THE OSBORNE ASSOCIATION, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2015 AND 2014

MARKS PANETH
ACCOUNTANTS & ADVISORS

THE OSBORNE ASSOCIATION, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2015 AND 2014

CONTENTS

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MARKS PANETH
ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Osborne Association, Inc. and Affiliates

We have audited the accompanying consolidated financial statements of The Osborne Association, Inc. and Affiliates (collectively, the "Association"), which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Osborne Association, Inc. and Affiliates as of June 30, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements of The Osborne Association, Inc. and Affiliates as a whole. The consolidating information (shown on pages 19-21) is presented for the purposes of additional analysis of the consolidated financial statements rather than to present the financial position and changes in net assets of the individual companies and is not a required part of the consolidated 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Marks Paneth LLP

New York, NY
January 15, 2016

THE OSBORNE ASSOCIATION, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
Cash (Note 2E)	$ 445,581	$ 526,369
Government grants and other receivable, net (Note 2D)	4,196,067	2,495,360
Pledges receivable, net (Notes 2C, 2D and 4)	1,123,145	1,481,052
Investments (Notes 2F and 5)	1,842,352	1,153,008
Prepaid expenses and other assets	107,932	226,045
Property and equipment, net (Notes 2G and 3)	9,275,072	3,579,804
Security deposits	67,276	72,676
Beneficial interest in perpetual trust (Notes 5 and 6)	207,935	210,073
TOTAL ASSETS	$ 17,265,360	$ 9,744,387
LIABILITIES		
Accounts payable and accrued expenses	$ 1,347,296	$ 1,005,702
Accrued salary and vacation	458,288	460,907
Deferred rent (Note 2J)	75,056	102,407
Deferred revenue/refundable advances (Notes 2H and 7)	391,868	288,717
Notes and loans payable (Notes 2K and 8)	1,266,654	837,265
Mortgage payable (Notes 2N and 9)	3,486,889	3,566,928
TOTAL LIABILITIES	7,026,051	6,261,926
COMMITMENTS AND CONTINGENCIES (Note 10)		
NET ASSETS (Note 2B)		
Unrestricted	3,482,741	2,662,388
Temporarily restricted (Note 12)	5,798,633	610,000
Permanently restricted (Note 6)	957,935	210,073
TOTAL NET ASSETS	10,239,309	3,482,461
TOTAL LIABILITIES AND NET ASSETS	$ 17,265,360	$ 9,744,387

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

THE OSBORNE ASSOCIATION, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	For the Year Ended June 30, 2015				For the Year Ended June 30, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2014
OPERATING SUPPORT AND REVENUE:								
Public Support:								
Contributions and grants	$ 3,550,387	$ 1,758,980	$ -	$ 5,309,367	$ 2,917,763	$ 979,033	$ -	$ 3,896,796
Net assets released from restrictions (Notes 2B and 12)	820,347	(820,347)	-	-	823,765	(823,765)	-	-
Total Public Support	4,370,734	938,633	-	5,309,367	3,741,528	155,268	-	3,896,796
Fee for Service:								
Medicaid	1,120,778	-	-	1,120,778	1,016,698	-	-	1,016,698
Janitorial	4,232,037	-	-	4,232,037	3,852,514	-	-	3,852,514
Catering	472,924	-	-	472,924	856,763	-	-	856,763
Total Fee for Service	5,825,739	-	-	5,825,739	5,725,975	-	-	5,725,975
Governmental Support:								
New York State	3,350,830	-	-	3,350,830	3,692,457	-	-	3,692,457
New York City	4,900,994	-	-	4,900,994	4,053,508	-	-	4,053,508
Federal-direct and indirect	2,702,559	-	-	2,702,559	2,342,008	-	-	2,342,008
Total Governmental Support	10,954,383	-	-	10,954,383	10,087,973	-	-	10,087,973
TOTAL OPERATING SUPPORT AND REVENUE	21,150,856	938,633	-	22,089,489	19,555,476	155,268	-	19,710,744
OPERATING EXPENSES:								
Program Services:								
Adopting healthy lifestyles	3,013,631	-	-	3,013,631	2,631,719	-	-	2,631,719
Achieving economic independence:								
Workforce development	1,917,118	-	-	1,917,118	1,641,637	-	-	1,641,637
Janitorial/maintenance services	4,255,016	-	-	4,255,016	4,053,867	-	-	4,053,867
Fresh start catering	619,864	-	-	619,864	694,267	-	-	694,267
Pivot	253,334	-	-	253,334	-	-	-	-
Reducing reliance on incarceration:								
Jail-based services	1,366,836	-	-	1,366,836	964,082	-	-	964,082
Court advocacy services	1,215,179	-	-	1,215,179	1,109,640	-	-	1,109,640
Adolescent behavioral learning experience	1,901,511	-	-	1,901,511	2,167,273	-	-	2,167,273
Reconnecting families and strengthening communities	1,690,736	-	-	1,690,736	1,947,405	-	-	1,947,405
Fulton community reentry center	124,150	-	-	124,150	108,443	-	-	108,443
Total Program Services Expenses	16,357,376	-	-	16,357,376	15,318,333	-	-	15,318,333
Supporting Services:								
Management and administration	3,127,896	-	-	3,127,896	2,800,044	-	-	2,800,044
Fundraising	695,856	-	-	695,856	572,730	-	-	572,730
Total Supporting Services Expenses	3,823,751	-	-	3,823,751	3,372,774	-	-	3,372,774
TOTAL OPERATING EXPENSES	20,181,127	-	-	20,181,127	18,691,107	-	-	18,691,107
OPERATING INCOME (LOSS)	969,729	938,633	-	1,908,362	864,369	155,268	-	1,019,637
NONOPERATING REVENUE (LOSS):								
Interest and dividends	17,748	-	-	17,748	14,451	-	-	14,451
Loss on investment sales	(2,114)	-	-	(2,114)	(586)	-	-	(586)
Unrealized gain in market value of investments	26,561	-	-	26,561	85,712	-	-	85,712
(Loss) gain on beneficial interest in perpetual trust	-	-	(2,138)	(2,138)	-	-	20,796	20,796
Rental income	75,532	-	-	75,532	68,917	-	-	68,917
Donated property (Note 3)	-	4,250,000	750,000	5,000,000	-	-	-	-
Other income	132,897	-	-	132,897	8,899	-	-	8,899
TOTAL NONOPERATING REVENUE	250,624	4,250,000	747,862	5,248,486	177,393	-	20,796	198,189
NONOPERATING EXPENSES:								
Reserve for building improvements/repairs	400,000	-	-	400,000	350,000	-	-	350,000
TOTAL NONOPERATING EXPENSES	400,000	-	-	400,000	350,000	-	-	350,000
NONOPERATING (LOSS) GAIN	(149,376)	4,250,000	747,862	4,848,486	(172,607)	-	20,796	(151,811)
CHANGE IN NET ASSETS	820,353	5,188,633	747,862	6,756,848	691,762	155,268	20,796	867,826
NET ASSETS - beginning of year	2,662,388	610,000	210,073	3,482,461	1,970,626	454,732	189,277	2,614,635
NET ASSETS- END OF YEAR	$ 3,482,741	$ 5,798,633	$ 957,935	$ 10,239,309	$ 2,662,388	$ 610,000	$ 210,073	$ 3,482,461

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

OSBORNE ASSOCIATION, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015
(With Comparative Totals for June 30, 2014)

