

McGladrey & Pullen

Certified Public Accountants

The After-School Corporation

Financial Statements

(with supplementary information to comply with OMB Circular A-133)

June 30, 2008

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
The After-School Corporation
New York, New York

We have audited the accompanying statement of financial position of The After-School Corporation (the "Organization") as of June 30, 2008, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from the financial statements of the Organization as of and for the year ended June 30, 2007, which were audited by Goldstein Golub Kessler LLP ("GGK"), independent accountants, certain of whose partners became partners of McGladrey & Pullen, LLP effective October 3, 2007. GGK's report, dated December 14, 2007, expressed an unqualified opinion on those statements.

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 Auditing 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2008, on our consideration of the Organization's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the 2008 basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended June 30, 2008 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

McGladrey & Pullen, LLP

New York, New York
December 2, 2008

McGladrey & Pullen, LLP is a member firm of RSM International –
an affiliation of separate and independent legal entities.

The After-School Corporation

Statements of Financial Position
June 30, 2008 and 2007

| | 2008 | 2007 |
|--|-----------------------------|-----------------------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 12,612,866 | \$ 16,081,934 |
| Government Grants and Contracts Receivable | 12,178,451 | 15,439,979 |
| Grants and Contributions Receivable | 1,620,315 | 5,057,650 |
| Due from Community-Based Organizations | 78,033 | 126,897 |
| Prepaid Expenses and Other | 396,494 | 1,689,634 |
| Property and Equipment, net | <u>3,304,403</u> | <u>1,940,667</u> |
| Total assets | <u>\$ 30,190,562</u> | <u>\$ 40,336,761</u> |
| LIABILITIES AND UNRESTRICTED NET ASSETS | | |
| Liabilities: | | |
| Accounts payable and accrued expenses | \$ 1,171,008 | \$ 2,540,324 |
| Grants payable | 3,002,147 | 3,866,029 |
| Deferred rent | <u>2,012,578</u> | <u>1,717,195</u> |
| Total liabilities | <u>6,185,733</u> | <u>8,123,548</u> |
| Commitments and Contingencies | | |
| Net Assets: | | |
| Unrestricted: | | |
| Undesignated | 3,604,773 | 10,940,463 |
| Board-designated for transition reserve | <u>15,000,000</u> | <u>15,000,000</u> |
| Total unrestricted net assets | 18,604,773 | 25,940,463 |
| Temporarily restricted | <u>5,400,056</u> | <u>6,272,750</u> |
| Total net assets | <u>24,004,829</u> | <u>32,213,217</u> |
| Total liabilities and net assets | <u>\$ 30,190,562</u> | <u>\$ 40,336,765</u> |

See Notes to Financial Statements.

The After-School Corporation

Statements of Activities

(with summarized comparative financial information for the year ended June 30, 2007)

Years Ended June 30, 2008 and 2007

| | 2008 | | 2007 | |
|--|----------------------|-----------------------------------|----------------------|----------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> | <u>Total</u> |
| Revenue and support: | | | | |
| Government grants and contracts | \$ 16,138,387 | \$ - | \$ 16,138,387 | \$ 22,738,738 |
| Grants and contributions | 933,030 | 2,753,356 | 3,686,386 | 4,979,396 |
| Contracted services | 1,177,551 | - | 1,177,551 | 1,012,847 |
| Donated goods and services | 248,251 | - | 248,251 | 576,881 |
| Investment income, net of expenses of \$37,468 and \$41,061, respectively | 515,514 | - | 515,514 | 791,477 |
| Realized loss from sale of investment | - | - | - | (4,122) |
| Other income | 237,280 | - | 237,280 | 11,354 |
| Net assets released from restrictions | 3,626,050 | (3,626,050) | - | - |
| Total revenue and support | <u>22,876,063</u> | <u>(872,694)</u> | <u>22,003,369</u> | <u>30,106,571</u> |
| Expenses: | | | | |
| Program services | 25,736,837 | - | 25,736,837 | 30,847,880 |
| Management and general | 4,056,526 | - | 4,056,526 | 3,871,299 |
| Fund-raising | 418,390 | - | 418,390 | 592,164 |
| Total expenses | <u>30,211,753</u> | <u>-</u> | <u>30,211,753</u> | <u>35,311,343</u> |
| Change in net assets | <u>(7,335,690)</u> | <u>(872,694)</u> | <u>(8,208,384)</u> | <u>(5,204,772)</u> |
| Net assets: | | | | |
| Beginning | 25,940,463 | 6,272,750 | 32,213,213 | 37,417,985 |
| Ending | <u>\$ 18,604,773</u> | <u>\$ 5,400,056</u> | <u>\$ 24,004,829</u> | <u>\$ 32,213,213</u> |

See Notes to Financial Statements.

