THINK Together
Certified Public Accountants' Audited Financial Statements

Years Ended June 30, 2016 and 2015

THINK Together

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Independent Auditors' Report on Financial Statements

To the Board of Directors
THINK Together

We have audited the accompanying financial statements of THINK Together (a California non-profit corporation), which comprise the statement of financial position as of June 30, 2016 and 2015, 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 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 and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. 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 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 risk 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 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 financial statements referred to above present fairly, in all material respects, the financial position of THINK Together 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.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2016 on our consideration of THINK Together's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering THINK Together's internal control over financial reporting and compliance.

Stephens, Reidinger + Beller LLP

Newport Beach, CA
November 29, 2016

THINK Together

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

ASSETS

	2016	2015
Current assets		
Cash and cash equivalents	$ 386,350	$ 423,994
School district contracts receivable	2,512,357	1,650,951
Grants, donations and other receivables	823,152	540,260
Prepaid expenses	155,076	158,104
Total current assets	3,876,935	2,773,309
Property and equipment - net of accumulated depreciation	7,645,059	7,902,189
Other assets	1,146,669	831,628
Total assets	$ 12,668,663	$ 11,507,126

LIABILITIES AND NET ASSETS

	2016	2015
Current liabilities		
Accounts payable	$ 967,117	$ 1,360,486
Accrued payroll and related liabilities	2,093,106	1,936,894
Line of credit	1,497,252	-
Current maturities of long-term debt	257,488	98,800
Current portion of service obligation	489,957	476,005
Deferred revenue and rental obligations	69,627	289,806
Total current liabilities	5,374,547	4,161,991
Long-term debt - net of current maturities	2,159,636	2,024,017
Long-term service obligation - net of current portion	2,673,792	3,163,749
Deferred revenue and rental obligations - long-term	147,500	219,489
Total liabilities	10,355,475	9,569,246
Net assets		
Unrestricted	2,072,788	1,670,613
Temporarily restricted	240,400	267,267
Permanently restricted	-	-
Total net assets	2,313,188	1,937,880
Total liabilities and net assets	$ 12,668,663	$ 11,507,126

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

THINK Together

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

	2016		
Revenue	Unrestricted	Temporarily Restricted	Total
Public support			
Corporate donations	$ 491,066	$ -	$ 491,066
Individual donations	307,537	2,500	310,037
Foundations	1,921,351	-	1,921,351
School district contract services	39,995,472	-	39,995,472
Contributed assets and services	819,181	-	819,181
Net assets released from restrictions	21,750	(21,750)	-
Total public support	43,556,357	(19,250)	43,537,107
Interest, rental and other income	862,141	(7,617)	854,524
Total revenue and support	44,418,498	(26,867)	44,391,631
Expenses			
Program services	39,258,983	-	39,258,983
Management and general	3,940,010	-	3,940,010
Fundraising	817,330	-	817,330
Total expenses	44,016,323	-	44,016,323
Change in net assets	402,175	(26,867)	375,308
Beginning net assets	1,670,613	267,267	1,937,880
Ending net assets	$ 2,072,788	$ 240,400	$ 2,313,188

THINK Together

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2015

	2015		
Revenue	Unrestricted	Temporarily Restricted	Total
Public support			
Corporate donations	$ 666,851	$ 25,000	$ 691,851
Individual donations	616,177	7,000	623,177
Foundations	1,397,288	-	1,397,288
United Way	49,250	-	49,250
Government grants	324,520	-	324,520
School district contract services	43,828,412	-	43,828,412
Contributed assets and services	58,443	-	58,443
Net assets released from restrictions	18,250	(18,250)	-
Total public support	46,959,191	13,750	46,972,941
Interest, rental and other income	408,931	(7,162)	401,769
Total revenue and support	47,368,122	6,588	47,374,710
Expenses			
Program services	42,072,712	-	42,072,712
Management and general	3,613,857	-	3,613,857
Fundraising	1,035,399	-	1,035,399
Total expenses	46,721,968	-	46,721,968
Change in net assets	646,154	6,588	652,742
Beginning net assets	1,024,459	260,679	1,285,138
Ending net assets	$ 1,670,613	$ 267,267	$ 1,937,880

