

THINK Together
Certified Public Accountants'
Audited Financial Statements

Years Ended June 30, 2013 and 2012

THINK Together

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Independent Accountants' 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, 2013 and 2012, 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 audit. We conducted our audit 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 audit 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, 2013 and 2012, 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 audit was 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 U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, 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 October 23, 2013 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
October 23, 2013

THINK Together

STATEMENT OF FINANCIAL POSITION

June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,392,525	\$ 2,107,521
School district contracts receivable	2,566,521	2,601,609
Grants, donations and other receivables	1,017,377	1,504,954
Prepaid expenses	<u>330,252</u>	<u>379,627</u>
Total current assets	8,306,675	6,593,711
Property and equipment - net of accumulated depreciation	6,176,212	1,202,149
Other assets - deferred lease commissions and deposits	<u>314,261</u>	<u>360,982</u>
Total assets	<u>\$ 14,797,148</u>	<u>\$ 8,156,842</u>

LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 1,164,061	\$ 1,099,017
Accrued payroll and related liabilities	2,271,033	2,166,330
Current maturities of long-term debt	102,218	100,536
Current portion of service obligation	449,283	-
Deferred revenue	<u>2,338,140</u>	<u>884,750</u>
Total current liabilities	6,324,735	4,250,633
Long-term debt - net of current maturities	2,226,754	2,328,972
Long-term service obligation - net of current portion	4,102,205	-
Deferred revenue - long-term	<u>190,838</u>	<u>-</u>
Total liabilities	<u>12,844,532</u>	<u>6,579,605</u>
Net assets		
Unrestricted	1,731,481	1,355,598
Temporarily restricted	221,135	221,639
Permanently restricted	<u>-</u>	<u>-</u>
Total net assets	<u>1,952,616</u>	<u>1,577,237</u>
Total liabilities and net assets	<u>\$ 14,797,148</u>	<u>\$ 8,156,842</u>

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

THINK Together

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2013

Revenue	2013		
	Unrestricted	Temporarily Restricted	Total
Public support			
Corporate donations	\$ 2,094,325	\$ 27,500	\$ 2,121,825
Individual donations	188,875	12,500	201,375
Church donations	2,217	2,500	4,717
Foundations	2,684,706	-	2,684,706
United Way	114,596	-	114,596
Government grants	844,069	-	844,069
School district contract services	43,610,643	-	43,610,643
Other program services	599,644	-	599,644
Contributed assets and facilities	78,074	-	78,074
Net assets released from restrictions	66,264	(66,264)	-
Total public support	50,283,413	(23,764)	50,259,649
Interest, rental and other income	398,209	23,260	421,469
Total revenue and support	50,681,622	(504)	50,681,118
Expenses			
Program services	45,149,987	-	45,149,987
Management and general	3,719,283	-	3,719,283
Fundraising	1,436,469	-	1,436,469
Total expenses	50,305,739	-	50,305,739
Change in net assets	375,883	(504)	375,379
Beginning net assets	1,355,598	221,639	1,577,237
Ending net assets	\$ 1,731,481	\$ 221,135	\$ 1,952,616

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

THINK Together

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2012

	2012		
	Unrestricted	Temporarily Restricted	Total
Revenue			
Public support			
Corporate donations	\$ 2,013,907	\$ 25,000	\$ 2,038,907
Individual donations	855,132		855,132
Church donations	26,044	-	26,044
Foundations	2,048,102	-	2,048,102
United Way	124,484	-	124,484
Government grants	1,100,297	-	1,100,297
School district contract services	40,707,990	-	40,707,990
Other program services	940,903	-	940,903
Contributed assets and facilities	56,359	-	56,359
Net assets released from restrictions	28,361	(28,361)	-
Total public support	47,901,579	(3,361)	47,898,218
Interest, rental and other income	126,424	-	126,424
Total revenue and support	48,028,003	(3,361)	48,024,642
Expenses			
Program services	43,134,713	-	43,134,713
Management and general	3,549,348	-	3,549,348
Fundraising	1,082,143	-	1,082,143
Total expenses	47,766,204	-	47,766,204
Change in net assets	261,799	(3,361)	258,438
Beginning net assets	1,093,799	225,000	1,318,799
Ending net assets	\$ 1,355,598	\$ 221,639	\$ 1,577,237