The After-School Corporation

Statements of Functional Expenses

(with summarized comparative financial information for the year ended June 30, 2007)

Years Ended June 30, 2008 and 2007

| | 2008 | | | 2007 | |
|--|----------------------|---------------------------|-------------------|----------------------|----------------------|
| | Program Services | Management and General | Fund- raising | Total | Total |
| Salaries and related expenses: | | | | | |
| Salaries | \$ 3,724,273 | \$ 1,892,496 | \$ 256,569 | \$ 5,873,338 | \$ 5,491,545 |
| Temporary office help | 23,157 | 26,883 | - | 50,040 | 39,926 |
| Payroll taxes and fringe benefits | 685,612 | 348,395 | 47,233 | 1,081,240 | 943,610 |
| Training and development | 3,171 | 27,032 | 525 | 30,728 | 26,012 |
| Pension costs | 148,179 | 75,298 | 10,208 | 233,685 | 174,097 |
| | <u>4,584,392</u> | <u>2,370,104</u> | <u>314,535</u> | <u>7,269,031</u> | <u>6,675,190</u> |
| Total salaries and related expenses | | | | | |
| Occupancy | 1,105,724 | 328,004 | 52,146 | 1,485,874 | 911,717 |
| Telephone | 52,805 | 20,668 | 2,129 | 75,602 | 116,502 |
| Equipment rental | 84,632 | 25,106 | 3,991 | 113,729 | 128,533 |
| Insurance | 163,284 | 48,437 | 7,701 | 219,422 | 198,480 |
| Professional fees | - | 124,153 | - | 124,153 | 159,431 |
| Consultants | 130,964 | 73,342 | 15,140 | 219,446 | 220,222 |
| Contractors | 797,142 | 52,110 | - | 849,252 | 750,373 |
| Grants to community-based organizations | 16,197,635 | - | - | 16,197,635 | 22,403,671 |
| Training and other program expenses | 1,829,569 | 15,007 | 405 | 1,844,981 | 2,179,102 |
| Travel and related cost | 160,617 | 17,783 | 3,379 | 181,779 | 142,103 |
| Office supplies and expense | 316,370 | 140,327 | 9,993 | 466,690 | 675,613 |
| Depreciation and amortization | 166,707 | 49,453 | 7,862 | 224,022 | 56,402 |
| Bad debt | - | 624,125 | - | 624,125 | 43,694 |
| Miscellaneous | 33,576 | 33,076 | 1,109 | 67,761 | 73,429 |
| Donated goods and services | 113,420 | 134,831 | - | 248,251 | 576,881 |
| | <u>\$ 25,736,837</u> | <u>\$ 4,056,526</u> | <u>\$ 418,390</u> | <u>\$ 30,211,753</u> | <u>\$ 35,311,343</u> |
| Total expenses | | | | | |

See Notes to Financial Statements.

The After-School Corporation

Statements of Cash Flows

Years Ended June 30, 2008 and 2007

| | 2008 | 2007 |
|---|----------------------|----------------------|
| Cash Flows From Operating Activities: | | |
| Change in net assets | \$ (8,208,384) | \$ (5,204,772) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 224,022 | 56,402 |
| Loss on disposal of property and equipment | 13,614 | - |
| Realized losses from sale of investment | - | 4,122 |
| Donated securities | - | (249,946) |
| Bad debts | 624,125 | 43,694 |
| Changes in operating assets and liabilities: | | |
| Decrease in government grants and contracts receivable | 2,637,403 | 1,180,955 |
| Decrease in grants and contributions receivable | 3,437,335 | 19,903 |
| Decrease in due from community-based organizations | 48,864 | 87,089 |
| Decrease (increase) in prepaid expenses and other | 1,293,140 | (1,581,027) |
| Decrease in accounts payable and accrued expenses | (1,369,316) | (138,668) |
| Decrease in grants payable | (863,882) | (243,945) |
| Increase in deferred rent | 295,383 | 1,717,195 |
| Net cash used in operating activities | (1,867,696) | (4,308,998) |
| Cash Flows From Investing Activities: | | |
| Proceeds from sale of investment | - | 245,824 |
| Purchase of property and equipment | (1,601,372) | (488,677) |
| Net cash used in investing activities | (1,601,372) | (242,853) |
| Net decrease in cash and cash equivalents | (3,469,068) | (4,551,851) |
| Cash and Cash Equivalents: | | |
| Beginning | 16,081,934 | 20,633,785 |
| Ending | <u>\$ 12,612,866</u> | <u>\$ 16,081,934</u> |
| Supplemental Schedule of Noncash Investing Activities: | | |
| Leasehold improvements included in accounts payable and accrued expenses | \$ - | <u>\$ 1,419,760</u> |

See Notes to Financial Statements.