	For The Year Ended June 30, 2015																
	Program Services											Supporting Services					
		Achieving Economic Independence				Reducing Reliance on Incarceration											
	Adopting Healthy Lifestyles	Workforce Development	Janitorial/ Maintenance Services	Fresh Start Catering	Pivot	Jail-Based Services	Court Advocacy	Adolescent Behavioral Learning Experience	Reconnecting Families and Strengthening Communities	Fulton Community Reentry Center	Total Program Services	Management and Administration	Fundraising	Total Supporting Services	Eliminations	Total 2015	Total 2014
OPERATING EXPENSES:																	
Salaries	$ 1,875,643	$ 1,132,860	$ 3,131,019	$ 296,404	$ 32,350	$ 721,090	$ 757,088	$ 942,517	$ 1,028,543	$ 86,523	$ 10,004,037	$ 1,543,429	$ 264,342	$ 1,807,771	$ -	$ 11,811,808	$ 10,827,020
Payroll taxes and employee benefits (Note 11)	579,244	359,730	572,273	57,675	14,341	242,579	236,528	272,039	314,439	25,294	2,674,142	425,715	108,578	534,293	-	3,208,435	2,784,847
Total Salaries and Related Costs	2,454,887	1,492,590	3,703,292	354,079	46,691	963,669	993,616	1,214,556	1,342,982	111,817	12,678,179	1,969,144	372,920	2,342,064	-	15,020,243	13,611,867
Occupancy (Note 10B)	340,400	171,122	17,968	-	28,385	104,503	121,000	111,139	98,655	-	993,172	274,718	35,804	310,522	(525,492)	778,202	783,473
Supplies and expensed equipment (Note 2G)	96,928	69,246	114,595	55,321	42,084	110,960	23,022	99,832	72,613	4,950	689,551	170,596	24,961	195,557	-	885,108	644,566
Professional fees	27,325	6,007	-	115	78,000	-	6,675	374	25,418	560	144,474	129,268	146,895	276,163	-	420,637	327,181
Professional fees - subcontractors	1,250	55,998	-	747	28,109	-	-	371,673	-	-	457,777	-	-	-	-	457,777	604,457
Direct participant costs	159,036	209,322	-	155,893	46	95,837	3,348	30,560	55,484	2,343	711,869	2,228	858	3,086	-	714,955	778,037
Telephone	54,849	50,899	13,766	2,378	1,343	29,899	21,007	24,539	35,899	924	235,503	36,311	11,636	47,947	-	283,450	204,839
Employer wage subsidy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	92,784
Repairs, maintenance and alterations	6,294	2,631	5,800	18,235	-	2,675	25	1,171	2,382	-	39,213	17,646	-	17,646	-	56,859	85,572
Miscellaneous	9,234	8,120	176,545	4,941	3,437	5,135	6,846	10,498	8,692	1,372	234,820	68,692	24,628	93,320	-	328,140	284,755
Insurance	30,303	35,874	198,984	13,179	7,219	33,347	20,416	25,418	31,583	1,721	398,044	29,859	-	29,859	-	427,903	411,166
Training	5,567	7,872	299	240	199	7,566	1,015	4,284	2,933	-	29,975	5,141	590	5,731	-	35,706	24,985
Travel	21,691	12,636	13,664	8,810	13,588	8,237	16,734	5,924	14,464	257	116,005	20,300	1,429	21,729	-	137,734	130,951
Auto	4,543	-	2,208	4,997	4,233	2,526	-	1,543	5,773	-	25,823	2,311	637	2,948	-	28,771	22,637
Direct mail and special events	-	-	-	-	-	-	-	-	-	-	-	-	99,757	99,757	-	99,757	74,728
Management fees - intercompany	-	-	-	-	25,333	-	-	-	-	-	25,333	434,227	-	434,227	(459,560)	-	-
Security and maintenance - intercompany	232,567	120,888	13,500	37,610	-	330	-	796	-	-	405,691	-	196	196	(405,887)	-	-
Bad debt expense	-	-	-	-	-	-	-	-	-	-	-	24,601	-	24,601	-	24,601	126,426
Interest (Note 2K)	7,054	4,420	12,977	929	-	2,482	1,475	-	2,161	206	31,704	216,671	-	216,671	-	248,375	281,983
Depreciation and amortization	-	-	5,323	-	-	-	-	-	-	-	5,323	221,945	5,641	227,586	-	232,909	200,700
TOTAL OPERATING EXPENSES - BEFORE ELIMINATIONS	3,451,928	2,247,625	4,278,921	657,474	278,667	1,367,166	1,215,179	1,902,307	1,699,039	124,150	17,222,456	3,623,658	725,952	4,349,610	(1,390,939)	20,181,127	18,691,107
ALLOCATION OF ELIMINATIONS	(438,297)	(330,507)	(23,905)	(37,610)	(25,333)	(330)	-	(796)	(8,303)	-	(865,080)	(495,762)	(30,096)	(525,859)	1,390,939	-	-
TOTAL OPERATING EXPENSES	$ 3,013,631	$ 1,917,118	$ 4,255,016	$ 619,864	253,334	$ 1,366,836	$ 1,215,179	$ 1,901,511	$ 1,690,736	$ 124,150	$ 16,357,376	$ 3,127,896	$ 695,856	$ 3,823,751	$ -	$ 20,181,127	$ 18,691,107
NONOPERATING EXPENSES:																	
Reserve for building improvements/repairs	-	-	-	-	-	-	-	-	-	-	-	400,000	-	400,000	-	400,000	350,000
TOTAL EXPENSES	$ 3,013,631	$ 1,917,118	$ 4,255,016	$ 619,864	$ 253,334	$ 1,366,836	$ 1,215,179	$ 1,901,511	$ 1,690,736	$ 124,150	$ 16,357,376	$ 3,527,896	$ 695,856	$ 4,223,751	$ -	$ 20,581,127	$ 19,041,107

