

Classroom, Inc.

Financial Statements

June 30, 2015 and 2014

Independent Auditors' Report

Board of Directors Classroom, Inc.

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Classroom, Inc. as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

O'Connor Davies, LLP

October 13, 2015

O'CONNOR DAVIES, LLP

665 Fifth Avenue, New York, NY 10022 | Tel: 212.286.2600 | Fax: 212.286.4080 | www.odpkf.com

Classroom, Inc.

Statements of Financial Position

	June 30	
	<u>2015</u>	<u>2014</u>
ASSETS		
Cash	\$ 3,323,010	\$ 4,623,328
Pledges receivable, net	1,009,506	1,486,355
Fees and other receivables, net	277,614	361,672
Product inventories	309,085	357,078
Prepaid expenses and other assets	170,180	99,266
Endowment cash equivalent	250,000	250,000
Property and equipment, net	82,770	25,633
Product development, net	<u>2,064,248</u>	<u>1,668,567</u>
	<u>\$ 7,486,413</u>	<u>\$ 8,871,899</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 304,250	\$ 285,880
Deferred rent payable	48,762	73,896
Deferred revenue	<u>37,281</u>	<u>49,773</u>
	<u>390,293</u>	<u>409,549</u>
Net Assets		
Unrestricted	4,471,609	4,379,934
Temporarily restricted	2,374,511	3,832,416
Permanently restricted	<u>250,000</u>	<u>250,000</u>
Total Net Assets	<u>7,096,120</u>	<u>8,462,350</u>
	<u>\$ 7,486,413</u>	<u>\$ 8,871,899</u>

See notes to financial statements

Classroom, Inc.

Statements of Activities

	Year Ended June 30							
	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE								
Contributions								
Individuals	\$ 218,560	\$ 530,927	\$ -	\$ 749,487	\$ 502,423	\$ 1,019,062	\$ -	\$ 1,521,485
Foundations and trusts	868,277	1,045,837	-	1,914,114	736,393	3,834,918	-	4,571,311
Corporations	8,821	85,479	-	94,300	13,530	11,361	-	24,891
NYS Education Department	650	271,454	-	272,104	-	220,639	-	220,639
Donated goods and services	99,481	-	-	99,481	109,408	-	-	109,408
Fees	257,046	-	-	257,046	292,018	-	-	292,018
Interest and dividends	5,979	-	-	5,979	6,765	-	-	6,765
Other revenue	18,342	-	-	18,342	18,944	-	-	18,944
Net assets released from restrictions	<u>3,391,602</u>	<u>(3,391,602)</u>	<u>-</u>	<u>-</u>	<u>2,759,878</u>	<u>(2,759,878)</u>	<u>-</u>	<u>-</u>
Total Support and Revenue	<u>4,868,758</u>	<u>(1,457,905)</u>	<u>-</u>	<u>3,410,853</u>	<u>4,439,359</u>	<u>2,326,102</u>	<u>-</u>	<u>6,765,461</u>
EXPENSES								
Educational Programs								
Direct support to schools	2,126,245	-	-	2,126,245	1,959,999	-	-	1,959,999
Curriculum development	842,878	-	-	842,878	619,144	-	-	619,144
Research and assessment	<u>337,897</u>	<u>-</u>	<u>-</u>	<u>337,897</u>	<u>180,674</u>	<u>-</u>	<u>-</u>	<u>180,674</u>
Total Educational Programs	3,307,020	-	-	3,307,020	2,759,817	-	-	2,759,817
Management and general	854,554	-	-	854,554	948,284	-	-	948,284
Fundraising	<u>615,509</u>	<u>-</u>	<u>-</u>	<u>615,509</u>	<u>578,464</u>	<u>-</u>	<u>-</u>	<u>578,464</u>
Total Expenses	<u>4,777,083</u>	<u>-</u>	<u>-</u>	<u>4,777,083</u>	<u>4,286,565</u>	<u>-</u>	<u>-</u>	<u>4,286,565</u>
Change in Net Assets	91,675	(1,457,905)	-	(1,366,230)	152,794	2,326,102	-	2,478,896
NET ASSETS								
Beginning of year	<u>4,379,934</u>	<u>3,832,416</u>	<u>250,000</u>	<u>8,462,350</u>	<u>4,227,140</u>	<u>1,506,314</u>	<u>250,000</u>	<u>5,983,454</u>
End of year	<u>\$ 4,471,609</u>	<u>\$ 2,374,511</u>	<u>\$ 250,000</u>	<u>\$ 7,096,120</u>	<u>\$ 4,379,934</u>	<u>\$ 3,832,416</u>	<u>\$ 250,000</u>	<u>\$ 8,462,350</u>

See notes to financial statements

Classroom, Inc.