The After-School Corporation

Notes to Financial Statements

Note 1. Organization

The After-School Corporation (the "Organization") was organized under the not-for-profit corporation law of the State of New York on April 2, 1998. The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The purpose of the Organization is to enhance the quality and availability of in-school after-school programs in New York City and New York State and, eventually, across the United States.

The Organization has partnered with the public and private sectors to provide financial resources, professional development, technical assistance and advocacy to support community-based organizations in establishing and operating high quality after-school programs.

Note 2. Summary of Significant Accounting Policies

The accompanying financial statements are prepared on the accrual basis of accounting.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The Organization considers highly liquid instruments with maturities of three months or less to be cash equivalents. Cash and cash equivalents consist of money market funds (for fiscal 2007 only), sweep account (for fiscal 2008 only) and time deposits (for both fiscal 2007 and 2008). At June 30, 2008 and 2007, the Organization maintained all of its cash equivalents with two high credit quality financial institutions. The Organization has two separate cash accounts, which is in compliance with requirements from their funding sources.

The Organization maintains cash in bank accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts.

Revenue from government grants and contracts is recognized either when the services are performed or when the expenditures are incurred. Cash received prior to providing services are deferred to future periods. On a periodic basis, the Organization evaluates its government grants and contracts receivable and establishes an allowance for doubtful accounts based on a history of past write-offs and the grantor's disallowance of certain costs which the Organization deemed as unreimbursable. As of June 30, 2008, the Organization recorded an allowance for doubtful accounts amounting to \$75,000.

Unconditional promises to give are recorded as contributions receivable when the promise is received. Contributions receivable due in less than one year are recorded at their net realizable value. Contributions receivable due in one year or more are recorded at the present value of their net realizable value, using applicable risk-free interest rates at the time the promise is received.

Other contributions are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor-imposed purpose restrictions.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or

The After-School Corporation

Notes to Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

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. However, donor restricted support whose restrictions are met in the same reporting period are reported as unrestricted support.

Certain 2007 amounts have been reclassified to conform to the 2008 financial statement presentation. The reclassifications have no effect on the 2007 total assets, liabilities, net assets and change in net assets.

In July 2006, the Financial Accounting Standards Board (the "FASB") issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return. If there are changes in net assets as a result of the application of FIN 48, these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will also be required. In February 2008, the FASB delayed the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2007. In November 2008, the FASB proposed to further delay the effective date for an additional year for certain nonpublic enterprises. If the proposal is adopted as expected, the Organization will be required to adopt FIN 48 in its June 30, 2010 annual financial statements. The adoption of FIN 48 is not expected to have material impact on the Organization's financial position, change in net assets or cash flows.

Donated goods and services are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Donated goods and services are reflected as contributions and reported as expenses in the accompanying statement of activities at their estimated fair values (see Note 10).

In terms of recognizing donated services in the Organization's financial statements, such services must (a) create or enhance nonfinancial assets or (b) require specialized skills and are performed by people with those skills and would otherwise be purchased by the Organization.

Investments in equity securities with readily determinable fair values are reported at fair value with unrealized gains and losses included in the statements of activities. The Organization did not maintain any investments in equity securities during the year ended June 30, 2008. During the year ended June 30, 2007, the Organization sold its donated securities.

The Organization's policy for capitalization of property and equipment is limited to purchases of \$1,000 and more. Property and equipment is recorded at cost. Depreciation of property and equipment is provided for by the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the shorter of the estimated useful life of the asset or the term of related lease.

The costs of providing the various programs and the support services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program and supporting services.

The accompanying statements of activities and functional expenses are presented with summarized comparative information in total but not by net asset class or functional classification. Such prior-year information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's 2007 financial statements from which the summarized information was derived.