OSBORNE ASSOCIATION, INC. AND AFFILIATES
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	For The Year Ended June 30, 2014														
	Program Services										Supporting Services				
		Achieving Economic Independence			Reducing Reliance on Incarceration										
	Adopting Healthy Lifestyles	Workforce Development	Janitorial/ Maintenance Services	Fresh Start Catering	Jail-Based Services	Court Advocacy	Adolescent Behavioral Learning Experience	Reconnecting Families and Strengthening Communities	Fulton Community Reentry Center	Total Program Services	Management and Administration	Fundraising	Total Supporting Services	Eliminations	Total 2014
OPERATING EXPENSES:															
Salaries	$ 1,565,455	$ 932,896	$ 3,008,554	$ 233,230	$ 530,296	$ 683,640	$ 977,009	$ 1,122,949	$ 82,825	$ 9,136,854	$ 1,431,784	$ 258,382	$ 1,690,166	$ -	$ 10,827,020
Payroll taxes and employee benefits (Note 11)	449,938	288,287	467,906	60,260	198,645	206,739	292,591	328,398	25,618	2,318,382	377,157	89,308	466,465	-	2,784,847
Total Salaries and Related Costs	2,015,393	1,221,183	3,476,460	293,490	728,941	890,379	1,269,600	1,451,347	108,443	11,455,236	1,808,941	347,690	2,156,631	-	13,611,867
Occupancy (Note 10B)	361,242	192,437	11,539	21,307	89,003	111,309	113,207	152,712	-	1,052,756	197,365	10,352	207,717	(477,000)	783,473
Supplies and expensed equipment (Note 2G)	99,908	63,843	135,837	11,253	34,145	17,997	43,437	97,660	-	504,080	115,756	24,730	140,486	-	644,566
Professional fees	59,570	4,953	-	-	1,661	6,938	10,500	45,704	-	129,326	93,960	103,895	197,855	-	327,181
Professional fees - subcontractors	-	-	-	-	-	-	604,457	-	-	604,457	-	-	-	-	604,457
Direct participant costs	156,212	159,738	-	303,318	43,536	5,001	35,260	70,800	-	773,865	352	3,820	4,172	-	778,037
Telephone	35,758	31,243	12,517	409	22,980	16,006	21,109	39,032	-	179,054	23,270	2,515	25,785	-	204,839
Employer wage subsidy	-	92,784	-	-	-	-	-	-	-	92,784	-	-	-	-	92,784
Repairs, maintenance and alterations	10,481	379	-	8,632	-	-	575	4,522	-	24,589	60,983	-	60,983	-	85,572
Miscellaneous	9,212	6,120	171,316	1,452	3,674	5,265	8,519	8,980	-	214,538	47,168	23,049	70,217	-	284,755
Insurance	35,764	29,701	202,535	6,732	23,682	23,179	30,048	36,378	-	388,019	23,147	-	23,147	-	411,166
Training	1,004	12,395	-	399	2,960	1,434	2,642	2,172	-	23,006	1,168	811	1,979	-	24,985
Travel	19,483	7,804	17,167	8,079	7,549	14,852	5,312	26,852	-	107,098	21,019	2,834	23,853	-	130,951
Auto	3,728	9	1,106	7,319	3,675	-	607	5,324	-	21,768	869	-	869	-	22,637
Direct mail and special events	-	105	-	-	-	-	-	250	-	355	-	74,373	74,373	-	74,728
Management fees - intercompany	-	-	-	-	-	-	-	-	-	-	380,723	-	380,723	(380,723)	-
Security and maintenance - intercompany	151,984	76,596	13,500	56,720	765	12,029	-	-	-	311,594	57,286	16,000	73,286	(384,880)	-
Bad debt expense	-	-	-	30,000	-	-	22,000	12,500	-	64,500	61,926	-	61,926	-	126,426
Interest (Note 2K)	10,709	9,218	30,363	1,877	2,276	5,251	-	709	-	60,403	221,418	162	221,580	-	281,983
Depreciation and amortization	-	-	4,472	-	-	-	-	-	-	4,472	190,588	5,640	196,228	-	200,700
TOTAL OPERATING EXPENSES - BEFORE ELIMINATIONS	2,970,448	1,908,508	4,076,812	750,987	964,847	1,109,640	2,167,273	1,954,942	108,443	16,011,900	3,305,939	615,871	3,921,810	(1,242,603)	18,691,107
ALLOCATION OF ELIMINATIONS	(338,729)	(266,871)	(22,945)	(56,720)	(765)	-	-	(7,537)	-	(693,567)	(505,895)	(43,141)	(549,036)	1,242,603	-
TOTAL OPERATING EXPENSES	$ 2,631,719	$ 1,641,637	$ 4,053,867	$ 694,267	$ 964,082	$ 1,109,640	$ 2,167,273	$ 1,947,405	$ 108,443	$ 15,318,333	$ 2,800,044	$ 572,730	$ 3,372,774	$ -	$ 18,691,107
NONOPERATING EXPENSES:															
Reserve for building improvements/repairs	-	-	-	-	-	-	-	-	-	-	350,000	-	350,000	-	350,000
TOTAL EXPENSES	$ 2,631,719	$ 1,641,637	$ 4,053,867	$ 694,267	$ 964,082	$ 1,109,640	$ 2,167,273	$ 1,947,405	$ 108,443	$ 15,318,333	$ 3,150,044	$ 572,730	$ 3,722,774	$ -	$ 19,041,107

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

THE OSBORNE ASSOCIATION, INC. AND AFFILIATES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 6,756,848	$ 867,826
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Loss (gain) on beneficial interest in perpetual trust	2,138	(20,796)
Loss on investment sales	2,114	586
Unrealized gain on investments	(26,561)	(85,712)
Bad debt	24,601	126,426
Donated property	(5,000,000)	-
Depreciation and amortization	232,909	200,700
Amortization of deferred financing costs	23,370	23,370
Subtotal	2,015,419	1,112,400
Changes in operating assets and liabilities:		
(Increase) decrease in assets:		
Government grants receivable	(1,735,308)	1,299,535
Pledges receivable	367,907	(851,056)
Prepaid expenses and other assets	94,743	32,836
Security deposits	5,400	3,609
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	341,594	296,026
Accrued salary and vacation	(2,619)	77,074
Deferred rent	(27,351)	(13,830)
Advances from government funders	103,151	110,597
Net Cash Provided by Operating Activities	1,162,936	2,067,191
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(677,914)	(51,450)
Proceeds from investment sales	13,017	25,000
Purchases of property and equipment	(928,177)	(409,918)
Net Cash Used in Investing Activities	(1,593,074)	(436,368)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes and loans payable	5,150,000	2,210,000
Principal payments of notes and loans payable	(4,720,611)	(3,436,211)
Principal payments of mortgage payable	(80,039)	(75,348)
Net Cash Provided by (Used in) Financing Activities	349,350	(1,301,559)
NET (DECREASE) INCREASE IN CASH	(80,788)	329,264
Cash - beginning of the year	526,369	197,105
CASH - END OF YEAR	$ 445,581	$ 526,369
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	$ 248,375	$ 281,983
Supplemental Disclosure of Noncash Activity:		
Donated property (Fulton Facility)	$ 5,000,000	$ -

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

NOTE 1—ORGANIZATION AND NATURE OF ACTIVITIES

The consolidated financial statements of the Osborne Association, Inc. and Affiliates, (collectively referred to as the "Association") have been prepared by consolidating: the Osborne Association, Inc. ("OA"), Osborne Treatment Services, Inc. ("OTS"), The Thomas Mott Osborne Memorial Fund, Inc. ("TMO"), Spring Into Action, LLC ("SIA"), and the Osborne Social Ventures, LLC ("OSV"). The Osborne Association, Inc. has effective control over and has an economic benefit in OTS, TMO, SIA, and OSV. OTS, TMO, SIA, and OSV are collectively referred to as "Affiliates." OA, OTS and TMO are organized under the Not-for-Profit Corporation Law of New York State, and have been granted an exemption from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code. Similar exemptions exist at the state and local levels. SIA, a for-profit entity, was formed in February 2010 as a two member limited liability company. OA owns 85% ownership interest in SIA (see Note 13). OSV, a for-profit entity was formed in March 2015 as a single member limited liability company and a disregarded entity for federal tax purposes. OA owns 100% of OSV.

The Association's purpose is to provide services to defendants, prisoners, former prisoners and their families, to provide alternatives to incarceration, to provide job training and job placement, to provide reentry services to people leaving prison and jail, and to operate an ambulatory drug free program which includes outpatient and aftercare services and other public safety and public health services, throughout New York, receiving its support predominately from federal, New York State and New York City governmental sources. TMO provides financial support to the other organizations. SIA and OSV were created to provide employment opportunities for formerly incarcerated individuals by creating sustainable businesses.

Descriptions of the Association's major programs are as follows:

- **ADOPTING HEALTHY LIFESTYLES**

  El Rio is a highly structured and medically supervised intensive substance use disorder day-treatment program, providing an alternative to incarceration or re-incarceration for individuals charged with drug-related crimes or on probation or parole, and mandated to treatment by the courts or community corrections agencies.

  La Fuente is a gender-specific substance use disorder and health treatment outpatient program for women as an alternative to incarceration or as referred by a family welfare or criminal justice agency. The program offers a safe environment to discuss healthy relationships, parenting skills, and reducing risky behaviors. Participants are connected to public benefits and offered vocational and educational assistance.

  Wellness and Prevention provides services for people involved with the criminal justice system at-risk for, or coping with, substance use disorder, hepatitis and HIV/AIDS or other infectious diseases. Services include; HIV/AIDS counseling, peer training, testing and education, reentry, discharge, and transitional planning, case management, linkage to primary care, treatment adherence, and support groups.

  Women's Services uses a holistic health awareness and gender-specific approach to support women in intimate relationships with incarcerated/recently-released men and women currently incarcerated in jail. We provide Loving Out Loud retreats to build self-confidence and negotiating skills among women, HIV prevention and health education, counseling, and testing.

  Housing Placement and Assistance provides assistance for people living with HIV/AIDS to obtain and maintain transitional, supportive, and permanent housing placements following incarceration. We support participants in their efforts to maintain housing placement, develop the capacity to live independently, reduce risky behaviors, and continue medical care and maintain abstinence from substance abuse.

  Connecting Families to Care works to increase healthcare access for children of incarcerated parents and teenagers returning from Rikers Island. Through outreach in prison and jail visiting rooms, our staff help families learn about health insurance options for themselves and their children and complete the insurance enrollment process.