Statement of Functional Expenses
Year Ended June 30, 2015

	Educational Programs				Management and General	Fundraising	Total
	Direct Support to Schools	Curriculum Development	Research and Assessment	Total Educational Programs			
EXPENSES							
Salaries and benefits	\$ 921,765	\$ 254,010	\$ 173,708	\$ 1,349,483	\$ 483,485	\$ 223,250	\$ 2,056,218
Professional fees	266,796	57,523	65,330	389,649	79,079	243,114	711,842
Subcontractors	215,307	-	-	215,307	-	-	215,307
Donated legal services	-	-	-	-	48,642	-	48,642
Audit	15,689	5,704	2,853	24,246	4,279	-	28,525
Occupancy fees	285,525	172,894	60,977	519,396	149,205	68,179	736,780
Office expenses	20,491	9,524	6,465	36,480	10,033	6,344	52,857
Communications	9,936	4,928	1,702	16,566	4,296	2,046	22,908
Repairs and maintenance	7,807	4,603	1,717	14,127	10,528	1,909	26,564
Depreciation and amortization	19,604	7,129	3,564	30,297	5,347	-	35,644
Amortization of Product Development	-	271,933	-	271,933	-	-	271,933
Product supplies	158,196	-	7,320	165,516	-	-	165,516
Travel and conferences	113,729	12,793	4,124	130,646	5,313	17,277	153,236
Donated printing services	43,764	-	-	43,764	4,407	2,668	50,839
Temporary help	13,021	3,060	1,470	17,551	2,630	38,829	59,010
Recruiting and hiring	4,619	2,763	1,447	8,829	2,610	1,609	13,048
Insurance	7,452	2,710	1,354	11,516	2,033	-	13,549
Fees	15,429	30,024	2,569	48,022	6,220	2,929	57,171
Bad debt	-	-	-	-	25,000	-	25,000
Software support	3,053	2,735	3,146	8,934	1,958	3,594	14,486
Other	4,062	545	151	4,758	9,489	3,761	18,008
	<u>\$ 2,126,245</u>	<u>\$ 842,878</u>	<u>\$ 337,897</u>	<u>\$ 3,307,020</u>	<u>\$ 854,554</u>	<u>\$ 615,509</u>	<u>\$ 4,777,083</u>

See notes to financial statements

Classroom, Inc.

Statement of Functional Expenses
Year Ended June 30, 2014

	Educational Programs				Management and General	Fundraising	Total
	Direct Support to Schools	Curriculum Development	Research and Assessment	Total Educational Programs			
EXPENSES							
Salaries and benefits	\$ 946,045	\$ 203,456	\$ 108,978	\$ 1,258,479	\$ 583,975	\$ 322,148	\$ 2,164,602
Professional fees	227,548	36,387	16,903	280,838	42,363	103,107	426,308
Subcontractors	171,313	-	-	171,313	-	-	171,313
Donated legal services	-	-	-	-	95,029	-	95,029
Audit	14,910	5,422	2,711	23,043	4,066	-	27,109
Occupancy fees	273,137	161,572	32,175	466,884	160,789	94,416	722,089
Office expenses	20,827	9,627	6,686	37,140	11,783	8,765	57,688
Communications	13,058	6,987	1,396	21,441	7,086	4,763	33,290
Repairs and maintenance	7,011	3,803	1,437	12,251	11,394	2,254	25,899
Depreciation and amortization	5,068	1,843	921	7,832	1,382	-	9,214
Amortization of Product Development	-	138,542	-	138,542	-	-	138,542
Product supplies	109,041	-	413	109,454	-	-	109,454
Travel and conferences	109,833	13,628	717	124,178	2,929	22,026	149,133
Donated printing services	5,371	-	-	5,371	2,322	6,687	14,380
Temporary help	8,512	-	-	8,512	-	-	8,512
Recruiting and hiring	12,253	4,635	2,194	19,082	4,893	3,399	27,374
Insurance	6,327	2,301	1,151	9,779	1,725	-	11,504
Fees	22,685	27,758	1,792	52,235	7,966	1,160	61,361
Software support	1,989	763	2,613	5,365	896	5,422	11,683
Other	5,071	2,420	587	8,078	9,686	4,317	22,081
	<u>\$ 1,959,999</u>	<u>\$ 619,144</u>	<u>\$ 180,674</u>	<u>\$ 2,759,817</u>	<u>\$ 948,284</u>	<u>\$ 578,464</u>	<u>\$ 4,286,565</u>

See notes to financial statements

Classroom, Inc.

