insured amounts by \$29,414.

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>2022</u>	<u>2021</u>
Cash	\$ 1,384,747	\$ 2,725,394
Accounts and grants receivable	<u>171,901</u>	<u>307,830</u>
Total Financial Assets	1,556,648	3,033,224

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 3 - LIQUIDITY AND AVAILABILITY (Continued)

	<u>2022</u>	<u>2021</u>
Less financial assets restricted by donors	\$ <u>554,489</u>	\$ <u>1,806,213</u>
Financial Assets Available to Meet General Expenditure Needs	\$ <u>1,002,159</u>	\$ <u>1,277,011</u>

NOTE 4 - FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Furniture and equipment	\$ 65,994	\$ 65,994
Less accumulated depreciation	<u>41,412</u>	<u>21,891</u>
	\$ <u>24,582</u>	\$ <u>44,103</u>

Depreciation expense was \$19,521 and \$13,105 for the years ended June 30, 2022 and 2021, 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, referred to as GuidEd Insight in these financial statements. During the years ended June 30, 2021 and 2020, the Organization made substantive improvements and modifications to GuidEd Insight for enhanced functionality. Costs incurred during the preliminary project phase, or the post implementation phase of these projects to make substantive changes to GuidEd Insight 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 \$623,519 during the year ended June 30, 2021. As of July 1, 2021, GuidEd Insight had moved out of the application development stage, as such, the Organization did not capitalize any costs during 2022.

Amortization expense associated with the Act Six program and GuidEd Insight software was \$299,501 and \$230,689 for the years ended June 30, 2022 and 2021, respectively.

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 5 - OTHER ASSETS (Continued)

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

Year ending June 30, 2023	\$ 288,791
2024	78,352
2025	3,933
2026	3,933
2027	<u>2,950</u>
	\$ <u>377,959</u>

NOTE 6 - NET ASSETS WITH DONOR RESTRICTIONS

The balance in net assets with donor restrictions as of June 30, 2022 and 2021 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>2022</u>	<u>2021</u>
Donor-restricted as to purpose	\$ 414,989	\$ 1,593,213
Donor-restricted as to time	<u>139,500</u>	<u>213,000</u>
	\$ <u>554,489</u>	\$ <u>1,806,213</u>

Net assets with donor restrictions include grant funds totaling \$340,086 and \$1,314,040 at June 30, 2022 and 2021, respectively, that are restricted for the development of the GuidEd Insight software.

NOTE 7 - LONG-TERM DEBT

At June 30, 2021, the Organization was party to an unsecured note payable to a bank with interest at 1.00% and monthly installments of \$6,795, unless forgiven in accordance with the terms of the note payable agreement. The note payable was forgiven in full during the year ended June 30, 2022 and recorded in government grant revenue in the statement of activities.

NOTE 8 - 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 terminated in June 2021. 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, 2022 and 2021 was \$75,600 and \$126,000, respectively. Subsequent to the year-end June 30, 2022, the Organization renewed the lease of one unit for a period of five years, ending June 30, 2026.

DEGREES OF CHANGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 8 - OPERATING LEASES (Continued)

Future minimum lease payments of the noncancelable operating lease as of June 30, 2022 are as follows:

2023	\$ 78,000
2024	80,400
2025	82,800
2026	<u>85,200</u>
	\$ <u>326,400</u>

NOTE 9 - 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, 2022 and 2021 was \$57,746 and \$56,142, respectively.

NOTE 10 - 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 are 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.