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

THINK Together

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2013

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Out of School Programs</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Subtotal</u>	
Advertising	\$ 446	\$ 1,704	\$ 23,452	\$ 25,156	\$ 25,602
Bank charges	83	40,365	-	40,365	40,448
Computer and software expenses	362,819	38,200	13,726	51,926	414,745
Consulting	39,208	89,372	130,528	219,900	259,108
Copying and printing	367,368	37,710	33,095	70,805	438,173
Depreciation	12,420	221,257	-	221,257	233,677
Insurance-general	2,243	314,789	-	314,789	317,032
Insurance-health	1,143,639	87,681	48,861	136,542	1,280,181
Insurance-workers comp.	940,715	29,877	13,248	43,125	983,840
Interest	140,319	109,214	-	109,214	249,533
Legal and accounting	18,969	68,025	-	68,025	86,994
Maintenance and repairs	48,395	81,426	-	81,426	129,821
Travel and mileage	578,619	53,094	20,488	73,582	652,201
Office expense	311,848	291,162	45,147	336,309	648,157
Outside/subcontracted services	1,543,355	21,696	-	21,696	1,565,051
Postage	40,032	16,066	9,652	25,718	65,750
Promotion	62,935	12,458	12,780	25,238	88,173
Provision for doubtful accounts	-	45,000	-	45,000	45,000
Rent	1,080,400	420,018	329	420,347	1,500,747
Salaries and wages	32,287,683	1,438,325	948,371	2,386,696	34,674,379
School supplies	2,071,389	69,573	1,393	70,966	2,142,355
Special events	172,206	-	52,953	52,953	225,159
Staff development	70,384	11,353	9,192	20,545	90,929
Taxes - payroll	3,459,481	127,183	69,367	196,550	3,656,031
Telecommunications	360,067	10,554	3,887	14,441	374,508
Utilities	34,964	83,181	-	83,181	118,145
	<u>\$ 45,149,987</u>	<u>\$ 3,719,283</u>	<u>\$ 1,436,469</u>	<u>\$ 5,155,752</u>	<u>\$ 50,305,739</u>

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

THINK Together

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2012

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Out of School Programs</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Subtotal</u>	
Advertising	\$ 1,843	\$ 1,319	\$ 30,584	\$ 31,903	\$ 33,746
Bank charges	2,957	36,811	655	37,466	40,423
Computer and software expenses	256,114	51,848	16,874	68,722	324,836
Consulting	195,025	76,769	177,720	254,489	449,514
Copying and printing	387,001	32,782	44,605	77,387	464,388
Depreciation	11,384	174,854	-	174,854	186,238
Insurance-general	2,195	285,380	-	285,380	287,575
Insurance-health	1,080,703	86,870	38,411	125,281	1,205,984
Insurance-workers comp.	699,400	26,229	4,293	30,522	729,922
Interest	14,456	162,682	-	162,682	177,138
Legal and accounting	16,823	73,368	-	73,368	90,191
Maintenance and repairs	65,593	10,200	-	10,200	75,793
Travel and mileage	455,965	40,802	19,749	60,551	516,516
Office expense	231,658	292,958	27,276	320,234	551,892
Outside/subcontracted services	1,953,175	375	47	422	1,953,597
Postage	40,361	9,192	15,232	24,424	64,785
Promotion	44,810	12,480	4,429	16,909	61,719
Provision for doubtful accounts	-	30,000	-	30,000	30,000
Rent	923,165	433,735	32	433,767	1,356,932
Salaries and wages	30,864,509	1,530,790	605,096	2,135,886	33,000,395
School supplies	1,877,733	2,060	8,947	11,007	1,888,740
Special events	174,352	4,221	33,442	37,663	212,015
Staff development	122,000	3,846	2,481	6,327	128,327
Taxes-payroll	3,357,222	131,891	49,045	180,936	3,538,158
Telecommunications	314,675	37,886	3,225	41,111	355,786
Utilities	41,594	-	-	-	41,594
	<u>\$ 43,134,713</u>	<u>\$ 3,549,348</u>	<u>\$ 1,082,143</u>	<u>\$ 4,631,491</u>	<u>\$ 47,766,204</u>