The After-School Corporation

Notes to Financial Statements

Note 3. Grants and Contributions Receivable

Grants and contributions receivable include unconditional promises to give and are due as follows at June 30:

| | <u>2008</u> | <u>2007</u> |
|--------------------------------------|---------------------|---------------------|
| Receivable due in less than one year | \$ 1,620,315 | \$ 3,700,249 |
| Receivable due in one to five years | - | 1,425,000 |
| | <u>1,620,315</u> | <u>5,125,249</u> |
| Less discount to present value | - | (67,599) |
| | <u>\$ 1,620,315</u> | <u>\$ 5,057,650</u> |

The unconditional promises to give have been adjusted for imputed interest at a rate of 4.98% as of June 30, 2007.

Note 4. Property and Equipment, Net

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

| | <u>2008</u> | <u>2007</u> | <u>Depreciation/ Amortization Period</u> |
|--|---------------------|---------------------|--|
| Leasehold improvements | \$ 3,360,442 | \$ 1,943,210 | 7 to 10 years |
| Office furniture and equipment | 32,577 | 138,706 | 5 years |
| Computer software and equipment | 277,152 | 437,282 | 3 to 5 years |
| | <u>3,670,171</u> | <u>2,519,198</u> | |
| Less accumulated depreciation and amortization | (365,768) | (578,531) | |
| | <u>\$ 3,304,403</u> | <u>\$ 1,940,667</u> | |

The After-School Corporation

Notes to Financial Statements

Note 5. Lease

Effective April 1, 2007, the Organization entered into a noncancelable operating lease agreement for its office space. The new lease will expire in September 2017. Following are the minimum future obligations under this lease agreement:

| Year ending June 30, | Amount |
|----------------------|----------------------|
| 2009 | \$ 1,357,884 |
| 2010 | 1,462,040 |
| 2011 | 1,496,759 |
| 2012 | 1,496,759 |
| 2013 | 1,496,759 |
| Thereafter | 6,854,999 |
| | <u>\$ 14,165,200</u> |

The lease is subject to escalations for the Organization's pro rata share of increases in real estate taxes and operating expenses.

Deferred rent consists of the excess of the rental expenses on a straight-line basis over the payments required by the lease plus the leasehold incentive (net of amortization).

Included in the deferred rent of \$2,012,578 in the accompanying statement of financial position at June 30, 2008 is \$1,223,419 of leasehold improvements reimbursed by the landlord. Such amount is being amortized over the life of the lease.

Rent expense under the old lease, inclusive of escalations charged to operations, amounted to \$31,196 and \$326,543 for the years ended June 30, 2008 and 2007, respectively.

During fiscal 2008, the Organization entered into sublease agreements with two not-for-profit organizations that provide for \$300,000 in annual rental income to offset the above noncancelable operating lease terminating on June 30, 2008 and 2010. For the year ended June 30, 2008, rental income generated from those sublease agreements amounted to approximately \$230,000.

The Organization has entered into a standby letter of credit with a New York financial institution in the amount of \$685,000, in lieu of providing a security deposit to the landlord, which is secured by funds maintained with the same financial institution in a separate cash sweep account.

Note 6. Pension Plan

The Organization maintains a defined contribution pension plan and contributes 6% of each eligible employee's annual compensation. For the years ended June 30, 2008 and 2007, employer contributions in connection with this plan amounted to \$233,685 and \$174,097, respectively.

The After-School Corporation

Notes to Financial Statements

Note 7. Temporarily Restricted Net Assets

Temporarily restricted net assets are restricted for the following purposes or periods at June 30:

| | <u>2008</u> | <u>2007</u> |
|---|---------------------|---------------------|
| Center for After-School Excellence ^(a) | \$ 713,313 | \$ 1,290,575 |
| Collaborative for Building After-School Systems | 1,006,611 | 1,072,250 |
| New York Times Neediest Summer Jobs/City Connection Program | 2,459,654 | 2,000,000 |
| AIM High for College Program ^(a) | 13,748 | 7,500 |
| Professional Development and Quality Enhancement Initiative | 160,000 | - |
| Community Justice Program | - | 65,000 |
| Masters of Literacy Program | - | 97,475 |
| New York Statewide After-School Network | 814,632 | 1,300,000 |
| Coalition for Science After-School | 173,432 | 238,750 |
| City Scholars Job Development | - | 25,000 |
| Science, Technology, Engineering and Math (STEM) Initiative | - | 50,000 |
| Other and time-restricted for future periods | 58,666 | - |
| | - | 126,200 |
| | <u>\$ 5,400,056</u> | <u>\$ 6,272,750</u> |

(a) In addition to the purpose restrictions, each of these temporarily restricted net assets is also time-restricted for future periods.

