

ADOPT-A-CLASSROOM, INC.

Financial Statements

June 30, 2009

ADOPT-A-CLASSROOM, INC.

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Adopt-A-Classroom, Inc.

We have audited the accompanying statement of financial position of Adopt-A-Classroom, Inc. (a nonprofit Florida corporation) as of June 30, 2009, and the related statements of activities, cash flows and functional expenses 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 financial statements of Adopt-A-Classroom, Inc. as of and for the year ended June 30, 2008, were audited by other auditors, Mahoney Cohen & Company, CPA, P.C., whose shareholders became shareholders of Mayer Hoffman McCann P.C. as of December 31, 2008, and whose report dated December 19, 2008 expressed an unqualified opinion on those statements.

We conducted our audit 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 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 Adopt-A-Classroom, Inc. as of June 30, 2009, 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.

Mayer Hoffman McCann P.C.

Miami, Florida
November 5, 2009

ADOPT-A-CLASSROOM, INC.
 Statements of Financial Position
 June 30, 2009 and 2008

	<u>ASSETS</u>	
	<u>2009</u>	<u>2008</u>
Cash	\$ 1,249,931	\$ 1,164,723
Grants and pledges receivable (Note 4)	83,333	187,216
Contribution receivable (Note 7)	377,285	488,476
Property and equipment, net (Note 5)	21,047	31,438
Artwork	2,000	2,000
Other assets	5,990	5,990
	<u>\$ 1,739,586</u>	<u>\$ 1,879,843</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$ 112,646	\$ 171,072
Accrued expenses	9,808	30,294
Total liabilities	<u>122,454</u>	<u>201,366</u>
Commitment (Note 9)		
Net assets:		
Unrestricted	381,063	673,930
Temporarily restricted	858,784	516,071
Permanently restricted (Note 7)	377,285	488,476
Total net assets	<u>1,617,132</u>	<u>1,678,477</u>
	<u>\$ 1,739,586</u>	<u>\$ 1,879,843</u>

See accompanying notes.

ADOPT-A-CLASSROOM, INC.
Statements of Activities
For the Years Ended June 30, 2009 and 2008

	2009			2008				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and revenue:								
Contributions:								
Grants and general public (Note 4)	\$ 2,035,549	\$ 567,513	\$ -	\$ 2,603,062	\$ 1,860,695	\$ 516,071	\$ -	\$ 2,376,766
Fundraising activities	66,633	-	-	66,633	-	-	-	-
Investment income	3,430	-	-	3,430	16,622	-	-	16,622
Other income	-	-	-	-	576	-	-	576
Change in present value of contribution receivable	-	-	(111,191)	(111,191)	-	-	(37,066)	(37,066)
Net assets released from restrictions:								
Satisfaction of donor restrictions	224,800	(324,800)	-	-	402,102	(402,102)	-	-
Total support and revenue	2,330,412	342,713	(111,191)	2,561,934	2,279,995	113,969	(37,066)	2,356,898
Expenses:								
Support services:								
Fundraising	77,342	-	-	77,342	25,000	-	-	25,000
Administration and management	178,728	-	-	178,728	167,875	-	-	167,875
Program services:								
Classroom adoption	2,367,209	-	-	2,367,209	1,494,298	-	-	1,494,298
Total expenses	2,623,279	-	-	2,623,279	1,687,173	-	-	1,687,173
Change in net assets	(292,867)	342,713	(111,191)	(61,345)	592,822	113,969	(37,066)	669,725
Net assets, beginning of year	673,930	516,071	488,476	1,678,477	81,108	402,102	525,542	1,008,752
Net assets, end of year	\$ 381,063	\$ 858,784	\$ 377,285	\$ 1,617,132	\$ 673,930	\$ 516,071	\$ 488,476	\$ 1,678,477

See accompanying notes.

ADOPT-A-CLASSROOM, INC.
 Statements of Cash Flows
 For the Years Ended June 30, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Change in net assets	\$ (61,345)	\$ 669,725
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,690	6,822
Change in present value of contribution receivable	111,191	37,066
Change in assets and liabilities:		
Grants and pledges receivable	103,883	139,848
Accounts payable	(58,425)	93,926
Accrued expenses	(20,486)	(52,776)
Net cash provided by operating activities	85,508	894,611
 Cash flows used in investing activities:		
Capital expenditures	(300)	(30,596)
 Net increase in cash	85,208	864,015
 Cash, beginning of year	1,164,723	300,708
 Cash, end of year	\$ 1,249,931	\$ 1,164,723

See accompanying notes.

