ADOPT-A-CLASSROOM, INC.

FINANCIAL STATEMENTS

Years Ended June 30, 2012 and 2011

Mayer Hoffman McCann P.C.
An Independent CPA Firm
1200 Brickell Avenue, Suite 700
Miami, Florida 33131
305.503.4200 ph
305.381.8411 fx
www.mhm-pc.com

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, 2012 and 2011, and the related statements of activities, functional expenses and cash flows 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, 2012 and 2011, 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
December 19, 2012

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ADOPT-A-CLASSROOM, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2012 and 2011

	2012	2011
ASSETS		
Cash	$ 1,965,514	$ 1,852,684
Pledges receivable	64,781	202,132
Note receivable from related party	174,940	169,875
Endowment fund	436,559	430,328
Property and equipment, net	6,326	-
Artwork	2,000	2,000
Other assets	5,990	5,990
TOTAL ASSETS	$ 2,656,110	$ 2,663,009
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 138,479	$ 168,997
NET ASSETS		
Unrestricted	1,147,227	889,839
Temporarily restricted	933,845	1,173,845
Permanently restricted	436,559	430,328
TOTAL NET ASSETS	2,517,631	2,494,012
TOTAL LIABILITIES AND NET ASSETS	$ 2,656,110	$ 2,663,009

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

STATEMENTS OF ACTIVITIES

Years Ended June 30, 2012 and 2011

	2012				2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE								
Contributions:								
Grants and general public	$ 2,529,435	$ 21,386	$ -	$ 2,550,821	$ 2,263,099	$ 367,359	$ -	$ 2,630,458
Investment income	9,046	-	-	9,046	3,682	-	-	3,682
Gain on sale of intellectual property	-	-	-	-	157,000	-	-	157,000
Change in present value of endowment fund	-	-	6,231	6,231	-	-	47,425	47,425
Net assets released from restrictions:								
Satisfaction of donor restrictions	261,386	(261,386)	-	-	263,989	(263,989)	-	-
TOTAL SUPPORT AND REVENUE	2,799,867	(240,000)	6,231	2,566,098	2,687,770	103,370	47,425	2,838,565
EXPENSES								
Support services:								
Fundraising	212,123	-	-	212,123	40,772	-	-	40,772
Administration and management	124,574	-	-	124,574	106,270	-	-	106,270
Program services:								
Classroom adoption	2,205,782	-	-	2,205,782	2,128,429	-	-	2,128,429
TOTAL EXPENSES	2,542,479	-	-	2,542,479	2,275,471	-	-	2,275,471
CHANGE IN NET ASSETS	257,388	(240,000)	6,231	23,619	412,299	103,370	47,425	563,094
NET ASSETS, beginning of year	889,839	1,173,845	430,328	2,494,012	477,540	1,070,475	382,903	1,930,918
NET ASSETS, end of year	$ 1,147,227	$ 933,845	$ 436,559	$ 2,517,631	$ 889,839	$ 1,173,845	$ 430,328	$ 2,494,012

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended June 30, 2012 and 2011

	2012				2011			
	Support Services		Program Services		Support Services		Program Services	
	Fundraising	Administration and Management	Classroom Adoption	Total	Fundraising	Administration and Management	Classroom Adoption	Total
Payroll and related costs	$ 181,906	$ 42,438	$ 192,760	$ 417,104	$ 34,958	$ 52,438	$ 309,062	$ 396,458
Classroom purchases	-	-	1,515,816	1,515,816	-	-	1,488,764	1,488,764
Insurance	-	19,496	29,244	48,740	-	21,978	32,966	54,944
Printed materials	-	-	11,237	11,237	-	-	6,080	6,080
Professional fees	-	-	339,984	339,984	-	-	90,525	90,525
Rent	-	25,258	37,886	63,144	-	13,886	20,828	34,714
Telephone	486	729	3,644	4,859	753	1,129	5,647	7,529
Travel and entertainment	29,731	29,731	-	59,462	5,061	5,061	-	10,122
Website development	-	-	1,368	1,368	-	-	65,992	65,992
Other	-	6,922	73,843	80,765	-	11,778	108,565	120,343
	$ 212,123	$ 124,574	$ 2,205,782	$ 2,542,479	$ 40,772	$ 106,270	$ 2,128,429	$ 2,275,471