NOTE 1—ORGANIZATION AND NATURE OF ACTIVITES (Continued)

- **ACHIEVING ECONOMIC INDEPENDENCE**

Workforce Development offers comprehensive workforce development services to individuals with prior criminal justice involvement. This includes assessment, career and educational counseling, job readiness workshops, resume preparation, skills enhancement, assistance with job search and placement, social service referrals, and post-employment support.

Career Center provides men and women with criminal records with environmental and financial literacy education, and comprehensive career development, including soft skills and hard skills training that prepares them to enter and advance in sector-specific fields. We place participants in jobs that support their growth, their families, and the environment. We offer group and individual counseling to identify and address participants' needs, as well as offer referral services. Career Coaches offer services that include family support, educational and vocational support, skill-building activities, goal-setting, and civic engagement to ultimately assist participants into achieving long-term economic independence.

Training to Work provides men and women on work release the opportunity to expand their education and increase their employment skills in today's fastest growing fields: construction, waste management, food service and other industries.

Justice Community supports court-involved young adults (ages 18-24) in reconnecting with their families and communities in order to turn toward success in life. The program includes environmental and financial literacy training, career coaching, individual counseling and group support, community benefit projects, employment counseling, job placement and educational support.

Fatherhood Initiative works with young adults who are fathers to improve their employability and to strengthen their emotional and material support for their children. Services include individual and family counseling, mediation, parenting skills training, job readiness training, basic literacy education, and employment counseling.

Arches is a partnership with the NYC Department of Probation that works to reduce participant involvement with the criminal justice system. Arches provides critical positive intervention among youth on probation by providing support groups, assisting youth in identifying negative behaviors and maladaptive patterns of thinking, and providing mentors from the same communities and with similar experiences with the criminal justice system.

NextSTEPS is a partnership with the NYC Department of Probation that is specifically focused on young people residing in or near NYCHA developments. NextSTEPS builds critical positive intervention among youth who may be exposed to negative behaviors and maladaptive patterns of thinking. The mentoring intervention provides mentors from the same communities to build positive pathways and reveal opportunities to participating youth.

Queensboro Reentry Services provides a range of reentry services that are evidence-based and that addresses the specific needs of men returning to the community through workshops that cover reentry-related topics in the areas of healthy-living, employment, managing stress and expectations and family dynamics; family-focused discharge planning; Health Improvement Services for people living with HIV/AIDS or other chronic health conditions; and, a CDC approved evidence-based intervention for men with histories of substance use disorder who are at risk for relapse and other negative health behaviors.

Janitorial Maintenance Services offers training and employment in our custodial service business to formerly incarcerated individuals with disabilities and history of substance use disorder. The business cleans public facilities and businesses throughout New York City (for prevailing wages and benefits) and also teaches participants to use environmentally friendly materials when cleaning.

Fresh Start Catering provides approximately 14,000 hot meals each month to local businesses, not-for-profits, and agencies. Fresh Start Catering offers training in food preparation, cooking, packaging, and delivery to formerly incarcerated individuals, providing the opportunity to transform their lives through culinary arts training leading to employment.

NOTE 1—ORGANIZATION AND NATURE OF ACTIVITES (Continued)

Pivot creates jobs and opportunities for successful careers in the furniture and home goods industry for people who are formerly incarcerated. Operated by our Osborne Social Ventures, LLC, Pivot's social good model offers opportunities for individuals to rebuild their lives, learn new skills, evolve professionally and achieve independent living – while designing and manufacturing home decor and furniture items from reclaimed wood and vintage or salvaged items.

- **REDUCING RELIANCE ON INCARCERATION**

Jail-Based Services is dedicated to breaking the cycle of recidivism by providing cognitive behavioral therapy, workforce readiness, fatherhood programming and sector-specific job training. Services are provided both on Rikers Island and during the critical post-release period by offering support services including employment placement and retention assistance. **Jail-Based Community Reentry Program** is offered on Rikers Island to individuals identified as highest need in the community following release, enabling them to access services immediately upon release. The program is part of the Individualized Corrections Achievement Network Initiative (I-CAN) of the NYC Department of Correction.

Court Advocacy Services is a defender-based advocacy program assisting felony defendants, including juvenile offenders being tried in adult courts that are represented by NYC assigned and institutional defense attorneys in pursuit of alternatives to incarceration. Staff conduct pre-plea and pre-sentence investigations of defendants' backgrounds to ascertain mitigating circumstances, and advocate client specific sentencing alternatives in appropriate cases. **Long Termers Responsibility Project** is an interdisciplinary advocacy effort that works with individuals serving long sentences, but who have completed their minimum sentences, by helping them to gain insight, take responsibility for their crimes and prepare for their eventual release through a restorative justice framework in individual and group settings.

Adolescent Behavioral Learning Experience (ABLE) is a cognitive behavioral intervention that aims to reduce recidivism for adolescents ages 16-18 housed at the Rikers Island Jail facility. The program provides cognitive behavioral therapy, recreation and enrichment, discharge planning and referrals for adolescents, primarily on Rikers Island and continued when reentering into the community. The program also provides training in trauma-informed adolescent services for Rikers Island correctional officers.

- **RECONNECTING FAMILIES AND STRENGTHENING COMMUNITIES**

Family Services offers support to people affected by incarceration to make, mend and maintain family relationships and to plan for a successful re-entry from prison into their communities through the Family Ties program for mothers and FamilyWorks program for fathers. The programs offer parenting education in New York City and State correctional facilities that are informed by research and best practices on childhood and cognitive development, as well as visiting support (in-person and through video-conferencing), Family Centers at several men's prisons, and community-based services for families.

Family Resource Center provides family and friends of people in prison with a toll-free hotline staffed by formerly incarcerated individuals and family members that provides up-to-date information on transfers, visiting rules, sentencing, advocating for a family member, and parole, as well as linkage to community-based services and weekly support groups during the incarceration of a loved one and following release.

Children & Youth Services provides a host of psycho-social supportive services and developmentally appropriate programs for children and youth in the community. Through counseling, support groups, mentoring, assistance in accessing higher education, supervised visiting with parents (both in person and through televising), youth development activities, and recreational trips the program works to alleviate the negative impact, trauma, and stigma that incarceration has upon children and youth with parents in prison.

Services also include the Youth Advisory Board for older youth that are interested in further skill-building and education that involves civic engagement, public speaking, grassroots organizing efforts, and advocacy for the rights of children with justice-involved parents

NOTE 1—ORGANIZATION AND NATURE OF ACTIVITES (Continued)

NY Initiative for Children with Incarcerated Parents is a collaborative effort to raise awareness and reform policy around the impact of incarceration on children. The initiative aims to change child welfare and criminal justice policies and procedures to ensure children's rights are upheld and their needs met through each stage of their parent's involvement in the criminal justice system.

- **FULTON COMMUNITY REENTRY CENTER**

Fulton is a former New York State correctional facility that was donated to Osborne to be redeveloped as a community reentry center for people returning home following a period of incarceration. Fulton is currently in the redevelopment stage, and is being designed to be a "one stop" center capable of supporting – directly or by linked service providers – the health, economic security, family and social connectedness needs of people in reentry, which will ultimately reduce recidivism, promote safety and improve long-term outcomes for the families and communities to which they return. Anticipated services include transitional housing and economic development activity, including job training, and workforce development services.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ***Basis of* Accounting** – The Association's consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All significant intercompany transactions have been eliminated during consolidation.

B. ***Basis of Presentation*** – The Association maintains its net assets under the following three classes:

- Unrestricted – represents resources available for support of the Association's operations over which the Board of Directors (the "Board") has discretionary control.
- Temporarily restricted – represents assets that are subject to donor-imposed stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Temporarily restricted net assets are released from donor restrictions by incurring expenses, thereby satisfying the restricted purposes of providing program services as specified by the donors. Unconditional promises to give that are due in future periods to support the current-period activities are reported as unrestricted support. In addition, capital improvement grants are recorded as temporarily restricted net assets in the year received and released in line with depreciation expense incurred on the property.
- Permanently restricted – represents net assets that are subject to donor-imposed stipulations and restricted to investment in perpetuity, the income from which is expendable for general purposes.