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

THINK Together

STATEMENT OF CASH FLOWS

For the Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Increase in net assets	\$ 375,379	\$ 258,438
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities		
Depreciation and amortization	233,677	186,238
(Increase) decrease in assets		
Accounts receivables	522,665	(844,260)
Prepaid expenses	49,375	(302,623)
Other assets - deposits	51,598	(90,246)
Increase (decrease) in liabilities		
Accounts payable	65,044	(566,431)
Accrued payroll and related liabilities	104,703	(10,485)
Deferred revenue	1,644,228	104,750
Total adjustments	<u>2,671,290</u>	<u>(1,523,057)</u>
Net cash provided (used) by operating activities	<u>3,046,669</u>	<u>(1,264,619)</u>
Cash flows from investing activities		
Acquisition of property and equipment	(5,206,805)	(289,800)
Deferred lease commissions	<u>(5,812)</u>	<u>-</u>
Net cash used by investing activities	<u>(5,212,617)</u>	<u>(289,800)</u>
Cash flows from financing activities		
Proceeds from service obligation	5,000,000	-
Satisfaction of service obligation	(448,512)	-
Payments on long-term debt	<u>(100,536)</u>	<u>(61,856)</u>
Net cash provided (used) by financing activities	<u>4,450,952</u>	<u>(61,856)</u>
Net increase (decrease) in cash and cash equivalents	2,285,004	(1,616,275)
Cash and cash equivalents at beginning of year	<u>2,107,521</u>	<u>3,723,796</u>
Cash and cash equivalents at end of year	<u>\$ 4,392,525</u>	<u>\$ 2,107,521</u>
Supplemental disclosure		
Cash paid during the year for interest	<u>\$ 123,580</u>	<u>\$ 176,452</u>

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

THINK Together

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2013 and 2012

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, small group tutoring programs also known as Supplemental Educational Services, parent-pay and subsidized school age care programs, early learning programs targeted at children aged 0-5, and fee-based hourly enrichment programs. 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-six 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, 2013, 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, while its school age care and hourly enrichment programs are funded via parent-pay tuition and state and federal subsidies. 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.

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, 2013, THINK Together had temporarily restricted assets of \$221,135 and no permanently restricted net assets.

THINK Together

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation

The financial statements are presented on the accrual basis of accounting. Management has evaluated subsequent events through October 23, 2013, the date which the financial statements were available for issue.

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. There were no donated materials during the year ended June 30, 2013 and 2012. Contributed facilities are reported as public support income and rental expense based on the estimated usage value of the premises. The total of contributed facilities during the years ended June 30, 2013 and 2012 were \$44,160 and \$25,800, respectively. In addition, program meals donated to THINK Together for the years ended June 30, 2013 and 2012 amounted to \$33,914 and \$30,559, 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. In addition, a substantial number of volunteers have donated over 190,000 hours of their time to THINK Together during the years ended June 30, 2013 and 2012. The value of this time and related expense has not been included in the accompanying financial statements.

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.

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.

THINK Together

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

THINK Together

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

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

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. The current and long-term portion of deferred revenue at June 30, 2013 was \$2,338,140 and \$190,838, respectively. The deferred revenue of \$884,750 as of June 30, 2012 was all current.

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, 2013, school district contracts comprised 87% 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 two primary sources of funding: 1) California Department of Education (CDE) grant funding for after school programming funded by Proposition 49, and 2) Federal funding through the 21st Century Community Learning Centers program (administered by the CDE). For THINK Together, 72% of its operating revenue (83% of total school district contract revenue) relates to CDE Proposition 49 grant funding; and 13% of its total operating revenue (15% 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, 2013 and 2012, school district contract revenue for THINK Together was comprised of the following sources of State and Federal grant funding:

THINK Together

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

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

	<u>2013</u>	<u>2012</u>
California Department of Education (CDE) – Proposition 49 After School Education and Safety Act (ASES)	\$ 36,294,070	\$ 34,505,054
U.S. Department of Education - 21 st Century Community Learning Centers (21 st CCLC) (administered by the CDE)	6,617,647	5,933,186
Other School District Funding Sources	<u>698,926</u>	<u>269,750</u>
Total	<u>\$ 43,610,643</u>	<u>\$ 40,707,990</u>

