



EXPANDED SCHOOLS, INC.

FINANCIAL STATEMENTS

JUNE 30, 2016 and 2015

INDEPENDENT AUDITORS' REPORT

Board of Directors
ExpandedED Schools, Inc.
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the ExpandedED Schools, Inc. (the "Organization"), formerly The After-School Corporation, which comprise the statements of financial position as of June 30, 2016 and 2015, 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

The Organization's 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.

Auditors' 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgments, 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 auditors consider internal control relevant to the organization'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 organization'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 the ExpandedED Schools, Inc. as of June 30, 2016 and 2015, 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.



New York, New York
December 7, 2016

EXPANDED SCHOOLS, INC.

Statements of Financial Position

	June 30,	
	<u>2016</u>	<u>2015</u>
ASSETS		
Cash (including restricted cash of \$494,320 in both 2016 and 2015)	\$ 4,312,382	\$ 5,381,667
Grants and contributions receivable	2,152,478	5,472,397
Government grants and contracts services receivable	4,753,255	5,450,226
Prepaid expenses and other assets	45,932	69,470
Property and equipment, net	<u>519,880</u>	<u>877,690</u>
	<u>\$ 11,783,927</u>	<u>\$ 17,251,450</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and other liabilities	\$ 571,821	\$ 562,796
Grants payable	2,708,338	3,190,396
Security deposits payable	154,849	154,849
Loan payable		1,700,000
Deferred rent obligation	410,010	738,019
Deferred revenue	<u>64,751</u>	<u>6,007</u>
	<u>3,909,769</u>	<u>6,352,067</u>
Commitments (Note K)		
Net assets:		
Unrestricted	2,705,404	2,281,222
Temporarily restricted	<u>5,168,754</u>	<u>8,618,161</u>
	<u>7,874,158</u>	<u>10,899,383</u>
	<u>\$ 11,783,927</u>	<u>\$ 17,251,450</u>

EXPANDED SCHOOLS, INC.

Statements of Activities

	Year Ended June 30,					
	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Government grants and contracts	\$ 8,069,919		\$ 8,069,919	\$ 8,505,338		\$ 8,505,338
Grants and contributions	889,157	\$ 2,997,133	3,886,290	1,430,689	\$ 4,218,541	5,649,230
Contracted services	1,083,213		1,083,213	881,898		881,898
Special events (net of direct benefit to donors of \$56,316 and \$42,284, respectively)	341,077		341,077	268,372		268,372
Rental income	605,209		605,209	607,452		607,452
Donated goods and services	72,988		72,988	52,995		52,995
Investment income	4,300		4,300	2,888		2,888
Other income	6,440		6,440	7,398		7,398
Total public support and revenue before releases of restrictions	11,072,303	2,997,133	14,069,436	11,757,030	4,218,541	15,975,571
Net assets released from restrictions	6,446,540	(6,446,540)	0	5,846,266	(5,846,266)	0
Total public support and revenue	17,518,843	(3,449,407)	14,069,436	17,603,296	(1,627,725)	15,975,571
Expenses:						
Program services	14,555,954		14,555,954	14,577,198		14,577,198
Management and general	1,743,263		1,743,263	1,618,036		1,618,036
Fund-raising	795,444		795,444	696,375		696,375
Total expenses	17,094,661		17,094,661	16,891,609		16,891,609
Change in net assets	424,182	(3,449,407)	(3,025,225)	711,687	(1,627,725)	(916,038)
Net assets, beginning of year	2,281,222	8,618,161	10,899,383	1,569,535	10,245,886	11,815,421
Net assets, end of year	\$ 2,705,404	\$ 5,168,754	\$ 7,874,158	\$ 2,281,222	\$ 8,618,161	\$ 10,899,383

See notes to financial statements.

EXPANDED SCHOOLS, INC.

