

ADOPT-A-CLASSROOM, INC.

FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014



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 statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses, and cash flows for the year 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 audit. We conducted our audit 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, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited Adopt-A-Classroom's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 14, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Emphasis of Matter

As described in note 10 to the financial statements, Adopt-A-Classroom made certain adjustments to restate the classification of net assets as of June 30, 2014. Our opinion is not modified with respect to this matter.

A handwritten signature in cursive script that reads "Mary Hoffmann McCann P.C.".

Minneapolis, Minnesota
December 14, 2015

ADOPT-A-CLASSROOM, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2015 and 2014

	<u>2015</u>	<u>Restated 2014</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 2,635,374	\$ 2,239,305
Pledges receivable	14,265	509,324
Prepays and other assets	2,314	325
Current portion of note receivable from related party, net of allowance of \$90,000 and \$0	<u>100,123</u>	<u>-</u>
TOTAL CURRENT ASSETS	<u>2,752,076</u>	<u>2,748,954</u>
PROPERTY AND EQUIPMENT, less accumulated depreciation of \$62,114 and \$15,604		
	<u>114,694</u>	<u>135,654</u>
OTHER ASSETS		
Note receivable from related party, less current portion	-	185,062
Beneficial interest in a perpetual trust	<u>530,731</u>	<u>520,165</u>
TOTAL OTHER ASSETS	<u>530,731</u>	<u>705,227</u>
TOTAL ASSETS	<u>\$ 3,397,501</u>	<u>\$ 3,589,835</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 31,623	\$ 17,639
Accrued expenses	<u>4,718</u>	<u>-</u>
TOTAL CURRENT LIABILITIES	<u>36,341</u>	<u>17,639</u>
NET ASSETS		
Unrestricted	1,246,630	1,354,277
Temporarily restricted - classroom purchases	1,583,799	1,697,754
Permanently restricted	<u>530,731</u>	<u>520,165</u>
TOTAL NET ASSETS	<u>3,361,160</u>	<u>3,572,196</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,397,501</u>	<u>\$ 3,589,835</u>

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

STATEMENTS OF ACTIVITIES

Year Ended with June 30, 2015 with comparative totals for 2014

				<u>Total</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2015</u>	<u>2014</u>
SUPPORT AND REVENUE					
Contributions:					
Grants and general public	\$ 674,782	\$ 2,275,540	\$ -	\$ 2,950,322	\$ 4,291,954
Investment income - other	7,396	-	-	7,396	7,004
Investment income - perpetual trust	-	23,300	-	23,300	22,844
Change in value of perpetual trust	-	-	10,566	10,566	71,988
Net assets released from restrictions:					
Satisfaction of donor restrictions	2,412,795	(2,412,795)	-	-	-
TOTAL SUPPORT AND REVENUE	<u>3,094,973</u>	<u>(113,955)</u>	<u>10,566</u>	<u>2,991,584</u>	<u>4,393,790</u>
EXPENSES					
Program services:					
Classroom adoption	2,747,047	-	-	2,747,047	2,867,970
Supporting services:					
Fundraising	272,873	-	-	272,873	286,052
Administration and management	182,700	-	-	182,700	192,566
TOTAL EXPENSES	<u>3,202,620</u>	<u>-</u>	<u>-</u>	<u>3,202,620</u>	<u>3,346,588</u>
CHANGE IN NET ASSETS	<u>(107,647)</u>	<u>(113,955)</u>	<u>10,566</u>	<u>(211,036)</u>	<u>1,047,202</u>
NET ASSETS, BEGINNING OF YEAR AS PREVIOUSLY REPORTED	1,084,339	1,967,692	520,165	3,572,196	2,524,994
Prior period adjustment	269,938	(269,938)		-	-
NET ASSETS, BEGINNING OF YEAR, RESTATED	<u>1,354,277</u>	<u>1,697,754</u>	<u>520,165</u>	<u>3,572,196</u>	<u>2,524,994</u>
NET ASSETS, end of year	<u>\$ 1,246,630</u>	<u>\$ 1,583,799</u>	<u>\$ 530,731</u>	<u>\$ 3,361,160</u>	<u>\$ 3,572,196</u>

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended with June 30, 2015 with comparative totals for 2014

	Program Services	Supporting Services		Total	
	Classroom Adoption	Administration and Management	Fundraising	2015	2014
Payroll and related costs	\$ 275,353	\$ 147,473	163,343	\$ 586,169	\$ 401,708
Classroom purchases	2,083,969	-	-	2,083,969	2,223,842
Insurance	19,257	12,060	4,902	36,219	24,751
Printing and postage	3,408	-	-	3,408	4,624
Professional fees	71,637	7,634	91,445	170,716	502,014
Rent	25,200	7,200	3,600	36,000	43,326
Travel and entertainment	9,378	-	9,377	18,755	55,814
Bad debt expense	90,000	-	-	90,000	-
Other	168,845	8,333	206	177,384	90,509
	<u>\$ 2,747,047</u>	<u>\$ 182,700</u>	<u>\$ 272,873</u>	<u>\$ 3,202,620</u>	<u>\$ 3,346,588</u>