C. ***Unconditional Promises to Give*** – Pledges are recorded as income when the Association is formally notified of the grants or contributions by the respective donors. Unless material, the Association does not discount multiyear pledges.

D. ***Allowance for Uncollectible Receivables*** – The Association has determined that an allowance of $20,000 and $10,000 for uncollectible pledges receivable and $0 and $80,000 for government grants and other receivable was necessary as of June 30, 2015 and 2014. Such estimate is based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions and historical information.

E. ***Cash*** – Cash consist of all highly liquid instruments with maturities of 90 days or less when acquired, except for amounts held at an investment institution.

F. ***Investments and fair value measurements*** – Investments are reported at fair value. Investment income consisting of interest, dividend, realized and unrealized gains or losses are classified as nonoperating revenue and are available to support operations. Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy prioritizes observable and unobservable inputs used to measure fair value into three levels, as described in Note 5.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. ***Property and Equipment*** – Property and equipment are stated at cost less accumulated depreciation or amortization. These amounts do not purport to represent replacement or realizable values. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the useful lives of the improvements or the term of the applicable lease. The Association capitalizes all owned property and equipment having a useful life of greater than one year and a cost of $5,000 or more. There may be instances where certain expenditures for property and equipment are included in the consolidated financial statements as expenses because the cost of these items was reimbursed by certain governmental funding sources and the contractual agreement specifies that title to these assets rests with the funding sources rather than the Association.

H. ***Revenue Sources and Recognition –*** Government grants for cost reimbursement contracts are recorded as revenues to the extent that expenses have been incurred for the purposes specified by the grantors. To the extent amounts received exceed amounts spent, the Association records deferred revenue/refundable advances.

I. ***Functional Allocation of Expenses*** – Because the Association is a multiprogram/multifunded organization, certain costs have been allocated among programs and supporting functions as determined by management, pursuant to the method the Association follows in seeking funding from third-party governmental sources.

J. ***Deferred Rent*** – In 2012, the Association started its lease for the Brooklyn offices under an agreement that contains eleven months rent-free and landlord credit for renovations. Accounting principles generally accepted in the United States ("U.S. GAAP") require that the Association account for this free rent and renovation credit. This accounting treatment is commonly referred to as "straight-lining of rent." The difference between rent expense, under this method, and the lower rental amounts actually paid to the landlord are reported as a "deferred rent" obligation in the accompanying consolidated statements of financial position. The change in the deferred rent liability is reflected in the accompanying consolidated statements of activities.

K. ***Interest Expense*** – If material, interest on loans with below market interest rates is imputed to market interest rates.

L. ***Contributed Property, Services, Rent and Other In-Kind*** – Donated property is recorded at fair market value on the date of donation. No amounts have been reflected in the accompanying consolidated financial statements for donated services, since they did not meet the criteria for recognition.

M. ***Use of Estimates*** – The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures at the date of the financial statements. Actual results could differ from those estimates.

N. ***Interest Rate Swaps*** – The Association is subject to risk from adverse fluctuations in interest rates affecting its payments under the mortgage payable at a variable rate. The Association manages this risk by the use of derivative financial instruments, primarily an interest rate swap. The counterparty to this contract is a financial institution. The Association is exposed to credit loss in the event of nonperformance by the counterparty. The Association does not use derivative instruments for trading or speculative purposes. If material, the Association records the interest rate swap agreement at fair value in the statements of financial position with the related gain or loss reflected in the statements of activities (see Note 8).

NOTE 3—PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2015 and 2014:

	2015	2014	Estimated Useful Lives
Land	$ 1,414,417	$ 664,417	
Building	7,296,180	3,041,524	20 Years
Leasehold improvements	794,794	793,944	15 Years
Vehicles	105,213	105,213	3 Years
Furniture and equipment	291,070	260,734	7 Years
Construction in progress	958,820	66,485	
Total cost	10,860,494	4,932,317	
Less: accumulated depreciation and amortization	(1,585,422)	(1,352,513)	
Net book value	$ 9,275,072	$ 3,579,804	

Depreciation and amortization expense for the years ended June 30, 2015 and 2014 amounted to $232,909 and $200,700, respectively.

In January 2015, a former New York State correctional facility ("Fulton") was donated to the Association to be redeveloped as a community reentry center for people returning home following a period of incarceration. Total estimated fair market value of Fulton amounted to $5,000,000 of which $4,250,000 was allocated to building and recorded as temporarily restricted contributions and $750,000 was allocated to land and was recorded as a permanently restricted contribution in the accompanying consolidated financial statements.

Construction in progress includes renovations to the Fulton building. The Association incurred costs of $375,904 and $12,500 for the fiscal years ended June 30, 2015 and 2014, respectively. The construction is expected to be completed in fiscal 2018 and the estimated cost to complete is approximately $17.5 million. The cost of construction is expected to be funded by various New York State and City agencies as well as fundraising from general public.

In addition, construction in progress includes renovations to the second floor of the Green Career Center. The Association incurred costs of $516,431 and $53,985 for the fiscal years ended June 30, 2015 and 2014, respectively. The building was placed in service in July 2015 and the total cost of the project was approximately $706,000.

NOTE 4—PLEDGES RECEIVABLE

Pledges receivable consisted of the following as of June 30, 2015 and 2014:

	2015	2014
Due in less than one year	$ 923,145	$ 1,048,259
Due in one to five years	200,000	432,793
	$ 1,123,145	$ 1,481,052

NOTE 5—INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments consisted of the following as of June 30, 2015 and 2014:

	2015	2014
Money market funds	$ 840,250	$ 538,632
Exchange traded funds	900,239	492,095
Mutual funds	98,763	98,751
Corporate stocks	3,100	23,530
	$ 1,842,352	$ 1,153,008

NOTE 5— INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

Investments are subject to market volatility that could substantially change their value in the near term.

The fair value hierarchy defines three levels as follows:

Level 1: Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs. Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets.

Level 2: Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Valuations based on unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

In determining fair value, the Association utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk (or other parties such as counterparty in a swap) in its assessment of fair value.

Money market and mutual funds:

Money market and mutual funds (the “funds”) are valued at their daily closing price as reported by the fund. These funds held by the Association are open-end funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price. The funds held by the Association are deemed to be actively traded.

Corporate stocks and exchange traded funds:

Corporate stocks and exchange traded funds are valued at the closing price reported on the active market on which the individual securities are traded.

Beneficial interest in perpetual trusts:

Beneficial interest in perpetual trusts is valued based on the underlying securities (mutual funds) held in trust.

The following table presents the Association’s assets and liabilities that are measured at fair value for each level at June 30, 2015:

	Level 1	Level 2	Total
Money market funds	$ 840,250	$ -	$ 840,250
Exchange traded funds	900,239	-	900,239
Mutual funds	98,763	-	98,763
Corporate stocks	3,100	-	3,100
Beneficial interest in perpetual trust	-	207,935	207,935
Assets at Fair Value	$ 1,842,352	$ 207,935	$ 2,050,287

NOTE 5— INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The following table presents the Association's assets and liabilities that are measured at fair value for each level at June 30, 2014:

	Level 1	Level 2	Total
Money market funds	$ 538,632	$ -	$ 538,632
Exchange traded funds	492,095	-	492,095
Mutual funds	98,751	-	98,751
Corporate stocks	23,530	-	23,530
Beneficial interest in perpetual trust	-	210,073	210,073
Assets at Fair Value	$ 1,153,008	$ 210,073	$ 1,363,081

NOTE 6—BENEFICIAL INTEREST IN PERPETUAL TRUST

TMO is the beneficiary of a trust established in 1951 with original investment assets totaling $35,000. Such assets are reflected at fair value and are held in perpetuity by a third-party trustee. TMO receives the annual earnings. The underlying assets of this trust consisted of the following as of June 30, 2015 and 2014:

	2015	2014
Money market fund	$ 7,215	$ 1,008
Mutual funds	200,720	209,065
	$ 207,935	$ 210,073

NOTE 7—DEFERRED REVENUE/REFUNDABLE ADVANCES

Refundable advances represent advances received from various funding sources under government contracts for which the Association has not yet met the grant conditions or provided the services. In addition, they include amounts due to government agencies that primarily represent advances received during current and prior years. Such amounts will be recouped by the funding sources.