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

THINK Together

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2016

	Program Services	Supporting Services			
	Out of School Programs	Management and General	Fund Raising	Subtotal	Total
Advertising	$ 20	$ -	$ 40,128	$ 40,128	$ 40,148
Bank charges	10	42,488	-	42,488	42,498
Computer and software expenses	200,764	18,933	15,851	34,784	235,548
Consulting	94,480	117,969	108,072	226,041	320,521
Copying and printing	108,891	17,355	39,672	57,027	165,918
Depreciation	12,326	420,767	-	420,767	433,093
Insurance-general	2,379	385,860	-	385,860	388,239
Insurance-health	869,705	35,717	9,359	45,076	914,781
Insurance-workers comp.	565,766	17,240	4,417	21,657	587,423
Interest	10,938	286,706	-	286,706	297,644
Legal and accounting	40,692	127,608	-	127,608	168,300
Maintenance and repairs	49,765	172,832	-	172,832	222,597
Travel and mileage	463,798	31,915	11,334	43,249	507,047
Office expense	195,320	71,049	40,579	111,628	306,948
Outside/subcontracted services	1,230,083	283,428	-	283,428	1,513,511
Postage	57,992	10,199	8,932	19,131	77,123
Promotion	76,214	7,231	8,260	15,491	91,705
Provision for doubtful accounts	-	3,918	-	3,918	3,918
Rent	802,540	78,556	-	78,556	881,096
Salaries and wages	29,118,890	1,473,124	484,606	1,957,730	31,076,620
School supplies	1,983,215	-	-	-	1,983,215
Special events	128,616	4,346	2,294	6,640	135,256
Staff development	92,092	30,296	1,908	32,204	124,296
Taxes - payroll	2,864,530	99,568	40,097	139,665	3,004,195
Taxes - property, other	11,879	47,156	-	47,156	59,035
Telecommunications	235,686	-	1,821	1,821	237,507
Utilities	42,392	155,749		155,749	198,141
	$ 39,258,983	$ 3,940,010	$ 817,330	$ 4,757,340	$ 44,016,323

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

THINK Together

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2015

	Program Services	Supporting Services			
	Out of School Programs	Management and General	Fund Raising	Subtotal	Total
Advertising	$ 43	$ -	$ 9,295	$ 9,295	$ 9,338
Bank charges	-	37,100	-	37,100	37,100
Computer and software expenses	174,416	44,720	7,670	52,390	226,806
Consulting	65,847	67,312	218,882	286,194	352,041
Copying and printing	125,469	24,807	31,803	56,610	182,079
Depreciation	12,296	393,866	-	393,866	406,162
Insurance-general	6,484	390,137	-	390,137	396,621
Insurance-health	999,783	54,102	16,062	70,164	1,069,947
Insurance-workers comp.	772,926	15,156	7,017	22,173	795,099
Interest	11,363	327,668	-	327,668	339,031
Legal and accounting	2,858	59,867	-	59,867	62,725
Maintenance and repairs	66,050	160,100	-	160,100	226,150
Travel and mileage	573,958	37,699	14,718	52,417	626,375
Office expense	185,142	55,097	44,115	99,213	284,354
Outside/subcontracted services	970,326	48,356	250	48,606	1,018,932
Postage	65,103	9,482	7,236	16,718	81,821
Promotion	74,873	7,486	45,643	53,129	128,002
Rent	841,395	56,020	-	56,020	897,415
Salaries and wages	31,102,087	1,497,772	548,350	2,046,122	33,148,209
School supplies	2,213,014	4,343	573	4,916	2,217,930
Special events	211,164	4,007	38,832	42,839	254,003
Staff development	79,299	2,671	1,984	4,655	83,954
Taxes - payroll	3,103,469	102,707	41,160	143,867	3,247,336
Taxes - property, other	11,697	50,278	-	50,278	61,975
Telecommunications	361,187	7,900	1,809	9,709	370,896
Utilities	42,463	155,204	-	155,204	197,667
	$ 42,072,712	$ 3,613,857	$ 1,035,399	$ 4,649,257	$ 46,721,968