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (211,036)	\$ 1,047,202
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	46,510	3,876
Allowance for doubtful accounts	90,000	-
Loss on disposal of assets	-	6,854
Accrued interest income on note receivable from related party	(5,061)	(5,061)
Change in value of beneficial interest in a perpetual trust	(10,566)	(71,988)
Change in assets and liabilities:		
Pledges receivable	495,059	(257,486)
Accounts payable	13,984	(200,386)
Accrued expenses	4,718	
Prepays and other assets	(1,989)	5,665
	<u>421,619</u>	<u>528,676</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>421,619</u>	<u>528,676</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(25,550)	(45,706)
Proceeds from sale of artwork	-	450
	<u>(25,550)</u>	<u>(45,256)</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>(25,550)</u>	<u>(45,256)</u>
NET INCREASE IN CASH	396,069	483,420
CASH		
BEGINNING OF YEAR	<u>2,239,305</u>	<u>1,755,885</u>
END OF YEAR	<u>\$ 2,635,374</u>	<u>\$ 2,239,305</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES INFORMATION		
Accrued interest income on note receivable from related party	<u>\$ 5,061</u>	<u>\$ 5,061</u>

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

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) **Summary of significant accounting policies**

Income tax status - The Organization is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code ("IRC") and similar state income tax laws. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) of the IRC.

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the years ended June 30, 2015 and 2014.

The Organization files form 990 in the U.S. federal jurisdiction and with multiple states. The Organization is generally no longer subject to examination by the Internal Revenue Service three years after the date of filing, including extensions.

Basis of accounting – The Organization uses the accrual basis of accounting whereby revenue and support are recognized when earned and expenses are recognized when incurred.

ADOPT-A-CLASSROOM, INC.

NOTES TO FINANCIAL STATEMENTS

(2) Summary of significant accounting policies (continued)

Financial statement presentation - The Organization reports information regarding its financial position and activities according to three classes of net assets:

- **Unrestricted** - Resources over which the Board of Directors has discretionary control. The Board designated amounts represent those revenues which the Board has set aside for a particular purpose.
- **Temporarily Restricted with respect to time or purpose** - Resources subject to a donor-imposed restriction which will be satisfied by actions of the Organization or the passage of time.
- **Permanently Restricted** - Resources subject to a donor-imposed restriction that they be maintained permanently by the Organization.

Contributions - The Organization recognizes contributions as revenue when they are received or unconditionally pledged.

All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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.

Gifts of land, buildings and equipment are presented as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. The Organization reports expirations of donor restrictions in accordance with the useful life of the asset placed in service. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

When the Organization receives contributions that are designated by the donor for the benefit of an individual teacher, such funds are deemed to be temporarily restricted. Per the terms of use published on the Organization's website, the teacher has the remainder of the current school year, plus one additional school year in which to use the donated funds. 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. In the event that a teacher does not spend donated funds within the allowed time period, such funds are released from restriction and reclassified to unrestricted net assets.

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.

ADOPT-A-CLASSROOM

NOTES TO FINANCIAL STATEMENTS

(2) Summary of significant accounting policies (continued)

Cash and cash equivalents - The Organization considers cash in demand deposit accounts and temporary investments purchased with an original maturity of three months or less to be cash equivalents. The Organization maintains its cash and cash equivalents with high credit quality financial institutions. From time to time, the Organization's balances in its bank accounts exceed Federal Deposit Insurance Corporation limits. The Organization periodically evaluates the risk of exceeding insurance levels and may transfer funds as it deems appropriate. The Organization has not experienced any losses with regards to balances in excess of insured limits or as a result of other concentrations of credit risk.

Pledges receivable – Contributions are recognized when the donor makes a promise to give that is, in substance, unconditional. Promises to give represent amounts committed by donors that have not been received by the Organization. The Organization uses the allowance method to determine uncollectible promises to give (receivable). Management considers all receivables to be fully collectible at year-end and accordingly, an allowance for doubtful accounts has not been recorded.

Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value, using interest rates applicable to the years in which the promises are expected to be received.

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 three to seven years. Leasehold improvements are amortized over the lesser of the estimated life of the asset or the lease term. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation is removed from the accounts and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to income as incurred, whereas significant improvements are capitalized. At June 30, 2015 and 2014, depreciation expense amounted to \$46,510 and \$3,876, respectively.