Net assets released from restrictions for the year ended June 30, 2008 consist of the following:

| | |
|---|---------------------|
| Center for After-School Excellence | \$ 674,862 |
| Collaborative for Building After-School Systems | 428,395 |
| New York Times Neediest Summer Jobs/City Connection Program | 1,540,346 |
| Professional Development and Quality Enhancement Initiative | 65,000 |
| AIM High for College Program | 7,500 |
| Community Justice Program | 97,475 |
| Coalition for Science After School | 25,000 |
| City Scholars Job Development | 50,000 |
| Masters of Literacy Program | 487,868 |
| NY State Afterschool Network | 123,604 |
| Science, Technology, Engineering and Math (STEM) Initiative | 100,000 |
| Other and time-restricted for future periods | 26,000 |
| | <u>\$ 3,626,050</u> |

The After-School Corporation

Notes to Financial Statements

Note 8. Related Party Transactions

Three members of the Organization's board of directors are also trustees of Open Society Institute ("OSI"). Under a service agreement with OSI, the Organization reimbursed OSI approximately \$240,000 and \$868,000 for office facilities, utilities and related facilities maintenance, security, and telephone and computer support services during the years ended June 30, 2008 and 2007, respectively.

A member of the board of directors manages a community-based organization that was awarded a grant for two different sites amounting to approximately \$184,000 and \$246,000 in fiscal years 2008 and 2007, respectively. Another member of the board of directors was the executive director of a foundation that operates two charter schools where the Organization provided direct services costing approximately \$309,000 in fiscal year 2007. Additionally, one of the Organization's officers and one of the Organization's board members are directors of an affiliate nonprofit organization that the Organization paid \$300,000 during each of the years in fiscal years 2008 and 2007, respectively, to support its advocacy related functions and rented space in the Organization's office for \$1,667 per month through June 30, 2008.

Some members of the Organization's board of directors serve as directors or managers of organizations that provide services to and/or receive grants from the Organization. The Organization's board has a conflict-of-interest policy in place that requires directors and managers to disclose all conflicts or potential conflicts. The Organization's board of directors has general oversight in the decisions made regarding grant awards and both the Organization's board of directors and managers who have potential conflicts recuse themselves when there is a potential conflict.

Note 9. Commitments and Contingencies

The Organization is involved in legal actions arising in the ordinary course of business. Management is of the opinion that the ultimate outcome of these matters would not have a material adverse impact on the financial position of the Organization or the results of its operations.

The Organization has a year-to-year service agreement with OSI, which expires each year on December 31. The service agreement provides for telephone and computer equipment support services. The minimum obligation under the service agreement for fiscal 2009 is approximately \$81,000.

Certain grants may be subject to audit by the funding sources. Such audit might result in disallowances of costs submitted for reimbursement. Management is of the opinion that such cost disallowances, if any, will not have a material effect on the accompanying financial statements. Accordingly, no amounts have been reserved in the accompanying financial statements for such potential claims.

Note 10. Donated Goods and Services

The Organization helps to implement after-school programs at various community-based organizations in New York City and it provides resources to many of those organizations. The Organization helped to obtain resources from federal funders for selected community-based organizations. Such resources also include snacks and supper meals for approximately 22,350 and 23,500 after-school participants and were provided throughout each of the years during fiscal 2008 and 2007, respectively. The value of these resources approximated \$5,007,000 and \$6,112,000 in fiscal years 2008 and 2007, respectively.

The After-School Corporation

Notes to Financial Statements

Note 10. Donated Goods and Services (Continued)

These resources were also provided directly to the community-based organizations by the federal funders. Volunteers also provided services to the community-based organizations during fiscal 2007 and the value of such services approximated \$2,000 for the year ended June 30, 2007. A commercial organization also provided sports entertainment, volunteer hours and curriculum materials to the community-based organizations during fiscal 2007 totaling approximately \$80,000.

These donated goods and services do not meet the criteria for recognition under Financial Accounting Standards Board ("FASB") No. 116, *Accounting for Contributions Received and Contributions Made* nor FASB No. 136, *Transfer of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*. The total value for the above donated goods and services in which the Organization acted as an intermediary on behalf of its sponsored community-based organizations' after-school programs and not recorded in the financial statements for the years ended June 30, 2008 and 2007 amounted to approximately \$5,007,000 and \$6,194,000, respectively.

