

ADOPT-A-CLASSROOM, INC.

Financial Statements

Years Ended June 30, 2010 and 2009



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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of Adopt-A-Classroom, Inc. (a nonprofit Florida corporation) as of June 30, 2010 and 2009, and the related statements of activities, cash flows and functional expenses for the years 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 audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 audits provide 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, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Mayer Hoffman McCann P.C.

Miami, Florida
January 18, 2011

ADOPT-A-CLASSROOM, INC.
 Statements of Financial Position
 June 30, 2010 and 2009

| | <u>ASSETS</u> | |
|--|---------------------|---------------------|
| | <u>2010</u> | <u>2009</u> |
| Cash | \$ 1,567,371 | \$ 1,249,931 |
| Grants and pledges receivable (Note 4) | 83,333 | 83,333 |
| Endowment fund (Note 7) | 382,903 | 377,285 |
| Property and equipment, net (Note 5) | 10,357 | 21,047 |
| Artwork | 2,000 | 2,000 |
| Other assets | 5,990 | 5,990 |
| | <u>\$ 2,051,954</u> | <u>\$ 1,739,586</u> |

LIABILITIES AND NET ASSETS

| | | |
|---------------------------------|---------------------|---------------------|
| Liabilities: | | |
| Accounts payable | \$ 112,177 | \$ 112,646 |
| Accrued expenses | 8,859 | 9,808 |
| Total liabilities | <u>121,036</u> | <u>122,454</u> |
| Commitment (Note 9) | | |
| Net assets: | | |
| Unrestricted | 477,540 | 381,063 |
| Temporarily restricted | 1,070,475 | 858,784 |
| Permanently restricted (Note 7) | 382,903 | 377,285 |
| Total net assets | <u>1,930,918</u> | <u>1,617,132</u> |
| | <u>\$ 2,051,954</u> | <u>\$ 1,739,586</u> |

See accompanying notes.

ADOPT-A-CLASSROOM, INC.
Statements of Activities
For the Years Ended June 30, 2010 and 2009

| | 2010 | | | | 2009 | | | |
|---|--------------|---------------------------|---------------------------|--------------|--------------|---------------------------|---------------------------|--------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| Support and revenue: | | | | | | | | |
| Contributions: | | | | | | | | |
| Grants and general public (Note 4) | \$ 1,803,963 | \$ 421,509 | \$ - | \$ 2,225,472 | \$ 2,035,549 | \$ 567,513 | \$ - | \$ 2,603,062 |
| Fundraising activities | 2,128 | - | - | 2,128 | 66,633 | - | - | 66,633 |
| Investment income | 2,388 | - | - | 2,388 | 3,430 | - | - | 3,430 |
| Change in present value of endowment fund | - | - | 5,618 | 5,618 | - | - | (111,191) | (111,191) |
| Net assets released from restrictions: | | | | | | | | |
| Satisfaction of donor restrictions | 209,818 | (209,818) | - | - | 224,800 | (224,800) | - | - |
| Total support and revenue | 2,018,297 | 211,691 | 5,618 | 2,235,606 | 2,330,412 | 342,713 | (111,191) | 2,561,934 |
| Expenses: | | | | | | | | |
| Support services: | | | | | | | | |
| Fundraising | 32,840 | - | - | 32,840 | 77,342 | - | - | 77,342 |
| Administration and management | 88,994 | - | - | 88,994 | 178,728 | - | - | 178,728 |
| Program services: | | | | | | | | |
| Classroom adoption | 1,799,986 | - | - | 1,799,986 | 2,367,209 | - | - | 2,367,209 |
| Total expenses | 1,921,820 | - | - | 1,921,820 | 2,623,279 | - | - | 2,623,279 |
| Change in net assets | 96,477 | 211,691 | 5,618 | 313,786 | (292,867) | 342,713 | (111,191) | (61,345) |
| Net assets, beginning of year | 381,063 | 858,784 | 377,285 | 1,617,132 | 673,930 | 516,071 | 488,476 | 1,678,477 |
| Net assets, end of year | \$ 477,540 | \$ 1,070,475 | \$ 382,903 | \$ 1,930,918 | \$ 381,063 | \$ 858,784 | \$ 377,285 | \$ 1,617,132 |

See accompanying notes.