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

STATEMENTS OF CASH FLOWS

June 30, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 23,619	$ 563,094
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	-	10,357
Gain on sale of intellectual property	-	(150,000)
Change in value of endowment fund	(6,231)	(47,425)
Reimbursement of expenses	-	(18,700)
Accrued interest income	(5,065)	(1,175)
Change in assets and liabilities:		
Pledges receivable	137,351	(118,799)
Accounts payable	(30,518)	56,820
Accrued expenses	-	(8,859)
NET CASH FLOWS FROM OPERATING ACTIVITIES	119,156	285,313
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(6,326)	-
NET INCREASE IN CASH	112,830	285,313
CASH, beginning of year	1,852,684	1,567,371
CASH, end of year	$ 1,965,514	$ 1,852,684

NON-CASH INVESTING AND FINANCING ACTIVITIES INFORMATION:

	2012	2011
Issuance of note receivable from related party for:		
Sale of intellectual property	$ -	$ 150,000
Interest income	$ 5,065	$ 1,175
Reimbursement of expenses	$ -	$ 18,700

See Notes to Financial Statements

(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.

(2) Basis of presentation

The Organization prepares its financial statements in accordance with the provisions of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 958, "Not-for-Profit Entities”. 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.

(3) Summary of significant accounting policies

Contributions - The Organization accounts for contributions in accordance with ASC 958, 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.

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.

(3) Summary of significant accounting policies (continued)

Use of estimates - The preparation of financial statements in accordance with U.S. generally accepted accounting principles 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. Additions exceeding $1,000 are capitalized. 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.

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.

U.S. generally accepted accounting principles require the Organization’s management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain tax position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Organization or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes the Organization is no longer subject to income tax examinations for years prior to 2009.

(3) Summary of significant accounting policies (continued)

Cash - 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, 2012; all other accounts are insured up to $250,000. At June 30, 2012 and 2011, the Company had approximately $1,447,000 and $630,000, respectively, of cash in excess of FDIC insured limits.

Contributed services – For the year ended June 30, 2012, the Company received donated services from various organizations. These services have been recorded as income and expense in the statement of activities, based on their estimated values. Contributed services amounted to approximately $47,000 for the year ended June 30, 2012.

(4) Concentrations of credit risk and major sponsors and vendors

Major sponsors - For the years ended June 30, 2012 and 2011, two sponsors accounted for approximately 23% and 30% of total pledge contributions, respectively. At June 30, 2011, these two sponsors accounted for 100% of total pledges receivable, which were collected subsequent to June 30, 2011. There was no pledges receivable concentration as of June 30, 2012.

During the years ended June 30, 2012 and 2011, purchases from one of the major sponsors amounted to approximately $362,000 and $349,000, respectively. Donations from this sponsor for the years ended June 30, 2012 and 2011 amounted to approximately $430,000 and $634,000, respectively.

Major vendors - The Organization has agreements with multiple vendors mainly for 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 is used by the Organization to cover administrative expenses. These discounts vary from vendor to vendor ranging from 5% to 50%.

During the years ended June 30, 2012 and 2011, purchases from one and three major vendors amounted to approximately $518,000 and $876,000, respectively. Donations from these vendors for the years ended June 30, 2012 and 2011, amounted to approximately $89,000 and $167,000, respectively.

(5) Property and equipment

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

	2012	2011
Computer equipment	$ 16,556	$ 10,230
Furniture and equipment	2,469	2,469
Leasehold improvements	24,955	24,955
	43,980	37,654
Less: Accumulated depreciation and amortization	37,654	37,654
	$ 6,326	$ -

(6) 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 Endowment Fund. Should the total return attributed to the Endowment 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 Endowment Fund for that particular year by using the Endowment Fund’s principal, if necessary.

During the years ended June 30, 2012 and 2011, donations received for North Dade amounted to approximately $22,000.

(7) Fair value measurements

ASC 820, “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).

(7) Fair value measurements (continued)

The three levels of the fair value hierarchy under 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 and liabilities in active markets; quoted prices for identical or similar assets and liabilities in inactive markets; inputs other than quoted market 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.

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, 2012 and 2011.

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

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

SEI Opportunity Structure Credit Fund: Valued based on valuations provided by independent third party pricing agents using their proprietary valuation methodologies. In situations where market inputs are not available or do not provide a sufficient basis under current market conditions for pricing the instrument, the valuation may reflect the dealer’s view of the assumptions that market participants would use in pricing the instrument.