Perpetual trust - The Organization is the beneficiary of a perpetual irrevocable trust held and administered by an independent trustee. Under the terms of the trust, the Organization has the irrevocable right to receive its proportionate share of the income earned on trust assets in perpetuity. The fair value of the beneficial interest in a trust is recognized as an asset and as a permanently restricted contribution at the date the trust is established. The Organization's estimate of fair value at each reporting date is based on fair value information received from trustees. Trust assets consist of, but are not limited to, cash and cash equivalents, corporate and government bonds, mutual funds, unitized funds, and equity securities. These assets are not subject to control or direction by the Organization. Gains and losses, which are not distributed by the trusts, are reflected as the change in value of trusts in the statements of activities.

ADOPT-A-CLASSROOM

NOTES TO FINANCIAL STATEMENTS

(2) 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.

Contributed services, materials and equipment - Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

For the years ended June 30, 2015 and 2014, the Organization received donated rent and services from various organizations. These services have been recorded as income and expense in the statement of activities, based on their estimated values. Contributed rent and services amounted to approximately \$36,000 and \$41,000 for the years ended June 30, 2015 and 2014, respectively.

Effect of economic conditions on contributions - The Organization depends on contributions and grants for a significant portion of its revenue. The ability of the Organization's contributors and grantors to continue giving amounts comparable with prior years may be dependent upon future economic conditions and continued deductibility for income tax purposes of contributions and grants to the Organization. While the Organization's board of directors and management believes the Organization has the resources to continue its programs, its ability to do so and the extent to which it continues may be dependent on the above factors.

Summarized information - The financial statements include certain prior year summarized comparative information in total but neither by net assets nor by functionalized expenses. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

Subsequent events - The Organization has evaluated subsequent events through December 14, 2015, which is the date the financial statements were available to be issued. No significant matters were identified for disclosure during this evaluation.

ADOPT-A-CLASSROOM

NOTES TO FINANCIAL STATEMENTS

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

Major sponsors - For the years ended June 30, 2015 and 2014, one and two sponsors accounted for approximately 19% and 42% of total contributions, respectively. These sponsors had pledges receivable balances at June 30, 2015 and 2014 totaling approximately \$14,265 and \$500,000 of the total pledge receivable in the accompanying statement of financial position.

Purchases from one of the major sponsors for the year ended June 30, 2014, amounted to approximately \$278,000. Donations from this sponsor for the year ended June 30, 2014 amounted to approximately \$506,000. There were no purchases from the major sponsor for the year ended June 30, 2015.

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. These discounts vary from vendor to vendor ranging from 5% to 50%.

During the year ended June 30, 2015, purchases from two major vendors amounted to approximately \$1,388,000. During the year ended June 30, 2014 purchases from two major vendors amounted to approximately \$1,091,000. Donations from these vendors for the years ended June 30, 2015 and 2014 amounted to approximately \$68,000 and \$225,000, respectively.

(4) Property and equipment

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

	<u>2015</u>	<u>2014</u>
Website development	\$ 176,808	\$ 151,258
Less: Accumulated depreciation and amortization	<u>62,114</u>	<u>15,604</u>
	<u>\$ 114,694</u>	<u>\$ 135,654</u>

ADOPT-A-CLASSROOM

NOTES TO FINANCIAL STATEMENTS

(5) **Beneficial interest in a perpetual trust**

The Organization has a beneficial interest in a perpetual trust with the assets held by a third party. These assets are considered a permanently restricted endowment fund. The Organization has no control over the investment of the funds. Distributions are made to the Organization of no less than 5% of the fair value of the fund as measured by a 12 quarter rolling average of the fair value of the fund. Fair value of the endowment fund includes any unrealized gains or losses.

Distributions were approximately \$23,000 and \$23,000 for the years ended June 30, 2015 and 2014, respectively. The fair value of the beneficial interest in the perpetual trust is \$530,731 and \$520,165 at June 30, 2015 and 2014, respectively.

(6) **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).

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.

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NOTES TO FINANCIAL STATEMENTS

(6) Fair value measurements (continued)

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, 2015 and 2014.

Beneficial interest in a perpetual trust: Fair value for the beneficial interest in a perpetual trust is measured using the fair value of the assets held in the trust reported by the trustee. The Organization considers the measurement of its beneficial interest in the perpetual trust to be a level 3 measurement within the fair value measurement hierarchy because even though that measurement is based on the unadjusted fair value of trust assets reported by the trustee, the Organization will never receive those assets or have the ability to direct the trustee to redeem them.

The method 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.