Statements of Cash Flows

	Year Ended June 30	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,366,230)	\$ 2,478,896
Adjustments to reconcile change in net assets to net cash from operating activities		
Depreciation and amortization	307,577	147,756
Donated investments	(97,441)	(311,204)
Deferred rent payable	(25,134)	2,088
Changes in operating assets and liabilities		
Pledges receivable	476,849	(677,097)
Fees and other receivables	84,058	(48,180)
Product inventories	47,993	52,997
Prepaid expenses and other assets	(70,914)	8,660
Accounts payable and accrued expenses	18,370	11,850
Deferred revenue	(12,492)	(11,336)
Net Cash from Operating Activities	(637,364)	1,654,430
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(92,781)	(25,123)
Proceeds from sale of investments	97,441	311,204
Product development costs	(667,614)	(924,178)
Net Cash from Investing Activities	(662,954)	(638,097)
Change in Cash	(1,300,318)	1,016,333
CASH		
Beginning of year	4,623,328	3,606,995
End of year	\$ 3,323,010	\$ 4,623,328

See notes to financial statements

Classroom, Inc.

Notes to Financial Statements
June 30, 2015 and 2014

1. Organization

Classroom, Inc. ("CI") is a nonprofit that helps students in high-poverty communities develop literacy and leadership skills. By creating digital learning games and curriculum set in the professional world and supporting educators in creating student-centered classrooms, we invite students to take charge of their learning.

In our learning games, students take on the role of the boss. This encourages them to read closely, think critically, and solve problems. Our research shows that students - especially those struggling with literacy - increase reading and writing achievement, find motivation in being the leader, and see for the first time a real connection between school and their futures.

In 23 years, CI has served more than 750,000 students and 12,000 teachers in school day, afterschool, and summer school programs.

Over the past three years, CI has created a suite of next generation literacy learning games, tested the games to prove efficacy, and partnered with schools in sixteen cities to deliver curriculum and educator support.

Tax Status

CI is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code and from state and local taxes under comparable laws.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash

Cash includes cash on hand, and cash held in checking and savings accounts.

Classroom, Inc.

Notes to Financial Statements
June 30, 2015 and 2014

2. Summary of Significant Accounting Policies (continued)

Contributions, Fees and Other Receivables

Contributions are recorded as revenue at the time of receipt of the unconditional pledge of cash or other assets. Contributions are considered available for unrestricted use, unless the donors restrict the use thereof based on a time or purpose restriction, either on a temporary or permanent basis. Contributions to be received after one year are discounted at an appropriate interest rate, commensurate with the risk involved.

Some contributions are for the express and limited purpose of supporting the delivery of CI products and services to individual schools and/or districts. In addition, CI receives some revenue from schools and districts in exchange for the provision of products and services. In each such case, revenues received in advance are recorded as deferred revenue and receivables until the related product is delivered and the services are performed, at which time they are shown as revenue.

Donated securities are recorded at fair value at the date of the gift and are generally sold immediately upon receipt by CI.

Interest and dividend income are recognized as unrestricted, temporarily restricted or permanently restricted in accordance with donors' intentions.

CI's management periodically evaluates receivable balances to determine whether an allowance for doubtful accounts should be established to cover amounts determined to be uncollectible. At June 30, 2015 and 2014, no such allowance was considered necessary.

Product Inventories

Product inventories consist primarily of printed learning materials and other educational supplies to be supplied to schools and other educational organizations and are valued at the lower of cost or market, using the average cost method of valuation.

Costs incurred to ship product inventories to program participants are expensed as incurred. These costs are reported as "direct support to schools" expense in the accompanying statements of activities.

Property and Equipment

Property and equipment are stated at cost at the time of purchase; or at fair value at the date of donation. Leasehold improvements are capitalized, whereas the costs of repairs and maintenance are expensed as incurred.

Depreciation is provided using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 7 years. Leasehold improvements are amortized over the remaining term of the respective lease or the useful life of the improvement, whichever is shorter.

Classroom, Inc.

Notes to Financial Statements
June 30, 2015 and 2014

2. Summary of Significant Accounting Policies (*continued*)

Product Development

During fiscal year 2012, CI started a project to web-enable three simulations, which was completed during fiscal year 2014. During fiscal 2013, CI started to develop *After the Storm*, the first in a suite of middle school-level learning games and related curriculum materials. CI capitalizes only direct labor costs associated with the web-enabling and development of these products. Amortization of these costs will commence upon completion of each project using the straight-line method over the estimated useful lives of 3 to 7 years. As of June 30, 2015 and 2014, accumulated amortization was \$410,475 and \$138,542 on products completed.

