

ADOPT-A-CLASSROOM, INC.

FINANCIAL STATEMENTS

Years Ended June 30, 2014 and 2013



Mayer Hoffman McCann P.C.

An Independent CPA Firm

1000 Campbell Mithun Tower
222 South Ninth Street
Minneapolis, Minnesota 55402
612-339-7811 ph
612-339-9845 fx
www.mhm-pc.com

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, 2014, 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, 2014, 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 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 15, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Mayr Hoffmann McCann P.C.

Minneapolis, Minnesota
November 14, 2014

ADOPT-A-CLASSROOM, INC.**STATEMENTS OF FINANCIAL POSITION**

June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 2,239,305	\$ 1,755,885
Pledges receivable	509,324	251,838
Prepays and other assets	325	5,990
TOTAL CURRENT ASSETS	<u>2,748,954</u>	<u>2,013,713</u>
PROPERTY AND EQUIPMENT, less accumulated depreciation of \$15,604 and \$51,452		
	<u>135,654</u>	<u>99,128</u>
OTHER ASSETS		
Note receivable from related party	185,062	180,001
Artwork	-	2,000
Beneficial interest in a perpetual trust	520,165	448,177
TOTAL OTHER ASSETS	<u>705,227</u>	<u>630,178</u>
TOTAL ASSETS	<u>\$ 3,589,835</u>	<u>\$ 2,743,019</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	<u>\$ 17,639</u>	<u>\$ 218,025</u>
NET ASSETS		
Unrestricted	1,084,339	1,115,930
Temporarily restricted - classroom purchases	1,967,692	960,887
Permanently restricted	520,165	448,177
TOTAL NET ASSETS	<u>3,572,196</u>	<u>2,524,994</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,589,835</u>	<u>\$ 2,743,019</u>

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

STATEMENTS OF ACTIVITIES

Year Ended with June 30, 2014 comparative totals for 2013

				<u>Total</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2014</u>	<u>2013</u>
SUPPORT AND REVENUE					
Contributions:					
Grants and general public	\$ 1,084,151	\$ 3,207,803	\$ -	\$ 4,291,954	\$ 2,772,358
Investment income - other	7,004	-	-	7,004	8,582
Investment income - perpetual trust	-	22,844	-	22,844	22,000
Change in value of perpetual trust	-	-	71,988	71,988	11,618
Net assets released from restrictions:					
Satisfaction of donor restrictions	2,223,842	(2,223,842)	-	-	-
TOTAL SUPPORT AND REVENUE	<u>3,314,997</u>	<u>1,006,805</u>	<u>71,988</u>	<u>4,393,790</u>	<u>2,814,558</u>
EXPENSES					
Program services:					
Classroom adoption	2,867,970	-	-	2,867,970	2,414,852
Supporting services:					
Fundraising	286,052	-	-	286,052	256,225
Administration and management	192,566	-	-	192,566	136,119
TOTAL EXPENSES	<u>3,346,588</u>	<u>-</u>	<u>-</u>	<u>3,346,588</u>	<u>2,807,196</u>
CHANGE IN NET ASSETS	(31,591)	1,006,805	71,988	1,047,202	7,362
NET ASSETS, beginning of year	<u>1,115,930</u>	<u>960,887</u>	<u>448,177</u>	<u>2,524,994</u>	<u>2,517,632</u>
NET ASSETS, end of year	<u>\$ 1,084,339</u>	<u>\$ 1,967,692</u>	<u>\$ 520,165</u>	<u>\$ 3,572,196</u>	<u>\$ 2,524,994</u>

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended with June 30, 2014 comparative totals for 2013

	Program Services	Supporting Services		Total	
	Classroom Adoption	Administration and Management	Fundraising	2014	2013
Payroll and related costs	\$ 193,210	\$ 80,739	\$ 127,759	\$ 401,708	\$ 475,922
Classroom purchases	2,223,842	-	-	2,223,842	1,772,042
Insurance	11,764	6,461	6,526	24,751	44,907
Printing and postage	4,624	-	-	4,624	4,780
Professional fees	329,125	50,101	122,788	502,014	222,826
Rent	26,080	17,386	-	43,466	78,807
Telephone	160	32	21	213	6,561
Travel and entertainment	-	27,907	27,907	55,814	39,443
Website development	-	-	-	-	49,048
Other	79,165	9,940	1,051	90,156	112,860
	<u>\$ 2,867,970</u>	<u>\$ 192,566</u>	<u>\$ 286,052</u>	<u>\$ 3,346,588</u>	<u>\$ 2,807,196</u>

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.
STATEMENTS OF CASH FLOWS
Years Ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,047,202	\$ 7,362
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	3,876	13,798
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	(71,988)	(11,618)
Change in assets and liabilities:		
Pledges receivable	(257,486)	(187,056)
Accounts payable	(200,386)	79,546
Prepays and other assets	5,665	-
	<u>528,676</u>	<u>(103,029)</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(45,706)	(106,600)
Proceeds from sale of artwork	450	-
	<u>(45,256)</u>	<u>(106,600)</u>
NET CASH FLOWS FROM INVESTING ACTIVITIES		
NET INCREASE (DECREASE) IN CASH	483,420	(209,629)
CASH		
BEGINNING OF YEAR	<u>1,755,885</u>	<u>1,965,514</u>
END OF YEAR	<u>\$ 2,239,305</u>	<u>\$ 1,755,885</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, 2014 and 2013.