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.

(7) Fair value measurements (continued)

The following tables set forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2012 and 2011:

	Investments at Fair Value as of June 30, 2012			
	Level 1	Level 2	Level 3	Total
SEI World Equity EX-US Fund	$ -	$ 86,856	$ -	$ 86,856
SEI Large CAP Index Fund	-	55,380	-	55,380
SEI Large CAP Fund	-	54,703	-	54,703
SEI Global Managed Volatility Fund	-	49,912	-	49,912
SEI Emerging Markets Debt Fund	-	40,789	-	40,789
SEI High Yield Bond Fund	-	40,735	-	40,735
SEI Opportunity Structured Credit Fund	-	-	38,168	38,168
SEI Small CAP Fund	-	36,456	-	36,456
SEI U.S. Managed Volatility Fund (SIIT)	-	33,560	-	33,560
Total investments at fair value	$ -	$ 398,391	$ 38,168	$ 436,559

	Investments at Fair Value as of June 30, 2011			
	Level 1	Level 2	Level 3	Total
S&P 500	$ -	$ 61,800	$ -	$ 61,800
Russell 1000 Growth	-	31,003	-	31,003
EAFE	-	80,836	-	80,836
MSCI Emg. Market Free Index	-	23,185	-	23,185
Barclays Int Gov/Credit Index	-	8,158	-	8,158
Barclays Capital Aggregate	-	46,249	-	46,249
Barclays US TIPS Index	-	30,215	-	30,215
Bond	-	30,629	-	30,629
S&P NA Natural Resources Index	-	25,400	-	25,400
Citigroup World Government Bond Index	-	32,767	-	32,767
Hedge funds	-	-	45,802	45,802
Private real estate funds	-	-	8,350	8,350
Money market	5,934	-	-	5,934
Total investments at fair value	$ 5,934	$ 370,242	$ 54,152	$ 430,328

(7) 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 June 30, 2012 and 2011.

	Level 3 Investments Year Ended June 30, 2012			
	Hedge Funds	Private Real Estate Funds	SEI Opportunity Structured Credit Fund	Total
Balance, beginning of year	$ 45,802	$ 8,350	$ -	$ 54,152
Realized gains (losses)	(19,017)	(2,130)	856	(20,291)
Unrealized gains (losses)	-	-	5,476	5,476
Purchases	-	-	31,836	31,836
Sales	(26,785)	(6,220)	-	(33,005)
Balance, end of year	$ -	$ -	$ 38,168	$ 38,168

	Level 3 Investments Year Ended June 30, 2011		
	Hedge Funds	Private Real Estate Funds	Total
Balance, beginning of year	$ 44,142	$ 6,901	$ 51,043
Unrealized gains (losses)	-	125	125
Purchases, issuances, and settlements	1,660	1,324	2,984
Balance, end of year	$ 45,802	$ 8,350	$ 54,152

(8) Commitment

The Organization leases one of its offices under a non-cancellable operating lease agreement expiring in June 2013. As of June 30, 2012, future minimum lease payments are as follows:

Year Ending June 30,	
2013	$ 25,730

The other office space is donated by a large corporation. Monthly rent expense is $3,000. Rent expense for the years ended June 30, 2012 and 2011 amounted to approximately $63,100 and $34,700, respectively.

(9) Related party transaction

During 2011, the Organization and a for-profit corporation, in which the Organization's founder is a majority shareholder, entered into an agreement to sell certain intellectual property with a carrying value of $0 and reimbursement of certain legal fees amounting to $11,700 in exchange for a $168,700 promissory note. The note bears interest at 3% and is to be repaid in two installments of $118,700 on or before May 2013 and $50,000 on or before May 2014. Interest income for the years ended June 30, 2012 and 2011 were approximately $5,100 and $1,200, respectively. As part of the agreement, the Organization is to continue to use the software and agreed to pay a monthly licensing fee of $14,500 for the first year, $7,250 for the second year, and $5,000 thereafter. During 2012 and 2011, the Company paid approximately $160,000 and $29,000, respectively, for licensing fees to the related party.

(10) Subsequent events

The Organization has evaluated subsequent events through December 19, 2012, which is the date the financial statements were available to be issued. No significant matters were identified for disclosure during this evaluation.