In fiscal years 2008 and 2007, the Organization received \$248,251 and \$576,881, respectively, in goods and legal, strategic planning consulting and other professional services. Such amount has been reflected as donated goods and services in revenue and support and in program services and management and general expenses in the accompanying statements of activities.

Note 11. Significant Source of Revenue and Receivable

The Organization received grants from the NYC Department of Youth and Community Development in the amount of \$5,469,895 and \$5,349,003 for the years ended June 30, 2008 and 2007, respectively. Such grants represented 34% and 24% of government grants and contracts revenue in fiscal 2008 and 2007, respectively, and 38% and 30% of government grants and contracts receivable at June 30, 2008 and 2007, respectively.

The Organization received contract agreements from the NYC Department of Education in the amount of \$7,979,204 and \$10,426,319 for the years ended June 30, 2008 and 2007, respectively. Such contracts represented 49% and 46% of government grants and contracts revenue in fiscal 2008 and 2007, respectively, and 41% and 54% of government grants and contracts receivable at June 30, 2008 and 2007, respectively.

During the year ended June 30, 2008, the Organization received grants from two private funders totaling \$2,410,000, representing 65% of grants and contribution revenue in fiscal 2008. During the year ended June 30, 2007, the Organization received grants from two private funders totaling \$3,500,000. These grants represented 71% of grants and contribution revenue in fiscal 2007, and 84% and 98% of grants and contributions receivable at June 30, 2008 and 2007, respectively.

The After-School Corporation

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

| Federal Grantor/Program Title | CFDA Number | Federal Expenditures |
|---|------------------------|---------------------------------|
| Major program: | | |
| U.S. Department of Education: Passed through NYS Education Department and NYC Department of Education: 21st Century Community Learning Center | 84.287 | \$ 8,867,349 |
| Nonmajor programs: | | |
| Corporation for National and Community Service: Passed through NYS Office of National and Community Services and NYS Office of Children and Family Services: AmeriCorps | 94.006 | 884,330 |
| Corporation for National and Community Service: Learn and Serve | 94.004 | 301,699 |
| U.S. Department of Education: Mentoring Program: | 84.184B | 87,971 |
| U.S. Department of Justice: Office of Justice Program: Office of Juvenile Justice and Delinquency Prevention: Scholars in Training | 16.541 | <u>42,631</u> |
| | | <u>\$ 10,183,980</u> |

(1) This schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

The After-School Corporation

**Note to Schedule of Expenditures of Federal Awards
June 30, 2008**

Basis of Presentation

The accompanying schedule of expenditures of federal awards has been prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

McGladrey & Pullen

Certified Public Accountants

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
The After-School Corporation
New York, New York

We have audited the financial statements of The After-School Corporation (the "Organization") as of and for the year ended June 30, 2008, and have issued our report thereon dated December XX, 2008. 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 Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting - In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a material misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2008-02 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not considered a material weakness.

Compliance and Other Matters - As part of obtaining reasonable assurance about whether the Organization'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2008-01.

We noted certain matters that we reported to the management of the Organization in a separate letter dated December 2, 2008.

The Organization's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Organization's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, board of directors, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

New York, New York
December 2, 2008

McGladrey & Pullen

Certified Public Accountants

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

To the Board of Directors
The After-School Corporation
New York, New York

Compliance - We have audited the compliance of The After-School Corporation (the "Organization") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

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 the Organization'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. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2008-01.

Internal Control Over Compliance - The management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 the Organization's internal control over compliance.

A control deficiency in an entity's 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses, as defined above. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, board of directors, management, governmental awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

New York, New York
December 2, 2008

The After-School Corporation

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes no
- Reportable condition(s) identified that are not considered to be material weakness(es)? yes none reported

Type of auditor's report issued on compliance for major programs:

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

yes no

Identification of major program(s):

CFDA Number

84.287

Name of Federal Program or Cluster

U.S. Department of Education:
Passed through NYS Education
Department and NYC Department
of Education:
21st Century Community Learning Center

Dollar threshold used to distinguish between type A and type B programs:

\$305,519

Auditee qualified as low-risk auditee?

yes no

The After-School Corporation

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

Section II - Financial Statement Findings

Current-Year Finding

2008-02

Criteria

Internal control procedures when adequately designed and implemented include procedures that are designed to prevent a material misstatement of an account balance or disclosure in the financial statements. The absence of procedures that do not reduce to a remote possibility the likelihood that a deficiency or combination of deficiencies to detect material misstatements is considered to be a significant deficiency under paragraph 5.12(a) of the reporting standards for financial audits under *Government Auditing Standards*.

