



**FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
TOGETHER WITH
INDEPENDENT AUDITOR'S REPORT**

BPE
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JUNE 30, 2014 AND 2013

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Where Every Client Is A Valued Client

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
BPE:

Report on the Financial Statements

We have audited the accompanying financial statements of BPE (a Massachusetts trust, not for profit) which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of unrestricted activities, changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the 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 BPE as of June 30, 2014 and 2013, 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.

Boston, Massachusetts
October 24, 2014

BPE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2014 AND 2013

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,097,525	\$ 1,262,270
Grants and contributions receivable	2,310,776	3,094,115
Funds held for others	552,443	241,883
Prepaid expenses	21,914	21,125
	<hr/>	<hr/>
Total current assets	5,982,658	4,619,393
LONG-TERM GRANTS RECEIVABLE, net	2,898,075	3,799,171
SECURITY DEPOSIT	72,450	72,450
PROPERTY AND EQUIPMENT, net	193,740	226,963
	<hr/>	<hr/>
Total assets	<u>\$ 9,146,923</u>	<u>\$ 8,717,977</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 887,708	\$ 1,226,743
Funds held for others	552,443	241,883
	<hr/>	<hr/>
Total current liabilities	1,440,151	1,468,626
DEFERRED RENT	216,384	113,022
	<hr/>	<hr/>
Total liabilities	<u>1,656,535</u>	<u>1,581,648</u>
NET ASSETS:		
Unrestricted:		
Operating	2,570,064	1,201,330
Property and equipment	193,740	226,963
	<hr/>	<hr/>
Total unrestricted	2,763,804	1,428,293
Temporarily restricted	4,726,584	5,708,036
	<hr/>	<hr/>
Total net assets	<u>7,490,388</u>	<u>7,136,329</u>
Total liabilities and net assets	<u>\$ 9,146,923</u>	<u>\$ 8,717,977</u>

The accompanying notes are an integral part of these statements.

BPE**STATEMENTS OF UNRESTRICTED ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
UNRESTRICTED OPERATING REVENUE:		
Federal grants	\$ 5,954,864	\$ 4,538,318
Grants and contributions	1,580,972	2,075,976
State and local grants	964,600	742,898
In-kind services	143,668	83,950
Interest and other	125,953	86,708
Unrestricted operating revenue	<u>8,770,057</u>	<u>7,527,850</u>
Net assets released from restrictions	1,803,823	1,342,819
Total unrestricted operating revenue	<u>10,573,880</u>	<u>8,870,669</u>
OPERATING EXPENSES:		
Payroll and related:		
Salaries	3,470,486	2,835,478
Payroll taxes and fringe benefits	749,661	692,847
Total payroll and related	<u>4,220,147</u>	<u>3,528,325</u>
U.S. Department of Education Teacher Quality Partnership grants to subrecipients	<u>1,695,952</u>	<u>1,774,450</u>
Other expenses:		
Resident stipends and benefits	1,137,625	1,017,487
Consultants and contracted services	1,051,539	1,366,061
Occupancy	377,007	374,465
Program support and supplies	271,687	266,581
Professional fees	105,925	150,175
Dues and software subscriptions	89,188	71,468
Miscellaneous	66,590	124,363
Training, conferences and events	60,817	34,802
Minor equipment and maintenance	56,096	134,455
Depreciation	37,550	30,947
Office supplies	21,441	20,022
Travel	16,281	16,677
Advertising	14,734	32,005
Insurance	8,242	6,240
Printing and postage	7,548	8,150
Total other expenses	<u>3,322,270</u>	<u>3,653,898</u>
Total operating expenses	<u>9,238,369</u>	<u>8,956,673</u>
Changes in unrestricted net assets from operations	1,335,511	(86,004)
LOSS ON DISPOSAL OF PROPERTY AND EQUIPMENT	<u>-</u>	<u>(55,520)</u>
Changes in unrestricted net assets	<u>\$ 1,335,511</u>	<u>\$ (141,524)</u>

The accompanying notes are an integral part of these statements.