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

THINK Together

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Increase in net assets	$ 375,308	$ 652,742
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	433,093	406,162
(Increase) decrease in assets		
Accounts receivables	(1,144,298)	1,383,857
Prepaid expenses	3,028	(5,131)
Deposits	93,700	52,911
Increase (decrease) in liabilities		
Accounts payable	(393,369)	(37,541)
Accrued payroll and related liabilities	156,212	(134,507)
Deferred revenue and rental obligations	(292,168)	164,790
Total adjustments	(1,143,802)	1,830,541
Net cash provided (used) by operating activities	(768,494)	2,483,283
Cash flows from investing activities		
Acquisition of property and equipment	(194,071)	(292,448)
Sale of property and eqipment	42,001	3,103
Deferred lease commissions	(82,634)	(39,571)
Investment in benefit corporation	(350,000)	(250,000)
Net cash used by investing activities	(584,704)	(578,916)
Cash flows from financing activities		
Proceeds (payments) on line of credit and loans	1,897,252	(1,461,619)
Satisfaction of service obligation	(476,005)	(462,451)
Payments on long-term debt	(105,693)	(103,937)
Net cash provided (used) by financing activities	1,315,554	(2,028,007)
Net decrease in cash and cash equivalents	(37,644)	(123,640)
Cash and cash equivalents at beginning of year	423,994	547,634
Cash and cash equivalents at end of year	$ 386,350	$ 423,994
Supplemental disclosure		
Cash paid during the year for interest	$ 207,286	$ 234,645

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

Organization and Nature of Services

THINK Together is a non-profit, tax-exempt, California corporation formed for the purpose of providing high quality academic support programs to young people regardless of race, creed or socio-economic status. These programs include daily comprehensive academic support programs for at-risk students (K-12) and early learning programs targeted at children aged 0-5. These programs operate mostly during the school year, but summer programs are a growing component of THINK Together's services.

THINK Together provides these services at more than four hundred locations and across thirty-eight public school districts in California. In addition, THINK Together provides services at private schools and community-based sites. During the fiscal year ended June 30, 2016, THINK Together served more than 100,000 students.

THINK Together's services are provided under a variety of financial arrangements. The largest portion of these services is the daily comprehensive academic support programs provided to public school districts. THINK Together serves as a sub-contractor to these districts where it provides program services, volunteer recruitment, financial reporting, program evaluation and raises matching funds through philanthropy. THINK Together's community site programs are funded entirely through philanthropy. THINK Together's early learning programs are funded via state and county subsidies.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies of the Organization.

Basis of Presentation

The financial statements are presented on the accrual basis of accounting. Management has evaluated subsequent events through November 29, 2016, the date which the financial statements were available for issue.

Cash, Cash Equivalents and Concentration of Credit Risk

For purposes of the statement of cash flows, THINK Together considers all cash and other highly liquid investments with maturities of three months or less to be cash equivalents. THINK Together maintains its cash with commercial banks which at times may exceed the Federal Deposit Insurance Corporation (FDIC) insured limits. THINK Together believes these funds are all maintained in high quality financial institutions which limits its risk. THINK Together has not incurred losses related to carrying cash balances in excess of the FDIC insurance limits.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Statement Presentation

THINK Together reports financial information in accordance with Accounting Standards Codification ("ASC") Topic No. 958-205 Not-for-Profit Entities – Presentation of Financial Statements. Under ASC 958-205, THINK Together is required to report information regarding its financial position and activities according to three classes of assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. In accordance with these requirements, THINK Together has classified its financial statements to present the three classes of net assets required. At June 30, 2016, THINK Together had temporarily restricted assets of $240,400 and no permanently restricted net assets.

Donated Services, Materials and Facilities

Donated materials have been included in the accompanying financial statements where estimates of market value were available to measure the value of such materials. Donated materials during the years ended June 30, 2016 and 2015 were $10,750 and $38,301, respectively. Contributed facilities are reported as public support income and rental expense based on the estimated usage value of the premises. There were no contributed facilities during the year ended June 30, 2016 and 2015. In addition, program meals donated to THINK Together for the years ended June 30, 2016 and 2015 amounted to $61,341 and $20,142, respectively. Donated services are recognized when a nonfinancial asset is created or specialized skills are required and the organization would otherwise need to purchase the services. Donated services for the year ended June 30, 2016 was $747,090 and there were no donated services for the year ended June 30, 2015. In addition, a substantial number of volunteers have donated over 150,852 hours and 183,000 hours of their time to THINK Together during the years ended June 30, 2016 and 2015, respectively. The value of this time and related expense has not been included in the accompanying financial statements.

Promises to Give

THINK Together employs Accounting Standards of Codification ("ASC") Topic No. 958-605 *Not-for-Profit Entities – Revenue Recognition* to account for its contributions. In accordance with ASC 958-605, contributions are recognized when the donor makes a promise to give to THINK Together that is, in substance, unconditional. 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 the restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Doubtful Accounts

Accounts receivable are stated at unpaid balances, less an allowance for doubtful accounts. THINK Together provides for losses on accounts receivable using the allowance method. The allowance is based on experience, third-party contracts, and other circumstances, which may affect the collectability of the various accounts receivables.

