ADOPT-A-CLASSROOM, INC.

FINANCIAL STATEMENTS

Years Ended June 30, 2016 and 2015

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INDEPENDENT AUDITOR'S 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, 2016, 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 accounting principles generally accepted in the United States of America; 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditor's 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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Adopt-A-Classroom's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 14, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mayer Hoffman McCann P.C.

Minneapolis, Minnesota
October 26, 2016

ADOPT-A-CLASSROOM, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2016 and 2015

	2016	2015
A S S E T S		
CURRENT ASSETS		
Cash	$ 2,202,420	$ 2,635,374
Pledges receivable	332,500	14,265
Prepaids and other assets	6,355	2,314
Current portion of note receivable from related party, net of allowance of $0 and $90,000	-	100,123
TOTAL CURRENT ASSETS	2,541,275	2,752,076
PROPERTY AND EQUIPMENT, less accumulated depreciation of $119,056 and $62,114	212,518	114,694
OTHER ASSETS		
Beneficial interest in a perpetual trust	472,841	530,731
TOTAL OTHER ASSETS	472,841	530,731
TOTAL ASSETS	$ 3,226,634	$ 3,397,501
L I A B I L I T I E S A N D N E T A S S E T S		
CURRENT LIABILITIES		
Accounts payable	$ 123,959	$ 31,623
Accrued expenses	10,855	4,718
TOTAL CURRENT LIABILITIES	134,814	36,341
NET ASSETS		
Unrestricted	1,246,726	1,246,630
Temporarily restricted - classroom purchases	1,372,253	1,583,799
Permanently restricted	472,841	530,731
TOTAL NET ASSETS	3,091,820	3,361,160
TOTAL LIABILITIES AND NET ASSETS	$ 3,226,634	$ 3,397,501

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

STATEMENTS OF ACTIVITIES

Year Ended with June 30, 2016 with comparative totals for 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Total 2015
SUPPORT AND REVENUE					
Contributions:					
Grants and general public	$ 734,296	$ 2,583,261	$ -	$ 3,317,557	$ 2,950,322
Investment income - other	6,708	-	-	6,708	7,396
Investment income - perpetual trust	-	24,142	-	24,142	23,300
Change in value of perpetual trust	-	-	(57,890)	(57,890)	10,566
Net assets released from restrictions:					
Satisfaction of donor restrictions	2,818,949	(2,818,949)	-	-	-
TOTAL SUPPORT AND REVENUE	3,559,953	(211,546)	(57,890)	3,290,517	2,991,584
EXPENSES					
Program services:					
Classroom adoption	3,137,768	-	-	3,137,768	2,747,047
Supporting services:					
Fundraising	205,767	-	-	205,767	272,873
Administration and management	216,322	-	-	216,322	182,700
TOTAL EXPENSES	3,559,857	-	-	3,559,857	3,202,620
CHANGE IN NET ASSETS	96	(211,546)	(57,890)	(269,340)	(211,036)
NET ASSETS, BEGINNING OF YEAR,	1,246,630	1,583,799	530,731	3,361,160	3,572,196
NET ASSETS, END OF YEAR	$ 1,246,726	$ 1,372,253	$ 472,841	$ 3,091,820	$ 3,361,160

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended with June 30, 2016 with comparative totals for 2015

	Program Services	Supporting Services		Total	
	Classroom Adoption	Administration and Management	Fundraising	2016	2015
Payroll and related costs	$ 381,173	$ 141,884	167,579	$ 690,636	$ 605,155
Classroom purchases	2,460,548	-	-	2,460,548	2,083,969
Insurance	19,547	10,458	4,164	34,169	29,517
Professional fees	51,275	34,112	8,833	94,220	119,026
Technology	73,146	1,818	1,851	76,815	104,120
Printing and Advertising	32,997	233	3,358	36,588	22,903
Travel and entertainment	24,827	435	2,820	28,082	18,615
Office expenses	7,291	1,413	1,378	10,082	6,401
Rent	24,084	5,904	6,012	36,000	36,000
Bad debt expense	-	4,075	-	4,075	90,000
Other	24,785	6,652	263	31,700	40,404
Depreciation	38,095	9,338	9,509	56,942	46,510
	$ 3,137,768	$ 216,322	$ 205,767	$ 3,559,857	$ 3,202,620