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.

The Organization receives temporarily restricted donations, which must be spent during the school year in which the donation is received or carried over to the following school year. At year-end, contributions received and not yet allocated to a classroom or not yet spent by the teacher remain as temporarily restricted net assets.

Use of estimates - The preparation of financial statements in accordance with 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, 2014 and 2013, depreciation expense amounted to \$3,876 and \$13,798, 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, 2014 and 2013, 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 \$41,000 and \$43,000 for the years ended June 30, 2014 and 2013, 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, 2013, from which the summarized information was derived.

Subsequent events - The Organization has evaluated subsequent events through November 14, 2014, which is the date the financial statements were available to be issued. No significant matters were identified for disclosure during this evaluation.

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NOTES TO FINANCIAL STATEMENTS

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

Major sponsors - For the years ended June 30, 2014 and 2013, two and three sponsors accounted for approximately 42% and 37% of total contributions, respectively. One of these sponsors had a pledge receivable balance at June 30, 2014 and 2013 totaling approximately \$500,000 and \$233,000, respectively of the total pledge receivable in the accompanying statement of financial position.

For the year ended June 30, 2014, purchases from one of the major sponsors amounted to approximately \$278,000. For the year ended June 30, 2013, purchases from one of the major sponsors amounted to approximately \$356,000. Donations from these sponsors for the years ended June 30, 2014 and 2013 amounted to approximately \$506,000 and \$437,000, 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. These discounts vary from vendor to vendor ranging from 5% to 50%.

During the year ended June 30, 2014, purchases from two major vendors amounted to approximately \$1,091,000. During the year ended June 30, 2013 purchases from one major vendor amounted to approximately \$759,000. Donations from these vendors for the years ended June 30, 2014 and 2013, amounted to approximately \$225,000 and \$132,000, respectively.

(4) Property and equipment

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

	<u>2014</u>	<u>2013</u>
Website development	\$ 151,258	\$ 105,551
Computer equipment	-	17,605
Furniture and equipment	-	2,469
Leasehold improvements	-	24,955
	<u>151,258</u>	<u>150,580</u>
Less: Accumulated depreciation and amortization	15,604	51,452
	<u>\$ 135,654</u>	<u>\$ 99,128</u>

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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 \$22,000 for the years ended June 30, 2014 and 2013, respectively. The fair value of the beneficial interest in the perpetual trust is \$520,165 and \$448,177 at June 30, 2014 and 2013 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, 2014 and 2013.

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, 2014 and 2013:

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>

Investments at Fair Value as of June 30, 2013				
	Level 1	Level 2	Level 3	Total
Beneficial interest in a perpetual trust	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 448,177</u>	<u>\$ 448,177</u>

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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, 2014 and 2013:

	Beneficial interest in a perpetual trust	
	2014	2013
Balance, beginning of year	\$ 448,177	\$ 436,559
Change in value of a perpetual trust recognized in the change in permanently restricted net assets	<u>71,988</u>	<u>11,618</u>
Balance, end of year	<u>\$ 520,165</u>	<u>\$ 448,177</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

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NOTES TO FINANCIAL STATEMENTS

(7) Endowments (continued)

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

2013 endowment net asset composition by type of fund as of June 30, 2013:

	<u>Unrestricted</u>	<u>Temporarily</u>	<u>Permanently</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 448,177	\$ 448,177

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	\$ -	\$ -	\$ 520,165	\$ 520,165

Changes in endowment net assets for the year ended June 30, 2013 are as follows:

	<u>Unrestricted</u>	<u>Temporarily</u>	<u>Permanently</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 436,559	\$ 436,559
Investment return: Change in value of perpetual trusts	-	-	11,618	11,618
Endowment net assets, end of year	\$ -	\$ -	\$ 448,177	\$ 448,177

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, 2014 and 2013.

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 are as follows:

Classroom purchases	\$ 2,196,157
Disaster relief	27,685
	<u>\$ 2,223,842</u>

(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 \$185,062 and \$180,001 at June 30, 2014 and 2013, respectively. Interest income for the years ended June 30, 2014 and 2013 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 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, 2014 and 2013, the Organization paid this related party for the following services under software license, administrative, and vendor service agreements:

	<u>2014</u>	<u>2013</u>
Software license fees	\$ 60,000	\$ 83,000
Administrative services	41,475	-
Vendor services	41,523	-
	<u>\$ 142,998</u>	<u>\$ 83,000</u>

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

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NOTES TO FINANCIAL STATEMENTS

(10) Change in reporting

During the year ended June 30, 2014 management reviewed the terms of the endowment fund and determined the endowment is more appropriately reported as a beneficial interest in a perpetual trust. Accordingly, footnote disclosures and descriptions in the financial statements have been updated to reflect that change. This change did not affect financial position or results of operations.