Property and Equipment

THINK Together follows the practice of capitalizing all material expenditures for property and equipment. Donated property is capitalized at its estimated fair market value at the time of donation. Depreciation of furniture and equipment is recorded on the straight-line basis over five years. Buildings are depreciated over thirty years on the straight-line basis.

Long-lived assets held and used by THINK Together are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed. Management does not believe there to be an impairment of long-lived assets as of June 30, 2016.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain 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.

Income Taxes

THINK Together is exempt from federal income taxes under the 501(c)(3) provisions of the Internal Revenue Code and is exempt from the state franchise tax under Section 23701(d) of the California Revenue and Taxation code. No provision for income tax liability is therefore required.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

The primary source for THINK Together's revenue is through public support. Public support comes mostly in the form of contributions from individuals and corporations, foundation and government grants, and service contracts with school districts. Contribution income is recognized either when it is received or a pledge is determined to be certain and eminent. Grant income is recognized as the related service obligation is completed. Service contract income is recognized ratably over the related contract term.

Deferred Revenue and Rental Obligations

Funds received in advance of program services or activities to be performed or delivered in future periods are recorded as deferred revenue in the accompanying Statement of Financial Position. Revenues relating to such advance payments are recognized as the required services or activities are performed and related exchange transaction is completed. In addition, THINK Together utilizes a rent normalization account to equalize lease payments over the life of each individual lease when rental reduction incentives are provided at the commencement of the lease. Deferred revenue and rental obligations consist of the following:

	2016		2015	
	Current Portion	Long Term Portion	Current Portion	Long Term Portion
Deferred Revenue	$ -	$ -	$ 235,787	$ -
Security Deposits	-	46,738	-	58,622
Deferred Rent	69,627	100,762	54,019	160,867
Total	$ 69,627	$ 147,500	$ 289,806	$ 219,489

NOTE 2: CONCENTRATION OF SCHOOL DISTRICT CONTRACT REVENUE AND RECEIVABLES

THINK Together serves as a subcontractor to school districts where it provides a variety of program services. For the year ended June 30, 2016, school district contracts comprised 92% of THINK Together's operating revenue Under these subcontractor arrangements, school districts act as the Lead Education Agency (LEA), or fiscal agent, and have been awarded grant funding by either the California Department of Education (CDE) or the U.S. Department of Education to provide program services. Partnering school districts have in turn contracted THINK Together to provide the comprehensive delivery and administrative oversight of the funded programs. Contracted program services provided by THINK Together have three primary sources of funding: 1) California Department of Education (CDE) grant funding for after school programming funded by Proposition 49, 2) Federal funding through the 21st Century Community Learning Centers program (administered by the CDE), and 3) Other Local School District Discretionary Funding Sources. For THINK Together, 78% of its operating revenue (85% of total school district contract revenue) relates to CDE Proposition 49 grant funding; and 7% of its total operating revenue (8% of total school district contract revenue) relates to U.S. Department of Education 21st Century Community Centers funding.

For the fiscal years ending June 30, 2016 and 2015, school district contract revenue for THINK Together was comprised of the following sources of State and Federal grant funding.

	2016	2015
California Department of Education (CDE) –Proposition 49 After School Education and Safety Act (ASES)	$ 33,876,641	$ 37,488,626
U.S. Department of Education - 21st Century Community Learning Centers (21st CCLC) (administered by the CDE)	3,176,675	4,712,064
Other Local School District Discretionary Funding Sources (LCFF)	2,942,156	1,627,722
Total	$ 39,995,472	$ 43,828,412

NOTE 2: CONCENTRATION OF SCHOOL DISTRICT CONTRACT REVENUE AND RECEIVABLES (continued)

On September 10th, 2014, Santa Ana Unified School District (SAUSD) notified THINK Together that it will exercise its option to terminate a contract with THINK Together for the delivery of their afterschool program, effective December 19th, 2014. Revenue during the year ended June 30, 2015 for the remainder of the SAUSD contracted period of July 1, 2014 through December 19, 2014 was $5,852,201. THINK Together management implemented cost reduction plans that consisted of workforce reductions which included the direct layoff of all program staff working in the SAUSD afterschool program, the consolidation of THINK Together's local Orange County Regional office with its regional office located in Santa Fe Springs, and significant reductions and restructuring to THINK Together's program department and corporate office workforce. These cost reductions have offset the loss in revenue from the SAUSD contract.