As of June 30, 2015, OTS established a reserve of $94,000 for potential audit adjustments resulting from potential future audits of its Medicaid program by The State of New York Office of the Medicaid Inspector General ("OMIG"). Such reserve is included in deferred revenue/refundable advances in the accompanying consolidated financial statements.

A for-profit entity was formed in March 2015 as a single member limited liability company and a disregarded entity for the federal tax purposes. A start-up capital was provided by the Association's Board member amounting to $232,000 which is repayable by OA solely from and to the extent of OSV distributions. OA, as the sole member of Osborne Social Ventures, LLC is liable for the start-up advance and accordingly such advance was recorded as deferred revenue in the accompanying consolidated financial statements.

NOTE 8—NOTES AND LOANS PAYABLE

Notes and loans payable consisted of the following as of June 30, 2015 and 2014:

	2015	2014	Annual Interest Rate	Due Date
To a bank. A revolving line of credit totaling $3,500,000. Expiring in April 2016. Secured by all assets of OA.	$ 1,250,000	$ 810,000	30-day LIBOR, plus 325 basis points (3.5%)	2016
To a financing company. Secured by the related vehicle under a retail installment contract with monthly payments of $465.	2,325	7,906	0%	2016
To a financing company. Secured by the related vehicle under a retail installment contract with monthly payments of $419.	14,329	19,359	0%	2018
	$ 1,266,654	$ 837,265		

Future annual principal payments are as follows for the years ended after June 30, 2015:

2016	$ 1,257,356
2017	5,031
2018	4,267
	$ 1,266,654

NOTE 9—MORTGAGE PAYABLE

In May 2011, TMO entered into a mortgage agreement with a bank, in the original principal amount of $3,780,000 at an annual rate of One-Month LIBOR (0.151% as of June 30, 2015) plus 4%, to pay off an old mortgage loan on a building in the Bronx, and pay down and consolidate the outstanding balance on OA's line of credit. This mortgage requires monthly principal payments of $5,565 to $7,067 through May 1, 2016, plus interest and a balloon payment at maturity in the amount of $3,409,151 on June 1, 2016. The Association is currently planning to have the mortgage refinanced with a bank in early 2016. The Association is required to meet certain covenants in relation to this mortgage. As of June 30, 2015 and 2014, the Association is in compliance with the covenants.

The Association entered into a derivative transaction ("swap") with a notional amount that changes over time to correspond to the outstanding principal based on the agreed schedule for the mortgage. The notional amount of the derivative is the basis for calculating the volume of the transactions and does not represent the amount at risk. The market values of the swap can vary depending on movements in interest rates. The transaction creates off-balance sheet risk in that TMO could potentially lose more on the swaps than the amounts at which these instruments are carried in the statement of financial position. The transaction had not been designated as a hedge. The counterparty is a New York financial institution. TMO is obligated to pay an effective fixed interest rate of 2.07% on the notional amount (same as the principal balance). When taken together with the mortgage payable, the effect of the derivative transaction is to substantially convert variable rate (subject to the risk of going to a level higher than the current fixed rate) to a fixed rate mortgage payable that is subject to a 6.07% maximum rate.

As of June 30, 2015 and 2014, the estimated negative fair value of the swap agreement amounted to $54,758 and $108,636, respectively, which is deemed immaterial to the consolidated financial statements taken as a whole. Accordingly, the accompanying consolidated financial statements do not reflect such amounts.

As of June 30, 2015 and 2014, mortgage payable amounted to $3,486,889 and $3,566,928, respectively. The remaining balance is due during fiscal year 2016.

NOTE 10—COMMITMENTS AND CONTINGENCIES

A. The Association has contractual relationships with certain governmental funding sources that provide the right to examine the books and records of the Association involving transactions relating to these contracts. The accompanying consolidated financial statements make no provision for possible disallowances except as discussed in Note 7. Although such possible disallowances could be substantial in amount, in the opinion of management, any actual disallowances are expected to be immaterial. In addition, certain agreements provide that some property and equipment either owned by or on loan to the Association (the cost of which may have been expensed—see Note 2G) must be utilized by the Association to continue owning and/or using these assets.

B. The Association is obligated under non-cancelable lease agreements for office space. Minimum annual rentals related to the leases are approximately as follows for years ending after June 30, 2015:

2016	$ 478,000
2017	492,000
2018	507,000
2019	522,000
2020	538,000
Thereafter	323,000
	$ 2,860,000

Rent expense for the years ended June 30, 2015 and 2014 amounted to $464,149 and $474,719, respectively, and is included in occupancy expense in the accompanying consolidated financial statements.

C. The Association believes it has no uncertain tax positions as of June 30, 2015 and 2014, in accordance with the provisions of FASB ASC 740, *Income Taxes*. The Association believes it is no longer subject to federal or state and local income tax examinations by tax authorities for years before 2012.

NOTE 11—PENSION PLANS

The Association maintains two qualified pension plans (the "Plans") covering all eligible employees as defined.

Thrift Plan

This Plan is a tax-sheltered annuity plan qualified under Section 403(b) of the Internal Revenue Code. Contributions to the Plan are employee funded. Employees may contribute to the Plan up to the maximum permitted by law.

Employee Benefits Plan

This Plan is a money purchase plan covering all full-time eligible employees. Employer contributions are fixed at 3% of eligible salaries, plus an amount equal to 100% of the first 3% of employee contributions into the Thrift Plan.

Employer contributions amounted to $319,935 and $302,330 for the years ended June 30, 2015 and 2014, respectively, and are included in payroll taxes and employee benefits expense in the accompanying consolidated financial statements.

NOTE 12—NET ASSETS

A. Temporarily restricted net assets were available for the following purposes or periods as of June 30, 2015 and 2014:

	2015	2014
Donated property	$ 4,250,000	$ -
Capital grants for redevelopment of Fulton	958,813	-
Programmatic services	589,820	610,000
	$ 5,798,633	$ 610,000

Net assets were released from donor restrictions during the years ended June 30, 2015 and 2014 by incurring expenses satisfying the restricted purpose or occurrence specified by the donors and amounted to $820,347 and $823,765 as of June 30, 2015 and 2014, respectively.

B. Permanently restricted net assets consisted of the following as of June 30, 2015 and 2014:

	2015	2014
Donated property (land)	$ 750,000	$ -
Beneficial interest in perpetual trust	207,935	210,073
	$ 957,935	$ 210,073

NOTE 13—NON-CONTROLLING INTEREST

OA has 85% controlling interest in SIA which is consolidated in the accompanying consolidated financial statements. In connection with this investment, OA also recognizes the related non-controlling interest. All profits and losses of SIA are allocated in accordance with the Members' percentage interest. During the year ended June 30, 2015 and 2014 SIA was dormant, and had no profit and equity. Accordingly, no non-controlling interest was recognized.

NOTE 14—SUBSEQUENT EVENTS

The Association has evaluated events subsequent to the date of the consolidated statements of financial position through January 15, 2016, the date the financial statements were available to be issued.