BPE**STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL</u>
NET ASSETS, June 30, 2012	<u>\$ 1,569,817</u>	<u>\$ 1,453,795</u>	<u>\$ 3,023,612</u>
Unrestricted operating revenue	7,527,850	-	7,527,850
Temporarily restricted grants and contributions	-	5,597,060	5,597,060
Net assets released from restrictions	1,342,819	(1,342,819)	-
Total operating expenses	(8,956,673)	-	(8,956,673)
Loss on disposal of property and equipment	<u>(55,520)</u>	<u>-</u>	<u>(55,520)</u>
Changes in net assets	<u>(141,524)</u>	<u>4,254,241</u>	<u>4,112,717</u>
NET ASSETS, June 30, 2013	<u>1,428,293</u>	<u>5,708,036</u>	<u>7,136,329</u>
Unrestricted operating revenue	8,770,057	-	8,770,057
Temporarily restricted grants and contributions	-	822,371	822,371
Net assets released from restrictions	1,803,823	(1,803,823)	-
Total operating expenses	<u>(9,238,369)</u>	<u>-</u>	<u>(9,238,369)</u>
Changes in net assets	<u>1,335,511</u>	<u>(981,452)</u>	<u>354,059</u>
NET ASSETS, June 30, 2014	<u><u>\$ 2,763,804</u></u>	<u><u>\$ 4,726,584</u></u>	<u><u>\$ 7,490,388</u></u>

The accompanying notes are an integral part of these statements.

BPE**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 354,059	\$ 4,112,717
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	37,550	30,947
Change in discount on grants receivable	(68,904)	200,829
Loss on disposal of property and equipment	-	55,520
Changes in operating assets and liabilities:		
Grants and contributions receivable	783,339	(471,246)
Prepaid expenses	(789)	34,149
Long-term grants receivable	970,000	(4,000,000)
Accounts payable and accrued expenses	(322,500)	197,176
Deferred rent	103,362	104,926
Net cash provided by operating activities	1,856,117	265,018
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(20,862)	(5,490)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,835,255	259,528
CASH AND CASH EQUIVALENTS, beginning of year	1,262,270	1,002,742
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 3,097,525</u>	<u>\$ 1,262,270</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cost basis of fully depreciated property and equipment disposed	\$ -	\$ 232,199
Purchases of property and equipment included in accounts payable	\$ -	\$ 16,535

The accompanying notes are an integral part of these statements.

BPE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2014 AND 2013

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS AND NONPROFIT STATUS

BPE is a nonprofit trust formed in Massachusetts on September 7, 1984. BPE's purpose is to drive exceptional outcomes for all students in public schools located in Boston, Massachusetts and surrounding areas by developing great teachers and great schools. BPE prepares and supports diverse groups of talented teachers for Boston's schools and partners to create strong schools where teachers can do their best work and for students to learn at their highest potential.

BPE is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). BPE is also exempt from state income taxes. Donors may deduct contributions made to BPE within the requirements of the IRC.

SIGNIFICANT ACCOUNTING POLICIES

BPE prepares its financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Cash and Cash Equivalents

Cash and cash equivalents include checking and money market accounts. For the purposes of the statements of cash flow, management considers all highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents.

As of June 30, 2014 and 2013, cash balances of \$489,509 and \$558,865, respectively, were restricted by grantors for a specific use.

Estimates

The preparation of financial statements in accordance with U.S. GAAP 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. Actual results could differ from those estimates.

Property and Equipment and Depreciation

Property and equipment having a value of \$1,000 or more and a useful life of at least one year are capitalized. Depreciation of property and equipment is computed using the straight-line method over the following estimated useful lives:

Furniture and fixtures	7 years
Computer equipment	3 - 5 years
Leasehold improvements	Term of lease

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair value at the date of receipt by BPE.