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2016 and 2015 consists of the following:

	2016	2015
Land	$ 4,352,000	$ 4,352,000
Building	1,381,824	1,381,824
Building improvements	2,177,244	2,078,649
Office, furniture and equipment	1,000,880	960,733
Leasehold and tenant improvements	166,809	111,481
Construction in progress	-	42,001
	9,078,757	8,926,688
Less: accumulated depreciation	(1,433,698)	(1,024,499)
Total property and equipment	$ 7,645,059	$ 7,902,189

THINK Together operates two community based programs in the Shalimar neighborhood of Costa Mesa in rented facilities. On January 31, 2008 THINK Together acquired a 4-unit apartment building for $872,000 (refer to Note 6) in the Shalimar neighborhood to allow for program expansion and to secure the long term future of the program in the Shalimar neighborhood.

NOTE 4: OTHER ASSETS

Other assets consist of the following:

	2016	2015
Deposits	$ 90,654	$ 183,025
Deferred lease commissions	67,773	48,603
Goodwill	350,000	350,000
Investment in benefit corporation	638,242	250,000
Total	$ 1,146,669	$ 831,628

NOTE 5: LINE OF CREDIT

THINK Together has a line of credit with Comerica Bank that provides for borrowings of up to $7,500,000 through December 1, 2016, except during the period from September 1 to December 31 of each year, when the limit increases to $9,500,000. Borrowings on this line of credit are permitted based on outstanding accounts receivable balances and are collateralized by a Deed of Trust that creates a lien on the security interest in the headquarters of THINK Together located in Santa Ana, CA, receivables and other organization assets.

Under the terms of the line of credit agreement, THINK Together is required to meet and maintain certain financial covenants. As of June 30, 2016 and 2015, THINK Together was in compliance with these covenants. Interest on this line of credit is payable monthly at the bank's prime rate (3.50%) plus 1.25% which results in an effective rate of 4.75% at June 30, 2016. The outstanding balance on the line of credit at June 30, 2016 was $1,497,252. There was no outstanding balance on the line of credit at June 30, 2015.

NOTE 6: LONG-TERM DEBT

On October 28, 2010, THINK Together obtained a five year loan in the amount of $2,000,000 from St. Joseph Health System to provide working capital needs related to the Organization and to satisfy the requirements for the bank's line of credit of $7,500,000 as mentioned in Note 5. This loan is subordinate to Comerica Bank's line of credit.

The loan originally accrued interest daily at the rate of 4.25% per year and effective July 1, 2012, the interest rate was reduced to 2.17%. The Organization agreed to repay the full principal amount of the loan and interest accrued within five years of the date of agreement. Starting in December 2010, payments were due and payable in 60 consecutive monthly installments of principal and interest in the amount of $9,839 per month. In November 2015, St. Joseph Health System agreed to extend the loan for an additional 60 months and it is now due on November 30, 2020.

NOTE 6: LONG-TERM DEBT (continued)

The outstanding balance of the loan was $1,622,440 and $1,704,333 at June 30, 2016 and 2015, respectively.

On January 31, 2008 THINK Together financed the acquisition of the 4-unit apartment building referred to in Note 3 under the terms of a $595,000 note and deed of trust payable secured by the property. This note, which matures January 31, 2018, has monthly installments of principal of $1,983.

Interest on this note is payable monthly at the lower of the bank's base rate or LIBOR, which resulted in an average rate of 2.79% during the year ended June 30, 2016. The outstanding balance of this note was $394,684 and $418,484 at June 30, 2016 and 2015, respectively.

In connection with its additional investment in Principal's Exchange (See Note 9), THINK Together became obligated under terms of a $150,000 non-interest bearing note payable which is due on January 7, 2017. In addition, THINK Together became obligated under a $250,000 non-interest bearing note payable due December 31, 2018 to a former shareholder of Principal's Exchange and in exchange received a corresponding $250,000 non-interest bearing revolving note receivable from Principal's Exchange. The $250,000 note payable is subordinated to THINK Together's obligations to Comerica Bank (See Note 5).

Maturities of long-term debt are as follows:

Year ended June 30,		
2017	$	257,488
2018		456,406
2018		337,396
2019		89,312
2020		1,276,522
Total	$	2,417,124

NOTE 7: LONG-TERM SERVICE OBLIGATION

In August of 2012, THINK Together acquired a 52,000 square foot office complex on 2.3 acres of land in Santa Ana for use as its administrative offices with proceeds from a $5,000,000 advance for future services from Children and Families Commission of Orange County (CFCOC). Under terms of an agreement with CFCOC, THINK Together is obligated to provide Early Literacy and Math Program services in exchange for this advance for a 10 year period, starting on July 1, 2012.