Condition

We noted that the fiscal 2008 schedule of expenditures of federal awards did not reflect all the expenses incurred in connection with one of the Organization's federal grants (i.e., Learn and Serve). It leaves the potential for federally funded programs to be classified as a non-major program and not tested as required under the guidelines of OMB Circular A-133. Additionally, during our review of the Organization's final billings for its 21st Century Community Learning Center program to the New York City Department of Education ("NYC DOE"), we noted that the finance department's records were not in agreement with the department of grants and contracts final billings to the NYC DOE. The Organization's finance department had not recorded approximately \$161,000 in billings for two of its NYC DOE sites, leaving the potential for understatement of its revenue and federally funded amounts reflected in the schedule of expenditures of federal awards. The schedule of expenditures of federal awards was subsequently corrected and the required audit adjustments were made.

Cause and effect

The Organization's timely closing of their books and records at year-end are contingent on the final reports submitted by the community-based organizations ("CBOs") that receives grant awards from the Organization. Although the Organization stresses to the CBOs the importance of timely filing of final reports. Once the final reports are submitted by the CBOs, the Organization's programs and/or grants personnel performs their review process and, if an adjustment needs to be recorded, it would be at that time.

Recommendation

We recommend that the Organization reevaluate its procedures and levels of review performed by individuals not handling the maintenance of the grant records to ensure it captures all the expenses recorded in its sub-systems used to track the expenses incurred for each of its federally funded grants and be able to identify all major programs properly at year-end. Additionally, we recommend that the Organization reevaluate the final review process of the billings maintained by the grants and contracts department and finance department to ensure that both departments' records are in agreement.

The After-School Corporation

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

Management's response

Our ability to estimate and record expenses under our grants is highly dependent on the timely receipt of information from our sub-grantees. During 2008, we made tremendous improvements in the timeliness on the reports from our CBO grantees with all reports received by the end of August. Once the reports are received, they must be reviewed and then final payments can be made. In the course of the final review, we identified \$33,895 of additional expenses in connection with one grant. As this occurred subsequent to the close of the financial statements, the auditors were informed. Additionally, the auditors identified approximately \$161,000 in unrecorded NYC DOE revenue and the Organization recorded the necessary adjustment to its books and records.

The new accounting system will facilitate the collection of expenses, improving the final review process, and guard against these matters occurring in the future.

Upon completion of the audited financial statements for the years ended June 30, 2005, 2006 and 2007 on April 17, 2006, January 23, 2007 and December 14, 2007 by Goldstein Golub Kessler, LLP ("GGK"), independent accountants, certain of whose partners became partners of McGladrey & Pullen, LLP effective October 3, 2007, various reportable conditions in the schedule of findings and questioned costs were communicated to the Organization's management. The Organization's management during fiscal 2008 has taken corrective actions.

Prior-Year Findings

None

The After-School Corporation

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

Section III - Federal Award Findings and Questioned Costs

Current-Year Findings

2008-01

Criteria

Pass-through entities should monitor the activities of sub-recipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

Identify and provide the sub-recipients with the federal award information (e.g., CFDA title and number, award name, name of federal agency, amount of award) and any applicable compliance requirements.

Inquire of sub-recipients whether the sub-recipients received and expended federal funding of \$500,000 or more and ensure that sub-recipients have met the necessary audit requirements. Match the federal award information maintained in the pass-through entity's books and records to the sub-recipient's OMB Circular A-133 schedule of expenditures of federal awards (for those sub-recipients provided with and expending \$500,000 or more in federal awards during the sub-recipient's fiscal year). Issue a management decision on audit findings within six months after receipt of the sub-recipient's audit report and ensure that the sub-recipient takes appropriate and timely corrective action under paragraph D.4 (d).

Condition

The Organization does not identify and provide the specific federal award information (e.g., CFDA title and number, award name, name of federal agency, amount of award) and any applicable compliance requirements to each of its sub-recipients. Additionally, the Organization does not inquire of sub-recipients whether the sub-recipients received and expended federal funding of \$500,000 or more during its fiscal year. The Organization requires sub-recipients to submit an annual audit report for application or re-application of grants before grant is awarded, but does not specifically request copies of the OMB Circular A-133 audit report to ensure that the federal award information maintained in the Organization's books and records agrees with the information reported on the sub-recipient's schedule of expenditures of federal awards. Also, the Organization currently does not review these audit reports to verify any findings and questioned costs or any significant deficiencies and material weaknesses as well as follow up with the sub-recipients regarding any corrective action plan implemented.