ADOPT-A-CLASSROOM, INC.
 Statements of Functional Expenses
 For the Years Ended June 30, 2009 and 2008

	2009				2008			
	Support Services Administration and Management		Program Services	Total	Support Services Administration and Management		Program Services	Total
	Fundraising	Classroom Adoption	Fundraising		Classroom Adoption			
Payroll and related costs	\$ 15,000	\$ 25,000	\$ 262,447	\$ 302,447	\$ 25,000	\$ 25,000	\$ 176,888	\$ 226,888
Classroom purchases	-	-	1,841,520	1,841,520	-	-	1,110,945	1,110,945
Website development	-	-	60,500	60,500	-	-	59,683	59,683
Professional fees	-	86,766	68,173	154,939	76,516	76,516	61,165	137,681
Cost of fundraising	62,342	-	-	62,342	-	-	-	-
Rent	-	10,169	15,254	25,423	-	7,723	11,585	19,308
Insurance	-	13,078	19,617	32,695	-	9,659	14,489	24,148
Printed materials	-	-	46,429	46,429	-	-	-	-
Travel and entertainment	-	10,897	-	10,897	-	11,300	-	11,300
Telephone	-	970	5,497	6,467	-	727	4,117	4,844
Other	-	31,848	47,772	79,620	-	36,950	55,426	92,376
	\$ 77,342	\$ 178,728	\$ 2,367,209	\$ 2,623,279	\$ 25,000	\$ 167,875	\$ 1,494,298	\$ 1,687,173

See accompanying notes.

ADOPT-A-CLASSROOM, INC.
Notes to Financial Statements

Note 1 - Organization

Adopt-A-Classroom, Inc. (the "Organization") was incorporated in the State of Florida on February 18, 1998, as a not-for-profit corporation. The Organization serves the community by soliciting contributions from corporations, foundations and the general public for use by specific teachers in acquiring school supplies for classrooms of local community schools and for the funding of the general expenses of the Organization.

Note 2 - Basis of Presentation

The Organization prepares its financial statements in accordance with the provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under the provisions of SFAS No. 117, net assets and revenue, gains and losses are classified based on the existence or absence of donor-imposed restrictions as follows:

- Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations.
- Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Organization pursuant to those stipulations or that expire by the passage of time.
- Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

Note 3 - Summary of Significant Accounting Policies

Contributions

The Organization accounts for contributions in accordance with SFAS No. 116, "Accounting for Contributions Received and Contributions Made," which requires contributions, including unconditional promises to give, to be recognized as revenue in the period received. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions are reported as unrestricted, temporarily restricted or permanently restricted support depending on the existence or nature of any donor restrictions. The Organization considers all contributions available for unrestricted use, unless specifically restricted by donors. Restricted contributions for which restrictions are met in the same reporting period are reported as unrestricted contributions.

ADOPT-A-CLASSROOM, INC.
Notes to Financial Statements

Note 3 - Summary of Significant Accounting Policies (Continued)

Contributions (Continued)

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization receives temporarily restricted donations, which must be spent during the school year in which the donation is received or carried over to the following school year. At year-end, contributions received and not yet allocated to a classroom or not yet spent by the teacher remain as temporarily restricted net assets.

Use of Estimates

The preparation of financial statements in accordance 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 and disclosure of contingent 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.

Property and Equipment

Property and equipment is stated at cost or, if donated, at the estimated fair value at the date of donation. Depreciation is provided over the estimated useful lives of the respective assets on a straight-line basis ranging from five to seven years. Leasehold improvements are amortized over the lesser of the estimated life of the asset or the lease term.

Donations of property and equipment are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash to be used to acquire property and equipment are reported as restricted support. The Organization reports expirations of donor restrictions in accordance with the useful life of the asset placed in service when the donor stipulations are absent. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

ADOPT-A-CLASSROOM, INC.
Notes to Financial Statements

Note 3 - Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

The costs of providing the program and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated between the program and fundraising activities benefited.

Income Tax Status

The Organization is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes is required. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the Internal Revenue Code.

Note 4 - Concentrations of Credit Risk and Major Sponsors

For the year ended June 30, 2009, two sponsors accounted for 34% of total grants and pledge contributions. At June 30, 2009, one sponsor accounted for 100% of total grants and pledges receivable. Such pledges were collected subsequent to June 30, 2009.

For the year ended June 30, 2008, contributions from three sponsors accounted for 48% of total grants and pledge contributions. At June 30, 2008, grants and pledges receivable from two sponsors accounted for 87% of total grants and pledges receivable.

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The banking institution is participating in the Federal Deposit Insurance Corporation ("FDIC")'s transaction account guaranteed program. Under the program, all non-interest bearing accounts are fully guaranteed for the entire amount in the account through December 31, 2009; all other accounts are insured up to \$250,000 at June 30, 2009. At June 30, 2009, the Company had approximately \$365,000 in excess of FDIC insured limits.