Statements of Functional Expenses

	Year Ended June 30,							
	2016				2015			
	Program Services	Management and General	Fund-raising	Total	Program Services	Management and General	Fund-raising	Total
Salaries and wages	\$ 2,832,006	\$ 793,918	\$ 445,178	\$ 4,071,102	\$ 2,914,266	\$ 744,712	\$ 401,071	\$ 4,060,049
Payroll taxes, fringe benefits and payroll fees	665,552	186,580	104,622	956,754	651,718	166,540	89,692	907,950
Training and development	6,061	1,732	866	8,659	9,666	2,417	1,343	13,426
Pension costs	109,054	30,572	17,143	156,769	102,918	26,300	14,164	143,382
Total salaries and related expenses	3,612,673	1,012,802	567,809	5,193,284	3,678,568	939,969	506,270	5,124,807
Grants to community-based-organizations	7,218,158			7,218,158	7,092,906			7,092,906
Occupancy	1,011,795	289,084	144,542	1,445,421	1,040,626	304,517	116,006	1,461,149
Telephone	31,556	8,752	4,214	44,522	28,560	9,846	3,373	41,779
Equipment rental	33,960	9,703	4,852	48,515	36,037	10,659	4,060	50,756
Insurance	106,045	30,299	15,149	151,493	107,296	31,736	12,090	151,122
Professional fees		60,500		60,500		59,000		59,000
Consultants and contractors	1,642,954	45,737		1,688,691	1,692,810	31,839	4,842	1,729,491
Other program expenses	468,143			468,143	418,941			418,941
Travel and related cost	41,887	6,734	3,500	52,121	66,113	6,734	219	73,066
Office supplies and expense	131,354	40,787	17,297	189,438	138,534	56,779	14,884	210,197
Depreciation and amortization	254,767	72,791	36,396	363,954	272,871	80,708	30,746	384,325
Bad debts		89,492		89,492		28,141		28,141
Miscellaneous	2,662	15,303	1,685	19,650	3,936	13,932	3,885	21,753
Total expenses before donated goods and services	14,555,954	1,681,984	795,444	17,033,382	14,577,198	1,573,860	696,375	16,847,433
Donated goods and services		61,279		61,279		44,176		44,176
Total expenses	\$ 14,555,954	\$ 1,743,263	\$ 795,444	\$ 17,094,661	\$ 14,577,198	\$ 1,618,036	\$ 696,375	\$ 16,891,609

See notes to financial statements.

EXPANDED SCHOOLS, INC.

Statements of Cash Flows

	<u>Year Ended June 30,</u>	
	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Decrease in net assets	\$ (3,025,225)	\$ (916,038)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation and amortization	363,954	384,325
Amortization of deferred rent obligation	(328,009)	(328,008)
Bad debts	89,492	28,141
Changes in:		
Grants and contribution receivable	3,319,919	577,382
Government grants and contracts services receivable	(1,092,521)	(735,280)
Prepaid expenses and other assets	23,538	20,389
Accounts payable and other liabilities	9,025	166,698
Security deposits payable		32,147
Grants payable	(482,058)	(55,827)
Deferred revenue	58,744	(33,594)
Net cash used in operating activities	<u>(1,063,141)</u>	<u>(859,665)</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>(6,144)</u>	
Cash flows from financing activities:		
Proceeds from loan from the Fund of New York City		<u>1,700,000</u>
Change in cash	(1,069,285)	840,335
Cash, beginning of year	<u>5,381,667</u>	<u>4,541,332</u>
Cash, end of year	<u>\$ 4,312,382</u>	<u>\$ 5,381,667</u>
Supplemental disclosure of cash flow information:		
Donated goods and services	<u>\$ 72,988</u>	<u>\$ 52,995</u>
Repayment of loan directly by third party	<u>\$ 1,700,000</u>	

EXPANDED SCHOOLS, INC.

Notes to Financial Statements June 30, 2016 and 2015

NOTE A - ORGANIZATION AND ITS SIGNIFICANT ACCOUNTING POLICIES

[1] Organization:

The ExpandedED Schools, Inc. (the "Organization"), formerly The After-School Corporation was organized under the not-for-profit law of the State of New York on April 2, 1998, and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The mission of the Organization is to close the learning gap by increasing access to enriched education experiences in school, after school and during the summer to ensure that all kids have opportunities to discover their talents and develop their full potential.