NOTE 3: PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
Land	\$ 1,967,520	\$ 512,000
Building	3,766,304	370,090
Computers	57,754	247,084
Office furniture	436,913	492,560
Office equipment	189,408	280,071
Leasehold improvements	66,920	125,101
Tenant improvements	37,040	-
Construction in progress	<u>100,187</u>	<u>-</u>
	6,622,046	2,026,906
Less: accumulated depreciation	<u>(445,834)</u>	<u>(824,757)</u>
Total property and equipment	<u>\$ 6,176,212</u>	<u>\$ 1,202,149</u>

THINK Together

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

NOTE 3: PROPERTY AND EQUIPMENT (continued)

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 5) 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: LINE OF CREDIT

THINK Together has a bank line of credit that provides for borrowings of up to \$7,500,000 through December 1, 2015. Borrowings on this line of credit are permitted based on outstanding accounts receivable balances and are collateralized by 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, 2013 and 2012, THINK Together was in compliance with these covenants. Interest on this line of credit is payable monthly at the bank's prime rate (3.25%) plus 2% which results in an effective rate of 5.25% at June 30, 2013. There was no outstanding balance on the line of credit at June 30, 2013 or June 30, 2012.

NOTE 5: 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 4. The loan 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 has 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. The outstanding balance of the loan was \$1,862,888 and \$1,939,624 at June 30, 2013 and 2012, 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 2.84% during the year ended June 30, 2013. The outstanding balance of this note was \$466,084 and \$489,884 at June 30, 2013 and 2012, respectively.

THINK Together

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

NOTE 5: LONG-TERM DEBT (continued)

Maturities of long-term debt are as follows:

<u>Year ended June 30,</u>	
2014	\$ 102,218
2015	103,936
2016	1,728,134
2017	23,800
2018	<u>370,884</u>
Total	<u>\$ 2,328,972</u>

NOTE 6: 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. 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 \$4,551,488 at June 30, 2013.

NOTE 7: 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:

<u>Year</u>	<u>Base Rent</u>
2014	\$ 1,103,014
2015	812,960
2016	830,143
2017	644,028
2018	483,938
Thereafter	<u>177,947</u>
Total	<u>\$ 4,052,030</u>

THINK Together

NOTES TO THE FINANCIAL STATEMENTS (Continued)

June 30, 2013 and 2012

NOTE 7: OBLIGATIONS UNDER OPERATING LEASES (continued)

Rent expense, excluding contributed facilities, was \$1,456,588 for the year ended June 30, 2013.

NOTE 8: RELATED PARTY TRANSACTIONS

In connection with the acquisition of an office building complex in Santa Ana, which is described in Note 6, THINK Together engaged a law firm that employs one of its board members to provide legal services. In addition, THINK Together has engaged a real estate service firm to provide representation and property management services for the acquired property. One of THINK Together's board members is a partner in this firm. THINK Together has also entered into a separate commercial lease for its office space in San Bernardino that is owned by the real estate service firm previously mentioned. Additionally, THINK Together engaged one of its board members to provide legal services related to the business asset acquisition transaction with Bay Area After School All Stars described in Note 9. Finally, in other ongoing related party arrangements during 2013 and 2012, 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.

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.

NOTE 9: SUBSEQUENT EVENTS

During July 2013, THINK Together acquired the assets and assumed the liabilities of Bay Area After School All Stars, a San Jose based out of school provider. The purchase price for the assets acquired, including school district contracts in place, was \$350,000 consisting of net liabilities assumed. With this acquisition, THINK Together assumed the complete program operations of the Bay Area After School All Stars, which includes the contracted service delivery of 20 academic support programs in the San Jose Unified District, Alum Rock Union Elementary School District, Newark Unified School District, and Ace Charter Schools.

THINK Together

Single Audit Report on Federal Awards

Year Ended June 30, 2013

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
THINK Together

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of THINK Together (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013 and 2012, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated October 23, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered THINK Together's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of THINK Together's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether THINK Together's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide and opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Stephen, Reidinger + Beller LLP

Newport Beach, California
October 23, 2013

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors
THINK Together

Report on Compliance for Each Major Federal Program

We have audited THINK Together's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of THINK Together's major federal programs for the years ended June 30, 2013 and 2012. THINK Together's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance for each of THINK Together's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about THINK Together's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of THINK Together's compliance.