The following tables set forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2015 and 2014:

Investments at Fair Value as of June 30, 2015				
	Level 1	Level 2	Level 3	Total
Beneficial interest in a perpetual trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 530,731</u>	<u>\$ 530,731</u>

Investments at Fair Value as of June 30, 2014				
	Level 1	Level 2	Level 3	Total
Beneficial interest in a perpetual trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 520,165</u>	<u>\$ 520,165</u>

ADOPT-A-CLASSROOM

NOTES TO FINANCIAL STATEMENTS

(6) Fair value measurements (continued)

The tables below set forth a summary of changes in the fair value of the Organization's Level 3 assets for the years ended June 30, 2015 and 2014:

	Beneficial interest in a perpetual trust	
	2015	2014
Balance, beginning of year	\$ 520,165	\$ 448,177
Change in value of a perpetual trust recognized in the change in permanently restricted net assets	10,566	71,988
Balance, end of year	<u>\$ 530,731</u>	<u>\$ 520,165</u>

(7) Endowments

The Organization's endowment consists of a perpetual trust. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

Interpretation of relevant law - The Board of Directors of the Organization has interpreted the Florida Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Organization and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Organization
- (7) The investment policies of the Organization

ADOPT-A-CLASSROOM

NOTES TO FINANCIAL STATEMENTS

(7) Endowments (continued)

2015 endowment net asset composition by type of fund as of June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily</u>	<u>Permanently</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 530,731	\$ 530,731

2014 endowment net asset composition by type of fund as of June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily</u>	<u>Permanently</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 520,165	\$ 520,165

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily</u>	<u>Permanently</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 520,165	\$ 520,165
Investment return: Change in value of perpetual trusts	-	-	10,566	10,566
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 530,731</u>	<u>\$ 530,731</u>

Changes in endowment net assets for the year ended June 30, 2014 are as follows:

	<u>Unrestricted</u>	<u>Temporarily</u>	<u>Permanently</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 448,177	\$ 448,177
Investment return: Change in value of perpetual trusts	-	-	71,988	71,988
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 520,165</u>	<u>\$ 520,165</u>

Funds with deficiencies - From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no funds with deficiencies as of June 30, 2015 and 2014.

Return objectives and risk parameters - Endowment funds consist solely of and are held in perpetual trusts, the investment of which is determined by the trustee rather than the Organization.

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NOTES TO FINANCIAL STATEMENTS

(8) Net assets released from donor restrictions

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by donors related to classroom purchases totaled \$2,412,795.

(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 the outstanding principal balance. The note is to be repaid on or before June 1, 2016, which includes principal and accrued interest. The note shall become immediately due and payable upon the completion of any acquisition of the for-profit corporation or if any funding in the amount of \$1,500,000 or more is obtained by the for-profit corporation. The outstanding note receivable and accrued interest totaled \$190,123 and \$185,062 at June 30, 2015 and 2014, respectively.

The carrying amount of the note receivable is reduced by an allowance that reflects management's best estimate of the amounts that will not be collected. Management reviews the note receivable and based on an assessment of current credit creditworthiness, estimates that portion, if any, of the balance that will not be collected. Management has established an allowance against the note receivable of \$90,000 and \$0 at June 30, 2015 and 2014, respectively.

Interest income for the years ended June 30, 2015 and 2014 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. As of November 1, 2014, the organization entered into an amended agreement lowering the monthly licensing fee to \$3,500.

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 based on a \$2,500,000 valuation of the for-profit corporation.

During the years ended June 30, 2015 and 2014, the Organization paid this related party for the following services under software license, administrative, and vendor service agreements:

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NOTES TO FINANCIAL STATEMENTS

(9) Related party transaction (continued)

	<u>2015</u>	<u>2014</u>
Software license fees	\$ 48,000	\$ 60,000
Administrative services	-	41,475
Vendor services	-	41,523
	<u>\$ 48,000</u>	<u>\$ 142,998</u>

In addition, for the years ended June 30, 2015, and 2014 the Organization made classroom supply purchases from the related party totaling \$9,758 and \$69,247 and received rebates on these purchases of \$498 and \$11,441.

During 2015, the Organization elected a new board member who is also a Principal of an organization that provides strategic technology consulting services to the Organization. During the year ended June 30, 2015 the organization spent \$70,525 on services with the related party.

(10) Prior period adjustment

The June 30, 2014 financial statements were restated to correct an error in classification between unrestricted and temporarily restricted net assets. Temporarily restricted net assets of \$269,938 that had been released from restrictions were not properly reclassified to unrestricted net assets.

The effect of the correction is an increase in unrestricted net assets of \$269,938 and a decrease in temporarily restricted net assets of \$269,938 as of June 30, 2014. Total net assets as of June 30, 2014 remain unchanged.