THE OSBORNE ASSOCIATION, INC. AND AFFILIATES
CONSOLIDATING SCHEDULES OF FINANCIAL POSITION
AS OF JUNE 30, 2015
(With Comparative Totals for June 30, 2014)

	As of June 30, 2015							
	The Osborne Association, Inc.	Osborne Treatment Services, Inc.	Thomas Mott Osborne Memorial Fund, Inc.	Spring Into Action, LLC	Osborne Social Ventures, LLC	Consolidating Eliminations	Consolidated Total 2015	Consolidated Total 2014
ASSETS								
Cash	$ 380,519	$ 52,037	$ 3,408	$ 653	$ 8,964	$ -	$ 445,581	$ 526,369
Government grants receivable, net	2,985,829	492,278	717,960	-	-	-	4,196,067	2,495,360
Pledges and other receivable, net	1,112,354	-	-	-	10,791	-	1,123,145	1,481,052
Investments	2,074,352	-	-	-	-	(232,000)	1,842,352	1,153,008
Due from affiliated organizations	18,282	1,980,460	485,979	-	-	(2,484,721)	-	-
Prepaid expenses and other assets	62,086	-	11,370	-	34,476	-	107,932	226,045
Property and equipment, net	208,863	-	9,066,209	-	-	-	9,275,072	3,579,804
Security deposits	67,276	-	-	-	-	-	67,276	72,676
Beneficial interest in perpetual trust	-	-	207,935	-	-	-	207,935	210,073
TOTAL ASSETS	$ 6,909,561	$ 2,524,775	$ 10,492,861	$ 653	$ 54,231	$ (2,716,721)	$ 17,265,360	$ 9,744,387
LIABILITIES								
Accounts payable and accrued expenses	$ 285,390	$ 76,684	$ 967,107	$ 300	$ 17,815	$ -	$ 1,347,296	$ 1,005,702
Accrued salary and vacation	458,288	-	-	-	-	-	458,288	460,907
Deferred rent	75,056	-	-	-	-	-	75,056	102,407
Deferred revenue/refundable advances	297,868	94,000	-	-	-	-	391,868	288,717
Due to affiliated organizations	2,433,939	-	-	1,966	48,816	(2,484,721)	-	-
Notes and loans payable	1,266,654	-	-	-	-	-	1,266,654	837,265
Mortgage payable	-	-	3,486,889	-	-	-	3,486,889	3,566,928
TOTAL LIABILITIES	4,817,195	170,684	4,453,996	2,266	66,631	(2,484,721)	7,026,051	6,261,926
NET ASSETS (DEFICIT)								
Unrestricted	1,512,547	2,354,091	(137,884)	(1,613)	(244,400)	-	3,482,741	2,662,388
Capital	-	-	-	-	232,000	(232,000)	-	-
Temporarily restricted	579,819	-	5,218,814	-	-	-	5,798,633	610,000
Permanently restricted	-	-	957,935	-	-	-	957,935	210,073
TOTAL NET ASSETS (DEFICIT)	2,092,366	2,354,091	6,038,865	(1,613)	(12,400)	(232,000)	10,239,309	3,482,461
TOTAL LIABILITIES AND NET ASSETS	$ 6,909,561	$ 2,524,775	$ 10,492,861	$ 653	$ 54,231	$ (2,716,721)	$ 17,265,360	$ 9,744,387

THE OSBORNE ASSOCIATION, INC. AND AFFILIATES
CONSOLIDATING SCHEDULES OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015
(With Comparative Totals for June 30, 2014)

	For the Year Ended June 30, 2015							
	The Osborne Association, Inc.	**Osborne Treatment Services, Inc.**	**Thomas Mott Osborne Memorial Fund, Inc.**	**Spring Into Action, LLC**	**Osborne Social Ventures, LLC**	**Consolidating Eliminations**	**Consolidated Total 2015**	**Consolidated Total 2014**
OPERATING SUPPORT AND REVENUE:								
Public Support:								
Contributions and grants	$ 4,316,153	$ 10,000	$ 983,214	$ -	$ -	$ -	$ 5,309,367	$ 3,896,796
Total Public Support	4,316,153	10,000	983,214	-	-	-	5,309,367	3,896,796
Fee for Service:								
Medicaid	-	1,120,778	-	-	-	-	1,120,778	1,016,698
Janitorial	4,232,037	-	-	-	-	-	4,232,037	3,852,514
Catering	462,224	10,700	-	-	-	-	472,924	856,763
Total Fee for Service	4,694,261	1,131,478	-	-	-	-	5,825,739	5,725,975
Governmental Support:								
New York State	3,215,946	134,884	-	-	-	-	3,350,830	3,692,457
New York City	3,346,591	1,554,403	-	-	-	-	4,900,994	4,053,508
Federal-direct and indirect	2,221,587	480,972	-	-	-	-	2,702,559	2,342,008
Total Governmental Support	8,784,124	2,170,259	-	-	-	-	10,954,383	10,087,973
Revenue:								
Management fee	865,447	-	-	-	-	(865,447)	-	-
TOTAL OPERATING SUPPORT REVENUE	18,659,985	3,311,737	983,214	-	-	(865,447)	22,089,489	19,710,744
OPERATING EXPENSES:								
Program Services:								
Adopting healthy lifestyles	1,765,683	1,686,245	-	-	-	(438,297)	3,013,631	2,631,719
Achieving economic independence:								
Workforce development	2,247,625	-	-	-	-	(330,507)	1,917,118	1,641,637
Janitorial/maintenance services	4,278,921	-	-	-	-	(23,905)	4,255,016	4,053,867
Fresh start catering	657,474	-	-	-	-	(37,610)	619,864	694,267
Pivot	-	-	-	-	278,667	(25,333)	253,334	-
Reducing reliance on incarceration:								
Jail-based services	1,367,166	-	-	-	-	(330)	1,366,836	964,082
Court advocacy services	745,470	469,709	-	-	-	-	1,215,179	1,109,640
Adolescent behavioral learning experience	1,902,307	-	-	-	-	(796)	1,901,511	2,167,273
Reconnecting families and strengthening communities	1,699,039	-	-	-	-	(8,303)	1,690,736	1,947,405
Fulton community reentry center	124,150	-	-	-	-	-	124,150	108,443
Total Program Services Expenses	14,787,835	2,155,954	-	-	278,667	(865,080)	16,357,376	15,318,333
Supporting Services:								
Management and administration	2,638,974	423,855	560,549	280	-	(495,762)	3,127,896	2,800,044
Fundraising	725,952	-	-	-	-	(30,096)	695,856	572,730
Total Supporting Services Expenses	3,364,926	423,855	560,549	280	-	(525,859)	3,823,751	3,372,774
TOTAL OPERATING EXPENSES	18,152,761	2,579,809	560,549	280	278,667	(1,390,939)	20,181,127	18,691,107
OPERATING INCOME (LOSS)	507,224	731,928	422,665	(280)	(278,667)	525,492	1,908,362	1,019,637
NONOPERATING REVENUE (LOSS):								
Interest and dividends	13,470	38	4,240	-	-	-	17,748	14,451
Loss on investment sales	(2,114)	-	-	-	-	-	(2,114)	(586)
Unrealized gain in market value of investments	26,561	-	-	-	-	-	26,561	85,712
Gain on beneficial interest in perpetual trust	-	-	(2,138)	-	-	-	(2,138)	20,796
Rental income	-	-	601,024	-	-	(525,492)	75,532	68,917
Donated property (Note 3)			5,000,000				5,000,000	-
Other income	62,130	-	36,500	-	34,267	-	132,897	8,899
TOTAL NONOPERATING REVENUE	100,047	38	5,639,626	-	34,267	(525,492)	5,248,486	198,189
NONOPERATING EXPENSES:								
Reserve for building improvements/repairs	-	-	400,000	-	-	-	400,000	350,000
TOTAL NONOPERATING EXPENSES	-	-	400,000	-	-	-	400,000	350,000
NONOPERATING INCOME (LOSS)	100,047	38	5,239,626	-	34,267	(525,492)	4,848,486	(151,811)
CHANGE IN NET ASSETS	607,271	731,966	5,662,291	(280)	(244,400)	-	6,756,848	867,826
NET ASSETS (DEFICIT) - beginning of year	1,485,095	1,622,125	376,574	(1,333)	-	-	3,482,461	2,614,635
NET ASSETS (DEFICIT) - END OF YEAR	$ 2,092,366	$ 2,354,091	$ 6,038,865	$ (1,613)	$ (244,400)	$ -	$ 10,239,309	$ 3,482,461

See independent auditors' report.