Opinion on Each Major Federal Program

In our opinion, THINK Together complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2013 and 2012.

Report on Internal Control Over Compliance

Management of THINK Together is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered THINK Together's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of THINK Together's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of the internal control over compliance and results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Stephen, Reidinger + Beller LLP

Newport Beach, California
October 23, 2013

THINK Together

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2013

Federal Grantor/ Pass-through Grantor/ <u>Program Title</u>	CFDA <u>No.</u>	Federal <u>Expenditures</u>
U.S. Department of Education		
Passed through the California Department of Education		
21st Century Community Learning Centers Program		
Grant ID# 12-14349-6781-5A	84.287	\$ 990,259
Grant ID# 12-14349-6781-7A	84.287	169,294
Grant ID# 12-14349-6667-5A	84.287	2,247,443
Grant ID# 12-14349-6667-5B	84.287	733,227
Grant ID# 12-14535-6667-6A	84.287	475,000
Grant ID# 12-14603-6667-6A	84.287	47,500
Grant ID# 12-14604-6667-6A	84.287	38,000
Grant ID# 12-14349-6427-6A	84.287	293,139
Grant ID# 12-14349-6427-7A	84.287	203,040
Grant ID# 12-14535-6427-6A	84.287	470,000
Grant ID# 12-14603-6427-6A	84.287	47,000
Grant ID# 12-14765-6427-6A	84.287	70,500
Grant ID# 12-14765-6427-7A	84.287	94,000
Grant ID# 12-14788-6427-6A	84.287	56,400
Grant ID# 12-14349-6769-6A	84.287	115,425
Grant ID# 12-14349-6709-7A	84.287	319,343
Grant ID# 12-14765-6709-7A	84.287	118,750
Grant ID# 19-14349-6480-6B	84.287	11,925
Grant ID# 19-14349-6480-6D	84.287	21,417
Grant ID# 34-23939-6731-7A	84.287	61,560
Grant ID# 34-14349-6743-7B	84.287	34,425
		<hr/>
Total Federal Awards		<u><u>\$ 6,617,647</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

THINK Together

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2013

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES APPLICABLE TO THE SCHEDULE OF FEDERAL AWARDS

Scope of Presentation

The accompanying schedule presents the expenses incurred by THINK Together that are reimbursable under federal programs of federal financial assistance. For purposes of the schedule, federal awards include both federal financial assistance received directly from a federal agency, as well as federal funds received indirectly by THINK Together from non-federal organizations. Only the portion of program expenses reimbursable with such federal funds are reported in the accompanying schedule. Program expenses in excess of the maximum federal reimbursements authorized or the portion of program expenses that were funded with state, local or other non-federal funds are excluded from the accompanying schedule.

Basis of Accounting

The expenses included in the accompanying schedule were reported on the accrual basis of accounting.

Subrecipient Expenses

There were no payments made to subrecipients for the year ended June 30, 2013.

THINK Together

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

June 30, 2013

PRIOR PERIOD AUDIT REPORT

There were no audit findings in the previous year.

THINK Together

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2013

SUMMARY OF AUDITORS' RESULTS

1. An unqualified report was issued by the auditors on the financial statements of the auditee.
2. There were no material weaknesses in internal control nor were there any significant deficiencies based upon our audit of the financial statements of the auditee.
3. The audit disclosed no noncompliance which is material to the financial statements of the auditee.
4. There were no material weaknesses nor were there any significant deficiencies in internal control over major programs of the auditee.
5. An unqualified report was issued by the auditors on compliance for major programs.
6. The audit disclosed no audit findings required by the auditors' to be reported under paragraph .510(a) of OMB Circular A-133.
7. The major program of the auditee was the 21st Century Community Learning Centers Program pass-through assistance from the U.S. Department of Education, CFDA # 84.287.
8. The dollar threshold used to distinguish Type A and Type B programs was \$300,000.
9. The auditee met the requirements of a low risk auditee as defined by OMB Circular A-133, paragraph .530 for the year ended June 30, 2013 for purposes of major program determination.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

There were no auditors' findings required to be reported in accordance with GAGAS.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS AS DEFINED IN PARAGRAPH .510(a) AT OMB CIRCULAR A-133

There were no auditors' findings or questioned costs to be reported in accordance with paragraph .510(a) at OMB Circular A-133.