Cause and effect

The Organization awards grants from federal funds to sub-recipients. Audit reports for these sub-recipients are not reviewed to ensure that sub-recipients have met audit requirements, the federal award information reported on the sub-recipient's schedule of expenditures of federal awards is in agreement with the Organization's books and records and whether there are any findings and questioned costs related to the grant award.

The After-School Corporation

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

Recommendation

We recommend that the Organization enhance its sub-recipient monitoring procedures to identify and provide specific federal award information (e.g., CFDA title and number, award name, name of federal agency, amount of award) and any applicable compliance requirements for each of its sub-recipients. The Organization should also inquire of whether sub-recipients received and expended federal funding of \$500,000 or more during its fiscal year and ensure that sub-recipients have met the necessary audit requirements. Additionally, the Organization should specifically request copies of the OMB Circular A-133 audit report and review the sub-recipient's audited financial statements and schedule of expenditures of federal awards to ensure that the federal award information pertaining to the federal funds granted by the Organization is in agreement with the Organization's books and records. Also, the Organization should review any findings and questioned costs and communicate with the sub-recipient regarding its corrective action plans to be implemented in addressing any significant deficiencies or material weaknesses identified.

Management's response

We acknowledge that we have not specifically requested that sub-recipients provide an A-133 audit report. Going forward, we will require that any organization that receives federal funds from us provide their A-133 audit report, if applicable. We will also ask sub-recipients to provide us with updated financial statements when they are issued.

The Organization takes seriously its obligation to monitor its sub-recipients. Financial statements are a required submission with every renewal for funding, and we will be more proactive about ensuring that current financial statements are received and reviewed. The Organization also requires a copy of each sub-recipient's New York City VENDEX filing, which verifies that the organization is in good standing for city contracts. Additionally, we perform detailed expense report monitoring to ensure that all sub-recipient spending is consistent with grant requirements. Beginning in fiscal 2008, we systematically notified all of our federally funded sub-recipients of the source of their funding to facilitate their compliance with federal funding requirements.

The After-School Corporation

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

Prior-Year Findings

2007-01

Criteria

Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, should be based on documented payrolls approved by a responsible official of the Organization. The distribution of salaries and wages to awards must be supported by personnel activity reports. The absence of personnel activity reports to support direct time charged to a federal program is considered to be a reportable condition under paragraph 5.13(i).

Condition

The Organization's employees record and track time spent on specific tasks and programs on a time sheet. The Organization receives and expends federal funds from various federal agencies. Amounts submitted for reimbursement from some federal agencies are not always in agreement with the actual time tracked on the time sheet report.

Cause and effect

Management appears to initially charge the grant awards, salaries based on budget allocations and later adjusted salaries and wages through subsequent reporting submitted to the funding agency to reflect actual time spent. However, the adjusted reporting did not always reflect the actual time tracked on the time sheet report, only for those individuals not 100% charged to the federally funded programs. This could result in understating or overstating salary and wage expenditures charged to specific federally funded programs.

Recommendation

The Organization should ensure that actual time spent by staff is used for all salaries and wages reported to the federal, state and local government funding agencies. Federal requirements mandate that actual time spent working on the programs be recorded in a report format at least once per month in accordance with OMB Circular A-122, Attachment B.

Management's response

The Organization implemented in a new time sheet system in June 2006. Additionally, the Organization hired both a Director of Human Resources and Administration and a Director of Grants and Contracts during fiscal 2007. These positions had not been filled for the entire year and now going forward both of these individuals will work together to ensure better accuracy of the actual time being tracked and spent on federally funded programs to avoid submitting adjustments to the funding agencies. The total time incurred by the Organization's staff in conjunction with working on the federally funded programs exceeded the budgeted amounts, therefore alleviating any potential risk of future cost disallowances.

The After-School Corporation

Schedule of Findings and Questioned Costs

Year Ended June 30, 2008

Current-year status

The Organization utilizes a time sheet system in fiscal year 2008 and the Director of Grants position was filled for the entire fiscal year. The time entered by the employees is recorded in the database that is used to prepare the reports submitted to the funding agencies. Certain instances still exist in which employees do not properly code their time to the federally funded programs and estimates were used to allocate the time to these federally funded programs as reflected in the database records.