ADOPT-A-CLASSROOM, INC.
 Statements of Cash Flows
 For the Years Ended June 30, 2010 and 2009

| | 2010 | 2009 |
|---|--------------|--------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 313,786 | \$ (61,345) |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 10,690 | 10,690 |
| Change in present value of endowment fund | (5,618) | 111,191 |
| Change in assets and liabilities: | | |
| Grants and pledges receivable | - | 103,883 |
| Accounts payable | (469) | (58,425) |
| Accrued expenses | (949) | (20,486) |
| Net cash provided by operating activities | 317,440 | 85,508 |
| Cash flows used in investing activities: | | |
| Capital expenditures | - | (300) |
| Net increase in cash | 317,440 | 85,208 |
| Cash, beginning of year | 1,249,931 | 1,164,723 |
| Cash, end of year | \$ 1,567,371 | \$ 1,249,931 |

See accompanying notes.

ADOPT-A-CLASSROOM, INC.
 Statements of Functional Expenses
 For the Years Ended June 30, 2010 and 2009

| | 2010 | | | | 2009 | | | |
|---------------------------|------------------|-------------------------------|---------------------|---------------------|------------------|-------------------------------|---------------------|---------------------|
| | Support Services | | Program Services | Total | Support Services | | Program Services | Total |
| | Fundraising | Administration and Management | Classroom Adoption | | Fundraising | Administration and Management | Classroom Adoption | |
| Payroll and related costs | \$ 28,958 | \$ 43,438 | \$ 288,125 | \$ 360,521 | \$ 15,000 | \$ 25,000 | \$ 262,447 | \$ 302,447 |
| Classroom purchases | - | - | 1,231,880 | 1,231,880 | - | - | 1,841,520 | 1,841,520 |
| Website development | - | - | 67,543 | 67,543 | - | - | 60,500 | 60,500 |
| Professional fees | - | - | 94,343 | 94,343 | - | 86,766 | 68,173 | 154,939 |
| Cost of fundraising | - | - | - | - | 62,342 | - | - | 62,342 |
| Rent | - | 10,747 | 16,121 | 26,868 | - | 10,169 | 15,254 | 25,423 |
| Insurance | - | 19,138 | 28,707 | 47,845 | - | 13,078 | 19,617 | 32,695 |
| Printed materials | - | - | 3,999 | 3,999 | - | - | 46,429 | 46,429 |
| Travel and entertainment | 3,317 | 3,317 | - | 6,634 | - | 10,897 | - | 10,897 |
| Telephone | 565 | 848 | 4,238 | 5,651 | - | 970 | 5,497 | 6,467 |
| Other | - | 11,506 | 65,030 | 76,536 | - | 31,848 | 47,772 | 79,620 |
| | <u>\$ 32,840</u> | <u>\$ 88,994</u> | <u>\$ 1,799,986</u> | <u>\$ 1,921,820</u> | <u>\$ 77,342</u> | <u>\$ 178,728</u> | <u>\$ 2,367,209</u> | <u>\$ 2,623,279</u> |

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 ASC 958, "Financial Statements of Not-for-Profit Organizations." Under the provisions of ASC 958, 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 ASC 958, "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. The tax years ending 2009, 2008 and 2007 are still open for both federal and state purposes. 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, 2010, two sponsors accounted for 31% of total grants and pledge contributions. At June 30, 2010, one sponsor accounted for 100% of total grants and pledges receivable. Such pledges were collected subsequent to June 30, 2010.

For the year ended June 30, 2009, contributions from two sponsors accounted for 34% of total grants and pledge contributions. At June 30, 2009, grants and pledges receivable from one sponsor accounted for 100% 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, 2010; all other accounts are insured up to \$250,000 at June 30, 2010. At June 30, 2010, the Company had approximately \$965,000 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:

| | 2010 | 2009 |
|--|-----------|-----------|
| Computer equipment | \$ 10,230 | \$ 10,230 |
| Furniture and equipment | 2,469 | 2,469 |
| Leasehold improvements | 24,955 | 24,955 |
| | 37,654 | 37,654 |
| Less: Accumulated depreciation and amortization | 27,297 | 16,607 |
| | \$ 10,357 | \$ 21,047 |

Note 6 - Concentrations

The Organization has agreements with multiple vendors mainly of school supply related products. The agreements provide for discounts on purchases from those vendors. The difference between retail prices that vendors sell product for through the Organization's website and the discounted price the vendors invoice the Organization for, is used by the Organization to cover administrative expenses. These discounts vary from vendor to vendor ranging from 15% to 25%.