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (269,340)	$ (211,036)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	56,942	46,510
Allowance for doubtful accounts	-	90,000
Accrued interest income on note receivable from related party	-	(5,061)
Change in value of beneficial interest in a perpetual trust	57,890	(10,566)
Change in assets and liabilities:		-
Pledges receivable	(318,235)	495,059
Accounts payable	92,336	13,984
Accrued expenses	6,137	4,718
Prepaids and other assets	(4,041)	(1,989)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(378,311)	421,619
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of note receivable from related party	100,123	-
Purchase of property and equipment	(154,766)	(25,550)
NET CASH FLOWS FROM INVESTING ACTIVITIES	(54,643)	(25,550)
NET (DECREASE) INCREASE IN CASH	(432,954)	396,069
CASH		
BEGINNING OF YEAR	2,635,374	2,239,305
END OF YEAR	$ 2,202,420	$ 2,635,374

NON-CASH INVESTING AND FINANCING ACTIVITIES INFORMATION

	2016	2015
Accrued interest income on note receivable from related party	$ -	$ 5,061

See Notes to Financial Statements

(1) **Organization**

Adopt-A-Classroom, Inc. (the "Organization") was incorporated in the State of Florida 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**

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 certain reported amounts and disclosures. Accordingly, aactual results could differ from those estimates.

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, 2016 and 2015.

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 – In accordance with accounting principles generally accepted in the United States of America the Organization uses the accrual basis of accounting whereby revenue and support are recognized when earned and expenses are recognized when incurred.

(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. In the absence of such stipulations, contributions of long-lived assets are recorded as unrestricted support.

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.

(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. 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. For the year ending June 30, 2016 and 2015, depreciation expense amounted to $56,942 and $46,510, respectively.

Beneficial interest in a 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.

(2) Summary of significant accounting policies (continued)

Fair value measurement - definition and hierarchy - FASB ASC 820 establishes a three-level valuation hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Organization. Unobservable inputs are inputs that reflect the Organization's assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available in the circumstances. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

The hierarchy is broken down into three levels based on the observability of inputs as follows:

- Level 1 - Valuations based on quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

- Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of observable inputs can vary by types of assets and liabilities and is affected by a wide variety of factors, including, for example, whether the asset or liability is established in the marketplace, the liquidity of markets and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less than observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Organization in determining fair value is greatest for assets and liabilities categorized in Level 3.

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, 2016 and 2015, 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 $16,500 and $36,000 for the years ended June 30, 2016 and 2015, respectively.

(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.

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 of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Subsequent events - The Organization has evaluated subsequent events through October 26, 2016, which is the date the financial statements were available to be issued.

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

Major sponsors - For the years ended June 30, 2016 and 2015, one sponsor accounted for approximately 26% and 19% of total contributions, respectively. This sponsor had pledges receivable balances at June 30, 2016 and 2015 totaling $22,500 and $14,265 of the total pledge receivable in the accompanying statement of financial position.

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, 2016, purchases from two major vendors amounted to approximately $1,147,000. During the year ended June 30, 2015 purchases from two major vendors amounted to approximately $1,388,000. Contributions from these vendors for the years ended June 30, 2016 and 2015 amounted to approximately $79,000 and $68,000, respectively.

(4) Property and equipment

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

	2016	2015
Website development	$ 256,538	$ 176,808
Capital projects in progress	75,036	-
	331,574	176,808
Less: Accumulated depreciation and amortization	119,056	62,114
	$ 212,518	$ 114,694

(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 $24,000 and $23,000 for the years ended June 30, 2016 and 2015, respectively. The fair value of the beneficial interest in the perpetual trust is $472,840 and $530,731 at June 30, 2016 and 2015, respectively.