Net Asset Presentation

CI reports information regarding its financial position and activities according to three classes of net assets based on donor restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets represent those resources that are not subject to donor-imposed restrictions and are fully available, at the discretion of the Board of Directors and management, for CI to utilize in any of its programs or supporting services.

Temporarily restricted net assets represent those resources that have been restricted by donors for specific purpose or time frame. When a donor's time-restriction expires or a purpose-restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying statements of activities as "net assets released from restrictions."

Permanently restricted net assets represent those resources that have been restricted by donors to be held and invested in perpetuity.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services in reasonable ratios determined by management.

Accounting for Uncertainty in Income Taxes

CI recognizes the effect of income tax positions only when they are more likely than not to be sustained. Management has determined that CI had no uncertain tax positions that would require financial statement recognition or disclosure. CI is no longer subject to examinations by the applicable taxing jurisdictions for the periods prior to 2012.

Reclassifications

Certain 2014 amounts have been reclassified to conform to the 2015 financial statement presentation. The reclassifications had no effect on the 2014 total assets, total liabilities, total net assets or change in net assets.

Classroom, Inc.

Notes to Financial Statements
June 30, 2015 and 2014

2. Summary of Significant Accounting Policies *(continued)*

Subsequent Events Evaluation by Management

Management has evaluated subsequent events for disclosure and/or recognition in the financial statements through the date that the financial statements were available to be issued, which is October 13, 2015.

3. Pledges Receivable

Pledges receivable are shown in the accompanying statements of financial position net of discounts to present value. Gross pledges of \$1,024,340 and \$1,516,611 at June 30, 2015 and 2014, with payments due in future years, were discounted to present value using a discount rate ranging from 2.2% to 3.8%. Pledge receivables are due as follows at June 30:

	<u>2015</u>	<u>2014</u>
Less than one year	\$ 619,340	\$ 816,611
Two to five years	<u>405,000</u>	<u>700,000</u>
	1,024,340	1,516,611
Discount to present value	<u>(14,834)</u>	<u>(30,256)</u>
	<u>\$ 1,009,506</u>	<u>\$ 1,486,355</u>

4. Property and Equipment

At June 30, 2015 and 2014 property and equipment consisted of the following:

	<u>2015</u>	<u>2014</u>
Leasehold improvements	\$ 586,399	\$ 586,399
Equipment, web design and salesforce	319,370	253,899
Furniture and fixtures	<u>1,200</u>	<u>1,200</u>
	906,969	841,498
Accumulated depreciation and amortization	<u>(824,199)</u>	<u>(815,865)</u>
	<u>\$ 82,770</u>	<u>\$ 25,633</u>

There was \$27,310 of fully depreciated assets disposed of and written off during fiscal year 2015. There were no assets disposed of during fiscal year 2014.

5. Concentration of Credit Risk and Other

Financial instruments that potentially subject CI to concentrations of credit risk consist principally of receivables, which are expected to be collected in the normal course of business, and cash. CI maintains its cash in bank deposits in one financial institution. At times, these accounts exceeded the federal insurance limits during fiscal 2015 and 2014, and subjected CI to a concentration of credit risk. CI has not experienced any losses in such accounts and believes that it is not exposed to any significant credit risk on uninsured cash.

Classroom, Inc.

Notes to Financial Statements
June 30, 2015 and 2014

6. Temporarily Restricted Net Assets

Temporarily restricted net assets with time and purpose restrictions at June 30 are as follows:

	<u>2015</u>	<u>2014</u>
Purpose Restricted		
Direct Support to Schools		
New York	\$ 317,181	\$ 399,849
National Urban Districts	23,000	7,680
Research	69,241	84,012
Curriculum Development		
Product Development	736,139	1,627,346
Dissemination of new games	305,151	-
Capacity building	<u>634,421</u>	<u>1,197,647</u>
	2,085,133	3,316,534
Time restricted	<u>289,378</u>	<u>515,882</u>
	<u>\$ 2,374,511</u>	<u>\$ 3,832,416</u>

At June 30, 2015 and 2014 approximately \$815,000 and \$1,082,000 of purpose-restricted amounts are also time-restricted.