NOTE 7: LONG-TERM SERVICE OBLIGATION (continued)

This obligation, which is collateralized by a deed of trust on the property, is being amortized over the 10 year service period with an imputed interest rate of 2.89%. The unamortized balance of this obligation was $3,163,749 at June 30, 2016 and $3,639,754 at June 30, 2015.

NOTE 8: OBLIGATIONS UNDER OPERATING LEASES

THINK Together had various leases for its facilities. The lease agreements having an original term of more than one year expire on various dates through March 2019.

Minimum lease obligations for these facilities are as follows:

Year	Base Rent
2017	$ 642,341
2018	510,888
2019	177,947
Total	$ 1,331,176

Rent expense was $881,096 for the year ended June 30, 2016.

NOTE 9: INVESTMENT IN BENEFIT CORPORATION

THINK Together entered into an agreement on January 7, 2015 to purchase 25,000 common shares of stock with a stated value of $10 per share for $250,000 in Principal's Exchange, a California benefit corporation. The initial investment constituted approximately 17% of the outstanding voting stock of Principal's Exchange and, accordingly, was accounted for under the cost method of accounting.

In March of 2016, THINK Together acquired an additional 35,000 shares of Principal's Exchange stock for $350,000, raising THINK Together's ownership of voting stock to approximately 41%. This additional purchase was financed with $200,000 in cash and the assumption of a $150,000 non-interest bearing note payable obligation due on January 7, 2017 (See Note 6). As a result of the increased ownership, THINK Together is required to change its accounting method for this investment from the cost method to the equity method of accounting. THINK Together has elected early adoption of FASB ASU No. 2016-07, *Investments-Equity Method and Joint Ventures (Topic 323)* and therefore retroactive adjustment for the investment is not required in connection with the change from the cost method to the equity method. Instead, the equity method is applied prospectively as of the date the investment became qualified for the equity method of accounting.

NOTE 9: INVESTMENT IN BENEFIT CORPORATION (continued)

As a result of the adoption of the equity method, THINK Together recorded $38,242 of income from its proportionate share of the net income of Principal's Exchange during the period from March 2016 through June 2016.

THINK Together's investment in Principal's Exchange is included at cost of $600,000 plus its share of income under the equity method of $38,242 in other assets in the accompanying Statement of Financial Position.

Summary results of operations and financial position of Principal's Exchange were as follows:

Condensed unaudited income statement information for the year ended June 30, 2016:

Net contract service revenue	$ 2,510,599
Net income	120,336

Condensed unaudited balance sheet information at June 30, 2016:

Current assets	$ 799,748
Intangible assets	1,495,600
Total assets	$ 2,295,348
Current liabilities	$ 1,084,372
Long-term liabilities	250,000
Equity	960,976
Total liabilities and equity	$ 2,295,348

NOTE 10: RELATED PARTY TRANSACTIONS

THINK Together has an outstanding receivable of $250,000 due under a revolving non-interest bearing note receivable from its affiliate, Principal's Exchange (See Note 6). In addition, it has advanced approximately $425,000 during the period from January 2015 through June 30, 2016 to Principal's Exchange in connection with administrative and other costs and expenses (See Note 9). Principal's Exchange also provided $75,000 in consulting services to THINK Together during 2016. The net receivable balance of approximately $600,000 is included in other receivables in the accompanying statement of financial position. In management's opinion, repayment of these receivables and advances will be realized in the ordinary course of operating activities and these amounts will be collected in full.

NOTE 10: RELATED PARTY TRANSACTIONS (continued)

As described in Note 6, THINK Together is obligated under terms of a $250,000 subordinated note payable to a former shareholder of Principal's Exchange. This obligation, which was entered into in connection with the $250,000 revolving line of credit referred to in the preceding paragraph, is due to a member of the Board or Directors of THINK Together.

In other ongoing related party arrangements during 2016 and 2015, THINK Together continues to purchase its business insurance at market rates through an insurance agency that employs the sister-in-law of THINK Together's President. Additionally, THINK Together engaged one of its board members to provide legal services.

Management believes all transactions and contractual agreements referred to above were at competitive fair market value rates. The Board of Directors has approved each transaction in advance applying the tests of fairness and benefit to the Organization in accordance with regulatory requirements.