(6) Fair value measurements

The following tables set forth by level, within the fair value hierarchy, the Organization's assets measured on a recurring basis as of June 30, 2016 and 2015:

	Fair value measurements at reporting day used			
2016	**Level 1**	**Level 2**	**Level 3**	**Total**
Beneficial interest in a perpetual trust	$ -	$ -	$ 472,841	$ 472,841

	Fair value measurements at reporting day used			
2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Beneficial interest in a perpetual trust	$ -	$ -	$ 530,731	$ 530,731

(6) Fair value measurements (continued)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Beneficial interest in a perpetual trust	
	2016	2015
Balance, beginning of year	$ 530,731	$ 520,165
Change in value of a perpetual trust recognized in the change in permanently restricted net assets	(57,890)	10,566
Balance, end of year	$ 472,841	$ 530,731

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, 2016 and 2015:

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.

(7) Endowments

The Organization's endowment consists of a perpetual trust. As required by accounting principles generally accepted in the United States of America, 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.

(7) **Endowments (continued)**

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

2016 endowment net asset composition by type of fund as of June 30, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 472,841	$ 472,841

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ -	$ 530,731	$ 530,731

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restriced	Total
Endowment net assets, beginning of year	$ -	$ -	$ 530,731	$ 530,731
Investment return:				
Change in value of perpetual trusts	-	-	(57,890)	(57,890)
Endowment net assets, end of year	$	$	$ 472,841	$ 472,841

(7) <u>Endowments</u> (continued)

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

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	$	$	$ 530,731	$ 530,731

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, 2016 and 2015.

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.

(8) <u>Temporarily restricted net assets</u>

Temporarily restricted net assets at June 30, 2016 and 2015, are available for the following purposes:

	2016	2015
Classroom purchases	$ 1,222,253	$ 1,583,799
Time restricted	150,000	-
	$ 1,372,253	$ 1,583,799

(9) <u>Net assets released from donor restrictions</u>

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 $2,818,949 and $2,412,795 for the years ended June 30, 2016 and 2015, respectively.

(10) 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 bore interest at 3% and was to be calculated based on the outstanding principal balance. The note, including principal and interest, was to be repaid on or before June 1, 2016. The note would 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 was obtained by the for-profit corporation. The outstanding note receivable and accrued interested totaled $190,123 at June 30, 2015. The carrying amount of the note receivable was reduced by an allowance that reflected management's best estimate of the amounts that would be collected. Management had established an allowance against the note receivable of $90,000 June 30, 2015.

On April 13, 2016, the Organization entered into a note sale agreement with a third party company. Under the terms of the agreement, the note was transferred and assigned to the third party in exchange for a payment of $100,000 received by the Organization. In addition, the note sale agreement specified that all agreements between the Organization and the founder's for-profit corporation, including software assignment, software license and maintenance agreements, were terminated.

Interest income for the years ended June 30, 2016 and 2015 was approximately $3,900 and $5,100, respectively. As part of the agreement, the Organization was 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. The services under the software license agreement were terminated as of June 30, 2015 with the last payment being in July 2015.

During the years ended June 30, 2016 and 2015, the Organization paid this related party $3,500 and $48,000, respectively, for the services under software license agreement.

In addition, for the years ended June 30, 2016, and 2015 the Organization made classroom supply purchases from the related party totaling $2,108 and $9,758 and received rebates on these purchases of $0 and $498.

A board member is a Principal of an organization that provides strategic technology consulting services to the Organization. During the year ended June 30, 2016 and 2015 the organization spent approximately $67,000 and $71,000, respectively, on services with the related party.

(11) **Operating lease**

The Organization leases office space under a noncancelable operating lease. The lease term ends February 28, 2018. Monthly lease payments are $3,000.

The future minimum rental payments due under this operating lease is as follows:

Year Ending June 30,	**Amount**
2017	$ 36,000
2018	24,000
Total	$ 60,000

For the years ended June 30, 2016, and 2015, lease expense, including donated office space, amounted to $36,000.

(12) **Commitments**

The Organization currently has technology capital projects in process. The Organization has incurred costs of approximately $54,000 related to these projects and is committed to expend an additional $196,000

(13) **Reclassifications**

Certain reclassifications have been made to the financial statements for the year ended June 30, 2015 to conform with the classifications of the current year. The reclassifications did not affect financial position or results of operations.