During the year ended June 30, 2010, purchases from three major vendors amounted to approximately \$729,000. Donations from these vendors for the year ended June 30, 2010 amounted to approximately \$154,000. 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 years ended June 30, 2010 and 2009, purchases from one of the Organization's sponsors amounted to approximately \$517,000 and \$484,000, respectively. Donations from this sponsor for the years ended June 30, 2010 and 2009 amounted to approximately \$336,000 and \$119,000, respectively.

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

Note 7 - Endowment Fund

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 using its own investment guidelines. The Organization has no control over the designated representative investment guidelines. According to the North Dade agreement, the designated representative will make distributions from the Endowment Fund of no less than 5% of the fair market value of the fund as measured by a 12-quarter rolling average of the fair market value. Fair market value includes any unrealized appreciation or depreciation of the fund. Should the total return attributed to the fund not be sufficient to cover inflation and to preserve purchasing power of the gift, the designated representative is required to make distributions of no less than 5% of the fair market value of the fund for that particular year by using the fund's principal, if necessary.

During the years ended June 30, 2010 and 2009, donations received for North Dade amounted to approximately \$23,000 and \$31,000, respectively.

Note 8 - Fair Value Measurements

FASB ASC 820, (formerly SFAS No. 157), Fair Value Measurements and Disclosures provides the 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 FASB ASC 820 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;

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

Note 8 - Fair Value Measurements (Continued)

- 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.

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, 2010 and 2009.

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, 2010:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|-----------------|-------------------|------------------|-------------------|
| S&P 500 | \$ - | \$ 56,213 | \$ - | \$ 56,213 |
| Russell 1000 Growth | - | 29,081 | - | 29,081 |
| EAFE | - | 74,481 | - | 74,481 |
| MSCI Emg. Market Free Index | - | 24,139 | - | 24,139 |
| Barclays Int Gov/Credit Index | - | 7,073 | - | 7,073 |
| Barclays Capital Aggregate | - | 44,109 | - | 44,109 |
| Barclays US TIPS Index | - | 33,948 | - | 33,948 |
| S&P NA Natural Resources Index | - | 18,285 | - | 18,285 |
| Citigroup World Government Bond Index | - | 35,216 | - | 35,216 |
| Hedge funds | - | - | 44,142 | 44,142 |
| Private real estate funds | - | - | 6,901 | 6,901 |
| Cash | <u>9,315</u> | <u>-</u> | <u>-</u> | <u>9,315</u> |
| Total investments at fair value | <u>\$ 9,315</u> | <u>\$ 322,545</u> | <u>\$ 51,043</u> | <u>\$ 382,903</u> |

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> |

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

Note 8 - Fair Value Measurements (Continued)

The table below sets forth a summary of changes in the fair value of the Organization's Level 3 investments for the years ended December 31, 2010 and 2009.

| | <u>Hedge Funds</u> | <u>Private Real Estate Funds</u> |
|---|------------------------|--|
| Balance, July 1, 2008 | \$ 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, June 30, 2009 | 41,501 | 30,183 |
| Purchases, sales, issuances and settlements (net) | <u>2,641</u> | <u>(23,282)</u> |
| Balance, June 30, 2010 | <u>\$ 44,142</u> | <u>\$ 6,901</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> | |
|---------------------------------|------------------|
| 2011 | \$ 20,200 |
| 2012 | 20,200 |
| 2013 | <u>3,400</u> |
| | <u>\$ 43,800</u> |

Rent expense for the years ended June 30, 2010 and 2009 amounted to approximately \$26,900 and \$25,400, respectively.

Note 10 - Subsequent Events

The Organization has evaluated subsequent events through January 18, 2011, which is the date the financial statements were available to be issued.