The Organization partners with the public and private sectors to provide more and better learning time for students and to provide professional development, technical assistance, financial resources and advocacy to support schools and community-based organizations in establishing and operating high-quality expanded learning programs.

[2] Basis of accounting:

The accompanying financial statements of the Organization have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations.

[3] Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and revenue and expenses, as well as the disclosure of contingencies. Actual results may differ from those estimates.

[4] Property and equipment:

Property and equipment are stated at their original costs or if contributed, at their fair value at the date of donation. Minor costs of repairs and maintenance are accounted for as expenses as incurred. The Organization capitalizes items of property and equipment that have a cost of \$1,000 or more and a useful life greater than one year. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the respective assets, which range from three to ten years. Leasehold improvements are amortized over the remaining lease term, or the useful lives of the improvements, whichever is shorter.

Management evaluates recoverability of the investment in long-lived assets on an on-going basis and recognizes any impairment in the year of determination. Long-lived assets were tested for impairment as of June 30, 2016 and 2015, respectively, and, in the opinion of management, there were no impairments. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

[5] Accrued vacation:

Accrued vacation is a liability in the accompanying financial statements and represents the Organization's obligation for the cost of total unused employee vacation time that would be payable in the event of employee departures; the obligation is recalculated every year. At June 30, 2016 and 2015, this accrued vacation obligation was approximately \$117,000 and \$101,000, respectively, and was reported as part of accounts payable and other liabilities in the accompanying statements of financial position.

EXPANDED SCHOOLS, INC.

Notes to Financial Statements June 30, 2016 and 2015

NOTE A - ORGANIZATION AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[6] Grants payable:

Grants to community based organizations are recognized as an obligation to the Organization at the time they are executed by all parties and are generally payable within one year from the date of execution. The Organization adjusts grant obligations as needed based upon final approval of expenses. Grants payable were approximately \$2,708,000 and \$3,190,000 at June 30, 2016 and 2015, respectively.

[7] Deferred rent obligation:

Total rent expense under the lease agreement is amortized using the straight-line method over the term of the lease. The difference between rent expense incurred and the rental amounts paid, which is attributable to scheduled rent increases and abatements, is reported as a "deferred rent" obligation in the accompanying statements of financial position. Included in the deferred rent obligation of approximately \$410,000 and \$738,000 at June 30, 2016 and 2015, respectively, is approximately \$165,000 and \$297,000 of leasehold improvements reimbursed by the landlord.

[8] Net assets:

(i) Unrestricted:

Unrestricted net assets represent those resources that are not subject to donor restrictions and are available for current operations.

(ii) Temporarily restricted:

Temporarily restricted net assets represent those resources that are subject to the requirements of the New York Prudent Management of Institutional Funds Act ("NYPMIFA") and the use for which has been restricted by donors or state law to specific purposes and/or passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends, a purpose restriction is accomplished, or the funds are appropriated through an action of the Board of Directors, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying statements of activities as "net assets released from restrictions."

[9] Revenue recognition:

(i) Government grants and contracts:

Government grants and contract services are recognized either when the services are performed or when the expenditures are incurred. Cash received prior to providing services is deferred to future periods.

(ii) Grants and contributions:

Grant revenue is based on the terms of each individual grant, and is considered available for unrestricted use unless the donor or grantor restricts the use thereof, on a temporary basis.

Contributions to the Organization are recognized as revenue upon the receipt of cash or other assets or of unconditional pledges. Contributions are recorded as temporarily restricted if they are received with donor stipulations or time considerations as to their use. Contributions are recorded when conditions have been met and, if received in advance, are recognized in the statements of financial position as funds received in advance. Conditional contributions to be received over periods longer than a single year are discounted at an interest rate commensurate with the risk involved.

EXPANDED SCHOOLS, INC.

Notes to Financial Statements June 30, 2016 and 2015

NOTE A - ORGANIZATION AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[9] Revenue recognition: (continued)

(iii) Contracted services:

Contracted services are recognized as revenue in the accompanying statements of activities when professional services are performed.