ADOPT-A-CLASSROOM, INC.
Notes to Financial Statements

Note 5 - Property and Equipment

At June 30, property and equipment is summarized as follows:

	<u>2009</u>	<u>2008</u>
Computer equipment	\$ 10,230	\$ 9,931
Furniture and equipment	2,469	2,469
Leasehold improvements	<u>24,955</u>	<u>30,431</u>
	37,654	42,831
Less: Accumulated depreciation and amortization	<u>16,607</u>	<u>11,393</u>
	<u>\$ 21,047</u>	<u>\$ 31,438</u>

Note 6 - Concentrations

The Organization has an agreement with School Specialty, Inc. ("Specialty"), which gives Specialty the exclusive rights to be the resident default vendor of the Organization's website, causing "adopted teachers" to be directed to Specialty's offering as their default shopping option.

The agreement provides for a donation of 25% off Educational Essentials Catalog prices, 15% off Sax Arts and Crafts Catalog prices and a 10% donation on other specialty catalogs. These donations are used by the Organization to cover administrative expenses.

During the year ended June 30, 2009, purchases from two major vendors amounted to approximately \$965,000. Donations from these vendors for the year ended June 30, 2009 amounted to approximately \$164,000. During the year ended June 30, 2008, purchases from one vendor amounted to approximately \$425,000. Donations from this vendor for the year ended June 30, 2008 amounted to approximately \$91,000.

During the years ended June 30, 2009 and 2008, purchases from one of the Organization's sponsors amounted to approximately \$484,000 and \$389,000, respectively. Donations from this sponsor for the years ended June 30, 2009 and 2008 amounted to approximately \$119,000 and \$89,000, respectively.

ADOPT-A-CLASSROOM, INC.
Notes to Financial Statements

Note 7 - Contribution Receivable

On June 30, 2006, the Organization entered into an agreement with the North Dade Medical Foundation, Inc. ("North Dade"), by which North Dade transferred \$500,000 to a designated representative to establish the Adopt-A-Classroom North Dade Medical Foundation Endowment Fund (the "Endowment Fund"). The Endowment Fund is permanently restricted and is invested by the designated representative. The designated representative makes a single payment at the end of each fiscal year calendar quarter to provide general support to the Organization. These quarterly payments shall annually total a maximum of 5% of the market value of the Endowment Fund as measured by a twelve-quarter rolling average of the fair market value.

During the years ended June 30, 2009 and 2008, donations received for North Dade amounted to approximately \$31,000 and \$19,000, respectively.

Note 8 - Fair Value Measurements

Effective January 1, 2008, the Organization adopted Financial Accounting Standards Board Statement No. 157, "Fair Value Measurements" ("SFAS 157"), which establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

ADOPT-A-CLASSROOM, INC.
Notes to Financial Statements

Note 8 - Fair Value Measurements (Continued)

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2009 and 2008.

Marketable securities: Valued based on the net fair value of the underlying assets as determined generally by using commercial quotation services.

Hedge funds: Valued as determined by North Dade based on financial information available in the investee financial statements.

Private real estate funds: Valued as determined by North Dade based on financial information available in the investee financial statements.

Cash: Valued as determined by North Dade based on financial information available in the investee financial statements.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

ADOPT-A-CLASSROOM, INC.
Notes to Financial Statements

Note 8 - Fair Value Measurements (Continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's contribution receivable investments at fair value as of June 30, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Marketable securities	\$ -	\$ 294,282	\$ -	\$ 294,282
Hedge funds	-	-	41,501	41,501
Private real estate funds	-	-	30,183	30,183
Cash	<u>11,319</u>	<u>-</u>	<u>-</u>	<u>11,319</u>
Total investments at fair value	<u>\$ 11,319</u>	<u>\$ 294,282</u>	<u>\$ 71,684</u>	<u>\$ 377,285</u>

As of June 30, 2009, the table below sets forth a summary of changes in the fair value of the Organization's Level 3 investments:

	<u>Hedge Funds</u>	<u>Private Real Estate Funds</u>
Balance, beginning of year	\$ 76,305	\$ 16,202
Realized losses	(1,032)	-
Unrealized losses relating to instruments still held at the reporting date	(10,111)	(16,159)
Purchases, sales, issuances and settlements (net)	<u>(23,661)</u>	<u>30,140</u>
Balance, end of year	<u>\$ 41,501</u>	<u>\$ 30,183</u>

Note 9 - Commitment

The Organization leases its offices under a non-cancellable operating lease agreement expiring in August 2013. Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	
2010	\$ 20,200
2011	20,200
2012	20,200
2013	<u>3,400</u>
	<u>\$ 64,000</u>

ADOPT-A-CLASSROOM, INC.
Notes to Financial Statements

Note 9 - Commitment (Continued)

Rent expense for the years ended June 30, 2009 and 2008 amounted to approximately \$25,400 and \$19,300, respectively.

Note 10 - Subsequent Events

The Organization has evaluated subsequent events through November 5, 2009, which is the date the financial statements were available to be issued.