Net assets were released from donor restrictions during the years ended June 30, which satisfied the restricted purposes specified by the donors or the passage of time as follows:

	<u>2015</u>	<u>2014</u>
Purpose Restricted		
Direct Support to Schools		
New York	\$ 523,265	\$ 570,939
National Urban Districts	79,071	61,743
Research	84,104	65,182
Curriculum Development		
Product Development	672,872	754,060
Dissemination of New Games	482,366	-
Capacity building	1,024,180	778,605
New York State Education Department - 21st Century Community Learning Centers	<u>271,454</u>	<u>220,639</u>
	3,137,312	2,451,168
Time restricted	<u>254,290</u>	<u>308,710</u>
	<u>\$ 3,391,602</u>	<u>\$ 2,759,878</u>

Classroom, Inc.

Notes to Financial Statements
June 30, 2015 and 2014

7. Endowment Funds

The endowment consists entirely of individual donor-restricted funds, in the amount of \$250,000, established for a variety of purposes. CI does not have any funds designated by the Board of Directors to function as an endowment.

The Board of Directors has interpreted the New York State Uniform Management of Institutional Funds Act ("NYPMIFA") as requiring the preservation of the historic dollar value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

Interpretation of Relevant Law

As a result of this interpretation, CI classifies as permanently restricted nets assets:

- The original value of gifts and subsequent gifts donated to the permanent endowment, and
- Accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Changes in Endowment Net Assets

There were no changes in the endowment net assets during fiscal years 2015 and 2014. At June 30, 2015, the endowment net assets were held by CI in a savings account.

Return Objectives and Risk Parameters

CI has adopted an investment approach for endowment assets that attempts to preserve the principal of the endowment assets. Under this approach, as approved by the Board of Directors, the endowment assets are invested in a prudent manner that is intended to preserve the principal, with a moderate rate of return, and a moderate level of investment risk.

Strategies Employed for Achieving Objectives

During fiscal years 2015 and 2014, CI's endowment assets are cash-based investments in an effort to preserve the capital. CI continually assesses market conditions and, at the appropriate time, will exercise prudent management to meet its long-term investment objective of diversifying its assets and achieving investment returns through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

Classroom, Inc.

Notes to Financial Statements
June 30, 2015 and 2014

7. Endowment Funds *(continued)*

Spending Policy

CI received donations that are restricted by donors to be held and invested in perpetuity. The principal is restricted. The net capital appreciation/depreciation, interest and dividends are unrestricted. CI's permanently restricted net assets are invested in a savings account. The interest and dividends are transferred to CI's checking account to support general operations.

8. Donated Goods and Services

CI recorded revenues and corresponding expenses or product inventories for donated printing services and donated legal services during fiscal years 2015 and 2014, which are reported in the accompanying financial statements at their estimated fair values. Contribution of services is recognized if the services rendered (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing these skills that would typically need to be purchased if not provided by donation.

In addition, a number of members of the Board of Directors have donated significant amounts of their time to CI's program services and supporting services. No amounts have been reported in the accompanying financial statements for these donated services, as they do not meet the criteria for recognition under U.S. GAAP.

9. Employee Benefit Plan

CI maintains a defined-contribution 403(b) retirement plan (the "Plan") that provides benefits for substantially all of its employees. CI contributes an amount equal to 3% of each eligible participating employee's compensation to the Plan. If an employee also makes contributions to the Plan, CI will match the employee's contributions up to an additional 2% of compensation, as defined by the Plan. The maximum employer contribution is 5%. Contributions to the Plan for the years ended June 30, 2015 and 2014 were approximately \$78,000 and \$76,000.

10. Commitments

CI's non-cancelable operating lease for its office space will expire on December 31, 2018, with an option to renew for an additional five years. In addition to base rent, the lease obligates CI to pay a portion of the building's real estate taxes and electricity.

Minimum future lease payments under the lease agreement are payable as follows:

2016	\$ 665,227
2017	681,858
2018	698,904
2019	353,766
	<u>\$2,399,755</u>

Classroom, Inc.

Notes to Financial Statements
June 30, 2015 and 2014

10. Commitments (continued)

Deferred rent payable of \$48,762 and \$73,896 at June 30, 2015 and 2014 is the difference between the cumulative amounts recorded for occupancy fees on a straight-line basis over the term of the leases, as compared to the cumulative required amounts paid under the leases as of June 30, 2015 and 2014.

Rent expense was approximately \$646,000 and \$647,000 for the years ended June 30, 2015 and 2014.

CI has also entered into operating lease agreements for its office equipment. Minimum future lease payments under these lease agreements for the year ending June 30, 2016 are \$8,246.

Lease expense under the equipment agreements was \$12,627 and \$10,678 for the years ended June 30, 2015 and 2014.

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