BPE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

ASC Topic, *Fair Value Measurements*, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This guidance only applies when the fair value measurement of assets and liabilities is required or permitted. BPE has determined that none of its financial or nonfinancial assets or liabilities is measured at fair value; therefore, the disclosure requirements do not currently apply.

Revenue Recognition

Grants and contributions pledged or received with donor stipulations that limit the use of the donated assets are recorded as temporarily restricted support. When a donor-stipulated time restriction ends or purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of unrestricted activities and statements of changes in net assets as net assets released from restrictions. Temporarily restricted net assets received and released from restrictions in the same year are recorded as unrestricted revenue.

Federal grant revenue is recorded as services are provided and costs are incurred. All other revenue is recorded when earned.

Net Assets

Unrestricted:

Unrestricted net assets are those net resources that bear no external restrictions and are generally available for use by BPE. BPE has grouped its unrestricted net assets into the following categories:

Operating net assets represent net assets that are available for operations.

Property and equipment net assets represent amounts expended for property and equipment.

Temporarily Restricted:

Temporarily restricted net assets are those amounts received with outside restrictions that have not yet been expended for their designated purpose or the time has not yet elapsed. As of June 30, 2014 and 2013, temporarily restricted net assets are restricted as follows:

	<u>2014</u>	<u>2013</u>
Time	\$4,257,316	\$5,014,171
Purpose	<u>469,268</u>	<u>693,865</u>
	<u>\$4,726,584</u>	<u>\$5,708,036</u>

BPE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

(1) **OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES**
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Temporarily Restricted: (Continued)

Net assets released from restrictions consist of the following for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Time	\$1,419,000	\$ 325,201
Purpose	<u>384,823</u>	<u>1,017,618</u>
	<u>\$1,803,823</u>	<u>\$1,342,819</u>

Expense Allocation

Expenses related directly to a program are distributed to that program, while other expenses are allocated based upon management's estimate of the percentage attributable to each program. Expense allocations for the years ended June 30, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
Program	\$7,438,897	\$7,387,257
General and administrative	1,426,111	1,230,874
Fundraising	<u>373,361</u>	<u>338,542</u>
	<u>\$9,238,369</u>	<u>\$8,956,673</u>

Advertising Costs

Advertising costs are expensed as incurred by BPE.

Allowance for Doubtful Accounts

An allowance for potentially uncollectible grants and contributions receivable is provided based upon management's assessment of potential defaults. This assessment includes such factors as collection history and type of receivable. No allowance was deemed necessary as of June 30, 2014 and 2013.

In-kind Services

BPE received donated legal and consulting services in fiscal years 2014 and 2013. The value of these services, as assigned by the donors, totaled \$143,668 and \$83,950, respectively, and are included in consultants and contracted services and professional fees in the accompanying statements of unrestricted activities.

Funds Held for Others

BPE acts as a fiscal agent for Boston Public Schools (BPS) under certain projects. As of June 30, 2014 and 2013, funds held for others consist of amounts from two foundations for the benefit of BPS, which have not yet been spent for the intended projects.

BPE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

(1) OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting for Uncertainty in Income Tax Positions

BPE accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statement regarding a tax position taken or expected to be taken in a tax return. BPE has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at June 30, 2014 and 2013. BPE's information returns are subject to examination by the Federal and state jurisdictions and generally remain open for the most recent three years.

Grants to Subrecipients

Amounts are awarded and paid to subrecipients upon BPE's approval, review of project related expenditures by the subrecipients, and upon meeting terms and conditions outlined in the subrecipient award document.

Subsequent Events

Subsequent events have been evaluated through October 24, 2014, which is the date the financial statements were available to be issued.