(iv) Special events:

During fiscal-years 2016 and 2015, the Organization held annual events to raise money for its operating costs. A portion of the gross proceeds paid by the attendees of the event represents payment for the direct cost of the benefits received by the attendees of the event. Such special-event income is reported net of the direct costs of the event that are attributable to the benefit that the donors receive, referred to as "direct benefit to donor."

(v) Rental income:

Rental income is derived from meeting room rentals and sublease of the Organization's leased space (see Note L).

[10] Donated goods and services:

For recognition of donated goods and services in the Organization's financial statements, such services must (i) create or enhance non-financial assets and (ii) typically need to be acquired if not provided by donation. Additionally, recognition of donated services must (i) require a specialized skill and (ii) be provided by individuals possessing these skills. Donated services are recorded as support at their estimated fair values at the dates of donation and are reported as unrestricted support unless the donor has restricted the donated asset for a specific purpose. Donated goods and services are both reported as contributions and offsetting expenses in the accompanying statements of activities (see Note D).

[11] Functional allocation of expenses:

The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis in the accompanying statements of activities. Accordingly, certain costs have been allocated, among the programs, management and fund-raising areas using appropriate and consistent measurement methodologies.

[12] Income tax uncertainties:

The Organization is subject to the provisions of the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") Topic 740, *Income Taxes*, relating to accounting and reporting for uncertainty in income taxes. Because of the Organization's general tax-exempt status, management believes ASC Topic 740 has not had, and is not anticipated to have, a material impact on the Organization's financial statements.

EXPANDED SCHOOLS, INC.

Notes to Financial Statements June 30, 2016 and 2015

NOTE A - ORGANIZATION AND ITS SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[13] New accounting pronouncement:

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 will amend financial-statement presentations and disclosures, with the goal of assisting not-for-profit organizations in providing more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. ASU 2016-14 includes qualitative and quantitative requirements in the following areas: (i) net asset classifications, (ii) investment returns, (iii) expense categorizations, (iv) liquidity and availability of resources, and (v) the presentation of operating cash flows. The new standard will be effective for annual reporting periods beginning after December 15, 2017. The Organization has elected not to early-adopt this pronouncement.

[14] Subsequent events:

The Organization considers the accounting treatments, and the related disclosures in the current fiscal-year's financial statements, that may be required as the result of all events or transactions that occur after the fiscal year-end through December 7, 2016, the date the financial statements were available to be issued.

NOTE B - RECEIVABLES

[1] Grants and contributions receivable:

The Organization has recorded as grants and contributions receivable those amounts that have been promised to the Organization as of June 30, but that have not yet been collected as of that date. At each fiscal year-end, the receivables were estimated to be due as follows:

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Less than one year	\$ 2,128,206	\$ 4,816,094
One to three years	<u>25,000</u>	<u>697,000</u>
	2,153,206	5,513,094
Reduction of pledges due in excess of one year to present value, at discount rate of 3%	<u>(728)</u>	<u>(40,697)</u>
	<u>\$ 2,152,478</u>	<u>\$ 5,472,397</u>

Based on management's past experience, contributions and grants receivable are expected to be fully collected, and accordingly, no allowance for doubtful accounts has been established.

[2] Government grants and contracts services receivable:

Government grants and contract receivable for fiscal-years 2016 and 2015 represent amounts due for services already performed. On a periodic basis, the Organization evaluates its government grants and contracts receivable and establishes an allowance for doubtful accounts based on a history of past write-offs and the grantors' disallowances of certain costs. At June 30, 2016 and 2015, government grants and contracts services receivable were \$4,753,255 and \$5,450,226, respectively, net of an allowance for doubtful accounts of \$75,000 in each year.

EXPANDED SCHOOLS, INC.