OSBORNE ASSOCIATION, INC. AND AFFILIATES
CONSOLIDATING SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015
(With Comparative Totals for June 30, 2014)

For the Year Ended June 30, 2015

	The Osborne Association, Inc.														Osborne Treatment Service, Inc.				Thomas Mott Osborne Memorial Fund, Inc.	Spring Into Action, LLC	Osborne Social Ventures, LLC			
		Achieving Economic Independence			Reducing Reliance on Incarceration																			
	Adopting Healthy Lifestyles	Workforce Development	Janitorial/ Maintenance Services	Fresh Start Catering	Jail - Based Services	Court Advocacy Services	Adolescent Behavioral Learning Experience	Reconnecting Families and Strengthening Communities	Fulton Community Reentry Center	Total Program Services	Management and Administration	Fundraising	Total Supporting Services	The Osborne Association, Inc. Total	Adopting Healthy Lifestyles	Reducing Reliance on Incarceration - Court Advocacy Services	Management and Administration	Osborne Treatment Services, Inc. Total	Management and Administration	Management and Administration	Pivot Program	Eliminations	Consolidated Total 2015	Consolidated Total 2014
Salaries	$ 1,003,384	$ 1,132,860	$ 3,131,019	$ 296,404	$ 721,090	$ 455,226	$ 942,517	$ 1,028,543	$ 86,523	$ 8,797,566	$ 1,543,429	$ 264,342	$ 1,807,771	$ 10,605,337	$ 872,259	$ 301,862	$ -	$ 1,174,121	$ -	$ -	$ 32,350	$ -	$ 11,811,808	$ 10,827,020
Payroll taxes & employee benefits	318,764	359,730	572,273	57,675	242,579	145,056	272,039	314,439	25,294	2,307,849	425,715	108,578	534,293	2,842,142	260,480	91,472	-	351,952	-	-	14,341	-	3,208,435	2,784,847
Total Salaries and Related Costs	1,322,148	1,492,590	3,703,292	354,079	963,669	600,282	1,214,556	1,342,982	111,817	11,105,415	1,969,144	372,920	2,342,064	13,447,479	1,132,739	393,334	-	1,526,073	-	-	46,691	-	15,020,243	13,611,867
Occupancy	142,328	171,122	17,968	-	104,503	84,526	111,139	98,655	-	730,241	192,099	35,804	227,903	958,144	198,072	36,474	-	234,546	82,619	-	28,385	(525,492)	778,202	783,473
Supplies and expensed equipment	61,552	69,246	114,595	55,321	110,960	14,917	99,832	72,613	4,950	603,986	151,319	24,961	176,280	780,266	35,376	8,105	-	43,481	19,277	-	42,084	-	885,108	644,566
Professional fees	6,500	6,007	-	115	-	6,675	374	25,418	560	45,649	136,063	146,895	282,958	328,607	20,825	-	-	20,825	(6,795)	-	78,000	-	420,637	327,181
Professional fees - subcontractors	-	55,998	-	747	-	-	371,673	-	-	428,418	-	-	-	428,418	1,250	-	-	1,250	-	-	28,109	-	457,777	604,457
Direct participant costs	72,587	209,322	-	155,893	95,837	435	30,560	55,484	2,343	622,461	2,228	858	3,086	625,547	86,449	2,913	-	89,362	-	-	46	-	714,955	778,037
Telephone	26,806	50,899	13,766	2,378	29,899	10,953	24,539	35,899	924	196,063	36,311	11,636	47,947	244,010	28,043	10,054	-	38,097	-	-	1,343	-	283,450	204,839
Employer wage subsidy	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	92,784
Repairs, maintenance and alterations	2,804	2,631	5,800	18,235	2,675	-	1,171	2,382	-	35,698	165	-	165	35,863	3,490	25	-	3,515	17,481	-	-	-	56,859	85,572
Miscellaneous	6,432	8,120	176,545	4,941	5,135	3,603	10,498	8,692	1,372	225,338	44,917	24,628	69,545	294,883	2,802	3,243	-	6,045	23,495	280	3,437	-	328,140	284,755
Insurance	19,934	35,874	198,984	13,179	33,347	10,759	25,418	31,583	1,721	370,799	7,377	-	7,377	378,176	10,369	9,657	-	20,026	22,482	-	7,219	-	427,903	411,166
Training	3,100	7,872	299	240	7,566	452	4,284	2,933	-	26,746	5,141	590	5,731	32,477	2,467	563	-	3,030	-	-	199	-	35,706	24,985
Travel	18,324	12,636	13,664	8,810	8,237	11,393	5,924	14,464	257	93,709	20,300	1,429	21,729	115,438	3,367	5,341	-	8,708	-	-	13,588	-	137,734	130,951
Auto	4,543	-	2,208	4,997	2,526	-	1,543	5,773	-	21,590	2,311	637	2,948	24,538	-	-	-	-	-	-	4,233	-	28,771	22,637
Direct mail and special events	-	-	-	-	-	-	-	-	-	-	-	99,757	99,757	99,757	-	-	-	-	-	-	-	-	99,757	74,728
Management fees - intercompany	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	423,855	423,855	10,372	-	25,333	(459,560)	-	-
Security and maintenance - intercompany	77,176	120,888	13,500	37,610	330	-	796	-	-	250,300	-	196	196	250,496	155,391	-	-	155,391	-	-	-	(405,887)	-	-
Bad debt expense	-	-	-	-	-	-	-	-	-	-	24,601	-	24,601	24,601	-	-	-	-	-	-	-	-	24,601	126,426
Interest	1,449	4,420	12,977	929	2,482	1,475	-	2,161	206	26,099	-	-	-	26,099	5,605	-	-	5,605	216,671	-	-	-	248,375	281,983
Depreciation and amortization	-	-	5,323	-	-	-	-	-	-	5,323	46,998	5,641	52,639	57,962	-	-	-	-	174,947	-	-	-	232,909	200,700
TOTAL OPERATING EXPENSES - BEFORE ELIMINATIONS	1,765,683	2,247,625	4,278,921	657,474	1,367,166	745,470	1,902,307	1,699,039	124,150	14,787,835	2,638,974	725,952	3,364,926	18,152,761	1,686,245	469,709	423,855	2,579,809	560,549	280	278,667	(1,390,939)	20,181,127	18,691,107
ALLOCATION OF ELIMINATIONS	(152,374)	(330,507)	(23,905)	(37,610)	(330)	-	(796)	(8,303)	-	(553,824)	(61,535)	(30,096)	(91,632)	(645,456)	(285,923)	-	(423,855)	(709,778)	(10,372)	-	(25,333)	1,390,939	-	-
TOTAL OPERATING EXPENSES	1,613,309	1,917,118	4,255,016	619,864	1,366,836	745,470	1,901,511	1,690,736	124,150	14,234,010	2,577,439	695,856	3,273,294	17,507,305	1,400,322	469,709	-	1,870,031	550,177	280	253,334	-	20,181,127	18,691,107
NONOPERATING EXPENSES:																								
Reserve for building improvements/repairs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	400,000	-	-	-	400,000	350,000
TOTAL EXPENSES	$ 1,613,309	$ 1,917,118	$ 4,255,016	$ 619,864	$ 1,366,836	$ 745,470	$ 1,901,511	$ 1,690,736	$ 124,150	$ 14,234,010	$ 2,577,439	$ 695,856	$ 3,273,294	$ 17,507,305	$ 1,400,322	$ 469,709	$ -	$ 1,870,031	$ 950,177	$ 280	$ 253,334	$ -	$ 20,581,127	$ 19,041,107

See independent auditors' report.