(2) PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Furniture and fixtures	\$149,916	\$149,916
Computer equipment	26,424	22,097
Leasehold improvements	<u>96,856</u>	<u>96,856</u>
	273,196	268,869
Less - accumulated depreciation	<u>79,456</u>	<u>41,906</u>
	<u>\$193,740</u>	<u>\$226,963</u>

(3) FUNDING

BPE receives a significant portion of its funding from government agencies under cost reimbursable grants. These reimbursements are subject to audit by those government agencies. In the opinion of management, the results of such audits, if any, will not have a material effect on the financial position of BPE as of June 30, 2014 and 2013, and on the changes in its net assets for the years then ended. As part of the U.S. Department of Education Teacher Quality Partnership Grant Program, BPE granted funds to subrecipients as follows for the years ended June 30:

	<u>2014</u>	<u>2013</u>
University of Massachusetts, Boston	\$ 673,862	\$ 767,343
Boston Public Schools	617,484	566,799
Wheelock College	<u>404,606</u>	<u>440,308</u>
	<u>\$1,695,952</u>	<u>\$1,774,450</u>

BPE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

(4) CONDITIONAL GRANT

As of June 30, 2014, BPE has been awarded a \$500,000 conditional grant from a private foundation for fiscal year 2015. This grant is conditional upon BPE meeting certain terms of the grant award. Accordingly, this conditional grant will be recorded when the funder's conditions are met.

(5) LEASES

BPE leases office space under a lease agreement which expires in November, 2022, with an option to extend the lease for an additional five year period. As of June 30, 2014 and 2013, the monthly base rent under the lease agreement was \$26,082 and \$24,150, respectively. BPE is also responsible for its proportionate share of property taxes and certain operating expenses.

In accordance with *Accounting for Leases* under U.S. GAAP, BPE records rent expense for the operating lease agreement on a straight-line basis over the term of the lease regardless of actual cash payments. BPE has accrued \$216,384 and \$113,022 as of June 30, 2014 and 2013, respectively, of rent expense under this agreement.

Rent expense under this agreement for the years ended June 30, 2014 and 2013, was \$324,576 and \$330,372, respectively, which is included in occupancy in the accompanying statements of unrestricted activities.

BPE leases equipment under operating lease agreements with monthly payments aggregating \$1,677. These leases expire at various dates through September, 2015.

Future minimum cash payments for the next five years under the lease agreements are as follows:

<u>Year Ending June 30,</u>	<u>Office Space</u>	<u>Equipment</u>
2015	\$312,984	\$16,412
2016	\$316,848	\$ 3,639
2017	\$336,168	\$ -
2018	\$340,032	\$ -
2019	\$359,352	\$ -

(6) EMPLOYEE BENEFIT PLANS

BPE has a salary reduction plan under IRC Section 403(b), whereby eligible employees may make elective tax deferred contributions. Employee contributions vest immediately. Employees are immediately vested in BPE's contributions which are made to a separate 403(b) plan. BPE made total contributions of \$179,351 and \$175,489 for the years ended June 30, 2014 and 2013, respectively, which are included in payroll taxes and fringe benefits in the accompanying statements of unrestricted activities.

Effective July 1, 2014, BPE's retirement plans (formerly, one for employee contributions and one for employer contributions and both formed in 1989) were merged into a single plan. Based on the date of hire, BPE contributed either 5% or 10% of an employee's salary to the existing plans. Under the new plan, the employer contribution is now discretionary. Additionally, the employer contribution is now a match (100% or 200% depending on date of hire) of the employee's contribution up to 5% of their salary.

BPE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

(7) CONCENTRATIONS

BPE maintains its cash and cash equivalent balances in a bank, which is insured within the limits of the Federal Deposit Insurance Corporation (FDIC). At certain times during the year, the cash balance exceeded the insured amount. BPE has not experienced any losses in those accounts. BPE's management believes BPE is not exposed to any significant credit risk on its operating cash and cash equivalents.