Notes to Financial Statements June 30, 2016 and 2015

NOTE C - PROPERTY AND EQUIPMENT

At each year-end, property and equipment consisted of the following:

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 3,365,085	\$ 3,365,085
Office furniture and equipment	25,036	25,036
Computers and office equipment	<u>376,437</u>	<u>370,293</u>
	3,766,558	3,760,414
Less accumulated depreciation and amortization	<u>(3,246,678)</u>	<u>(2,882,724)</u>
	<u>\$ 519,880</u>	<u>\$ 877,690</u>

NOTE D - DONATED GOODS AND SERVICES

The Organization helps to implement after-school programs run by various community-based organizations in New York City and provides resources to many of those organizations. The Organization also helps these organizations to obtain resources from federal funders. Such resources included snacks and supper meals for 8,365 and 9,781 after-school participants and were provided throughout each of the fiscal-years 2016 and 2015, respectively. The value of these resources approximated \$2,857,000 and \$3,244,000 in fiscal-years 2016 and 2015, respectively, and because they were provided directly to the organizations, they have not been reported in the accompanying financial statements.

In fiscal-years 2016 and 2015, the Organization received approximately \$46,000 and \$39,000, respectively, in legal, strategic-planning, consulting, and other professional services. These amounts have been reported as donated goods and services in the accompanying statements of activities. During fiscal-years 2016 and 2015, the Organization also received donated goods, consisting of items provided for its special event, which were valued at approximately \$26,000 and \$14,000, respectively.

NOTE E - RETIREMENT BENEFITS

The Organization has a defined-contribution pension plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers all employees who meet the Organization's length-of-service requirements. Contributions by the Organization are discretionary and can be made only with the Board of Directors' approval. The Organization's contribution for fiscal-years 2016 and 2015 was approximately \$157,000 and \$143,000, respectively.

NOTE F - RELATED-PARTY TRANSACTIONS

Certain members of the Organization's Board of Directors serve as directors or managers of organizations that provide services to and/or receive grants from the Organization. The Organization's board has a conflict-of-interests policy in place that requires directors and managers to disclose all conflicts or potential conflicts. The Organization's Board has general oversight in the decisions made regarding grant awards, and those members of the Organization's Board and management who may have potential conflicts recuse themselves when there are determinations to be made regarding such potential conflicts.

EXPANDED SCHOOLS, INC.

Notes to Financial Statements June 30, 2016 and 2015

NOTE G - SIGNIFICANT SOURCES OF REVENUE AND RECEIVABLES

The Organization received grants from the New York City Department of Youth and Community Development in the amounts of \$3,793,966 and \$4,069,300 for fiscal-years 2016 and 2015, respectively. Such grants represented 47% and 48% of total government grants and contracts revenue in fiscal-years 2016 and 2015, respectively, and 29% and 65% of government grants and contracts receivable at June 30, 2016 and 2015, respectively.

The Organization received contract agreements from the New York City Department of Education in the amount of \$2,340,000 and \$2,345,825 for fiscal-years 2016 and 2015, respectively. Such contracts represented approximately 29% of government grants and contracts revenue in both fiscal-years 2016 and 2015, and 37% and 9% of government grants and contracts receivable at June 30, 2016 and 2015, respectively.

The Organization received contract agreements from the New York State Education Department in the amount of \$1,149,086 and \$1,091,265 for fiscal-years 2016 and 2015, respectively. Such contracts represented approximately 14% and 13% of government grants and contracts revenue in fiscal-years 2016 and 2015, respectively, and 9% and 12% of government grants and contracts receivable at June 30, 2016 and 2015, respectively.

The Organization received grants from five private funders totaling \$2,588,000 for fiscal-year 2016 and from six private funders totaling \$4,757,000 for fiscal-year 2015. Such grants represented approximately 67% and 79% of grants and contribution revenue in fiscal years 2016 and 2015, respectively. Grants and contributions receivable from four private funders totaling \$2,112,000 represented approximately 98% of grants and contributions receivable at June 30, 2016. Grants and contributions receivable from three private funders totaling \$4,687,000 represented approximately 85% of grants and contribution receivable at June 30, 2015.

