ADOPT-A-CLASSROOM, INC.

FINANCIAL STATEMENTS

Years Ended June 30, 2013 and 2012

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Adopt-A-Classroom, Inc.

We have audited the accompanying financial statements of Adopt-A-Classroom, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2013 and 2012, 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 U.S. generally accepted accounting principles; 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 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 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 Adopt-A-Classroom, Inc. as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Mayer Hoffman McCann P.C.

Miami, Florida
October 15, 2013

ADOPT-A-CLASSROOM, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2013 and 2012

	2013	2012
ASSETS		
Cash	$ 1,755,885	$ 1,965,514
Pledges receivable	251,837	64,781
Note receivable from related party	180,001	174,940
Endowment fund	448,177	436,559
Property and equipment, net	99,128	6,326
Artwork	2,000	2,000
Other assets	5,990	5,990
TOTAL ASSETS	$ 2,743,018	$ 2,656,110
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 218,025	$ 138,479
NET ASSETS		
Unrestricted	1,115,929	1,147,227
Temporarily restricted	960,887	933,845
Permanently restricted	448,177	436,559
TOTAL NET ASSETS	2,524,993	2,517,631
TOTAL LIABILITIES AND NET ASSETS	$ 2,743,018	$ 2,656,110

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

STATEMENTS OF ACTIVITIES

Years Ended June 30, 2013 and 2012

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUE								
Contributions:								
Grants and general public	$ 2,369,672	$ 424,686	$ -	$ 2,794,358	$ 2,529,435	$ 21,386	$ -	$ 2,550,821
Investment income	8,582	-	-	8,582	9,046	-	-	9,046
Change in present value of endowment fund	-	-	11,618	11,618	-	-	6,231	6,231
Net assets released from restrictions:								
Satisfaction of donor restrictions	397,644	(397,644)	-	-	261,386	(261,386)	-	-
TOTAL SUPPORT AND REVENUE	2,775,898	27,042	11,618	2,814,558	2,799,867	(240,000)	6,231	2,566,098
EXPENSES								
Support services:								
Fundraising	256,225	-	-	256,225	212,123	-	-	212,123
Administration and management	136,119	-	-	136,119	124,574	-	-	124,574
Program services:								
Classroom adoption	2,414,852	-	-	2,414,852	2,205,782	-	-	2,205,782
TOTAL EXPENSES	2,807,196	-	-	2,807,196	2,542,479	-	-	2,542,479
CHANGE IN NET ASSETS	(31,298)	27,042	11,618	7,362	257,388	(240,000)	6,231	23,619
NET ASSETS, beginning of year	1,147,227	933,845	436,559	2,517,631	889,839	1,173,845	430,328	2,494,012
NET ASSETS, end of year	$ 1,115,929	$ 960,887	$ 448,177	$ 2,524,993	$ 1,147,227	$ 933,845	$ 436,559	$ 2,517,631

See Notes to Financial Statements

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended June 30, 2013 and 2012

	2013				2012			
	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	$ 190,139	$ 58,032	$ 227,751	$ 475,922	$ 181,906	$ 42,438	$ 192,760	$ 417,104
Classroom purchases	-	-	1,772,042	1,772,042	-	-	1,515,816	1,515,816
Insurance	15,364	5,553	23,990	44,907	-	19,496	29,244	48,740
Printed materials	-	-	4,780	4,780	-	-	11,237	11,237
Professional fees	20,370	5,250	197,206	222,826	-	-	339,984	339,984
Rent	-	27,543	41,315	68,858	-	25,258	37,886	63,144
Telephone	656	984	4,921	6,561	486	729	3,644	4,859
Travel and entertainment	24,696	24,696	-	49,392	29,731	29,731	-	59,462
Website development	-	-	49,048	49,048	-	-	1,368	1,368
Other	5,000	14,061	93,799	112,860	-	6,922	73,843	80,765
	$ 256,225	$ 136,119	$ 2,414,852	$ 2,807,196	$ 212,123	$ 124,574	$ 2,205,782	$ 2,542,479

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

STATEMENTS OF CASH FLOWS

June 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 7,362	$ 23,619
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	13,798	-
Change in value of endowment fund	(11,618)	(6,231)
Accrued interest income	(5,061)	(5,065)
Change in assets and liabilities:		
Pledges receivable	(187,056)	137,351
Accounts payable	79,546	(30,518)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(103,029)	119,156
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(106,600)	(6,326)
NET (DECREASE) INCREASE IN CASH	(209,629)	112,830
CASH, beginning of year	1,965,514	1,852,684
CASH, end of year	$ 1,755,885	$ 1,965,514

NON-CASH INVESTING AND FINANCING ACTIVITIES INFORMATION:

	2013	2012
Interest income	$ 5,061	$ 5,065

See Notes to Financial Statements

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 (“IRC”). 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 IRC.