Concentrations of operating revenue and grants and contributions receivable are as follows for the years ended June 30:

<u>Funder</u>	<u>2014</u>		<u>2013</u>	
	<u>Percentage of Unrestricted Operating Revenue</u>	<u>Percentage of Grants and Contributions Receivable</u>	<u>Percentage of Unrestricted Operating Revenue</u>	<u>Percentage of Grants and Contributions Receivable</u>
U.S. Department of Education	30%	17%	27%	18%
BPS	6%	1%	10%	7%
The Boston Foundation (see Note 8)	9%	4%	10%	-
The Barr Foundation	9%	74%	1%	71%

(8) ENDOWMENT FUNDS HELD BY OTHERS

BPE is the beneficiary of certain endowment funds held by The Boston Foundation (the Foundation). The Foundation has variance power over these endowments, which enables the Foundation to withhold or modify the distributions to BPE. Since there is no unconditional promise for the Foundation to grant future income or contributions from these endowments, BPE recognizes contribution revenue from these endowments when funds are received. Contributions from these endowments were as follows for the years ended June 30, 2014 and 2013, and are included grants and contributions in the accompanying statements of unrestricted activities:

	<u>2014</u>	<u>2013</u>
BankBoston 200 th Anniversary Fund	\$ 750,000	\$ 750,000
General Support Fund for Education	184,000	183,000
Support for Early Educational Development Fund	81,814	85,079
Hancock Endowment for Academics Recreation and Teaching	<u>78,922</u>	<u>82,139</u>
	<u>\$1,094,736</u>	<u>\$1,100,218</u>

The donors of the Support for Early Educational Development Fund and the Hancock Endowment for Academics Recreation and Teaching fund have specifically named BPE as the income beneficiary. The donors of the BankBoston 200th Anniversary Fund and the General Support Fund for Education have not specifically named BPE as the income beneficiary.

(9) RELATED PARTY TRANSACTIONS

One member of BPE's Board of Trustees is an employee of the bank where BPE maintains its cash accounts.

BPE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 AND 2013
(Continued)**

(9) RELATED PARTY TRANSACTIONS (Continued)

One member of BPE's Board of Trustees is also a Board member of the Foundation, which holds certain endowment funds for BPE (see Note 8).

An ex officio member of BPE's Board of Trustees is the superintendent of BPS. During fiscal years 2014 and 2013, BPE recognized revenue from BPS totaling approximately \$600,000 and \$739,000, respectively. As of June 30, 2014 and 2013, BPE had amounts due from BPS totaling approximately \$40,000 and \$350,000, respectively.

The Executive Director is a voting member of the Board of Trustees.

(10) LONG-TERM GRANTS RECEIVABLE

During fiscal year 2013, BPE received a \$5,000,000 multi-year grant from a private foundation. BPE received the first \$1,000,000 installment in fiscal year 2014. The remaining grant is due in one \$1,000,000 installment in fiscal year 2015, and \$750,000 annually thereafter through fiscal year 2019. The current portion of \$1,000,000 is included in grants and contributions receivable in the accompanying statements of financial position. In addition, during fiscal year 2014, BPE received a \$60,000 two-year grant from a private foundation due in two \$30,000 installments in fiscal years 2015 and 2016. The current portion of \$30,000 is included in grants and contributions receivable in the accompanying 2014 statement of financial position.

Long-term grants receivable are due as follows at June 30:

<u>Amounts due in:</u>	<u>2014</u>	<u>2013</u>
Less than one year	\$1,030,000	\$1,000,000
One to five years	<u>3,030,000</u>	<u>4,000,000</u>
	4,060,000	5,000,000
Less - present value discount	131,925	200,829
Less - current portion	<u>1,030,000</u>	<u>1,000,000</u>
Long-term grants receivable, net	<u>\$2,898,075</u>	<u>\$3,799,171</u>

These grants have been discounted to their net present value using a discount rate ranging from .81% to 1.8%.

(11) RECLASSIFICATION

Certain amounts in the fiscal year 2013 financial statements have been reclassified to conform to the fiscal year 2014 presentation.