NOTE H - TEMPORARILY RESTRICTED NET ASSETS

At each fiscal year-end, temporarily restricted net assets consisted of the following:

	<u>June 30,</u>	
	<u>2016</u>	<u>2015</u>
Programs:		
Every Hour Counts (EHC)	\$ 2,514,245	\$ 1,377,924
Expanded Learning Time Initiative	1,582,556	5,620,755
Literacy Programs	521,102	404,859
Science, Technology, Engineering and Math (STEM) Initiative	550,851	1,146,861
Summer Service Programs		27,762
AmeriCorps - Everyday Explorers Program		40,000
	<u>\$ 5,168,754</u>	<u>\$ 8,618,161</u>

EXPANDED SCHOOLS, INC.

Notes to Financial Statements June 30, 2016 and 2015

NOTE H - TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

During each fiscal year, net assets released from restrictions consisted of the following:

	Year Ended June 30,	
	2016	2015
Programs:		
Every Hour Counts (EHC)	\$ 816,889	467,470
Expanded Learning Time Initiative	4,443,280	4,584,709
Literacy Programs	392,642	
Science, Technology, Engineering and Math (STEM) Initiative	765,967	598,875
Summer Service Programs	27,762	18,026
AmeriCorps - Everyday Explorers Program		40,000
New York State Afterschool Network (NYSAN)		127,186
Professional Development for Community Based Organizations		10,000
	<u>\$ 6,446,540</u>	<u>\$ 5,846,266</u>

NOTE I - LOAN PAYABLE

In June 2015, the Organization entered into bridge loan agreement with the Fund for the City of New York (the "Fund") for \$1,700,000 to cover operating expenses pending receipt of funds from the New York City Department of Youth and Community Development ("NYCDYCD"). The loan was non-interest bearing and due in 90 days from the date the Organization signed the loan agreement. On July 16, 2015, NYCDYCD repaid the loan in full to Fund, in lieu of direct payment to the Organization.

NOTE J - CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash-equivalent accounts deposited in financial institutions, the balances of which, from time to time, may exceed federal insurance limits. However, management believes that the Organization does not face a significant risk of loss on these accounts due to the failures of those institutions.

NOTE K - COMMITMENTS

[1] Lease commitment:

The Organization is obligated under a non-cancelable operating lease for its office space expiring in September 2017. The lease is subject to escalation for the Organization's pro-rata share of increases in real estate taxes and operating expenses.

During fiscal-year 2014, the Organization entered into a sublease agreement for a portion of its office space under a non-cancelable operating lease, expiring in September 2017. During fiscal 2015, the Organization entered into a sublease agreement for a portion of its office space, where the new tenant assumes joint responsibility for the lease terms. For the fiscal-years 2016 and 2015, rental income generated from those sublease agreements amounted to approximately \$605,000 and \$607,000, respectively.

EXPANDED SCHOOLS, INC.

Notes to Financial Statements June 30, 2016 and 2015

NOTE K - COMMITMENTS (CONTINUED)

[1] Lease commitment: (continued)

The minimum annual future rental commitments under the lease agreements, net of the sublease agreement, are as follows:

<u>Year Ending June 30,</u>	<u>Rental Expense</u>	<u>Sublease Income</u>	<u>Net</u>
2017	1,620,203	526,197	1,094,006
2018	<u>405,051</u>	<u>134,014</u>	<u>271,037</u>
	<u>\$ 2,025,254</u>	<u>\$ 660,211</u>	<u>\$ 1,365,043</u>

The Organization holds restricted cash of approximately \$155,000 in fiscal years 2016 and 2015 of security deposits held on behalf of tenants and \$339,000 for both fiscal years from a standby letter of credit with a New York financial institution, which is in lieu of providing a security deposit. The letter of credit is secured by funds maintained with the same financial institution.

[2] Government contracts:

Government grants and contracts are subject to audit by the funding sources. Such audit might result in disallowances of costs submitted for reimbursement. Management believes that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been reserved in the accompanying financial statements for potential disallowances.

[3] Other contracts:

The Organization has entered into various contracts and agreements in the normal course of business operations.