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 2010.

(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's ("FDIC") transaction account guaranteed program. Under the program, all non-interest bearing accounts were 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, 2013, the Organization had approximately $890,000, of cash in excess of FDIC insured limits.

Contributed services - For the years ended June 30, 2013 and 2012, the Organization 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 $43,000 and $47,000 for the years ended June 30, 2013 and 2012, respectively.

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

Major sponsors - For the years ended June 30, 2013 and 2012, three and two sponsors accounted for approximately 37% and 23% of total contributions, respectively. One of those sponsors had a pledge receivable balance at June 30, 2013 totaling approximately $233,000 of the total pledge receivable in the accompanying statement of financial position. As of June 30, 2012, there was no concentration of pledges receivable.

During the years ended June 30, 2013 and 2012, purchases from one of the major sponsors amounted to approximately $356,000 and $362,000, respectively. Donations from this sponsor for the years ended June 30, 2013 and 2012 amounted to approximately $437,000 and $430,000, 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, 2013 and 2012, purchases from one major vendor amounted to approximately $759,000 and $518,000, respectively. Donations from these vendors for the years ended June 30, 2013 and 2012, amounted to approximately $132,000 and $89,000, respectively.

(5) Property and equipment

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

	2013	2012
Computer equipment	$ 17,605	$ 16,556
Furniture and equipment	2,469	2,469
Website development	105,551	-
Leasehold improvements	24,955	24,955
	150,580	43,980
Less: Accumulated depreciation and amortization	51,452	37,654
	$ 99,128	$ 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, 2013 and 2012, 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, 2013 and 2012.

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

SEI Opportunity Structure Credit Fund, SEI Core Property Fund LP, and SEI Special Situations Fund LTD: 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, 2013 and 2012:

	Investments at Fair Value as of June 30, 2013			
	Level 1	Level 2	Level 3	Total
US All CAP Equity Fund	$ -	$ 39,191	$ -	$ 39,191
Global Equity	-	58,002	-	58,002
Large CAP Equity Fund	-	89,237	-	89,237
US Fixed Income	-	35,028	-	35,028
Non-US Fixed Income	-	15,961	-	15,961
Emerging Markets Fund	-	57,437	-	57,437
Cash	-	6,636	-	6,636
SEI Opportunity Structured Credit Fund	-	-	35,459	35,459
US Small CAP Equity Fund	-	21,359	-	21,359
Balanced	-	26,624	-	26,624
SEI Core Property Fund LP	-	-	28,745	28,745
SEI Special Situations Fund LTD	-	-	34,498	34,498
Total investments at fair value	$ -	$ 349,475	$ 98,702	$ 448,177

	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

(7) Fair value measurements (continued)

The tables below set forth a summary of changes in the fair value of the Organization's Level 3 investments for the years ended June 30, 2013 and 2012:

	Level 3 Investments Year Ended June 30, 2013			
	SEI Core Property Fund LP	SEI Special Situations Fund LTD	SEI Opportunity Structured Credit Fund	Total
Balance, beginning of year	$ -	$ -	$ 38,168	$ 38,168
Realized gains (losses)	-	-	-	-
Unrealized gains (losses)	1,396	1,940	(2,709)	627
Purchases	27,349	32,558	-	59,907
Sales	-	-	-	-
Balance, end of year	$ 28,745	$ 34,498	$ 35,459	$ 98,702

	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

(8) Commitment

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

Year Ending June 30,		
2014	$	4,413

The other office space is donated by a large corporation. Monthly rent expense is $3,000. Rent expense for the years ended June 30, 2013 and 2012 amounted to approximately $69,000 and $63,100, 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 calculated based on outstanding principal balance. The note is to be repaid on or before June 1, 2016, which should include principal and accrued interest. Interest income for the years ended June 30, 2013 and 2012 was approximately $5,100. 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 2013 and 2012, the Company paid approximately $83,000 and $160,000, respectively, for licensing fees to the related party.

As of June 2013, the note is no longer guaranteed by the majority shareholder of the for-profit corporation. In lieu of the guarantee, the Organization may convert the total amount owed on the note to shares in the for-profit corporation at a $2,500,000 evaluation.

(10) Subsequent events

The Organization has evaluated subsequent events through October 15, 2013, which is the date the financial statements were available to be issued. No significant matters were identified for disclosure during this evaluation.