

ADOPT-A-CLASSROOM, INC.

FINANCIAL STATEMENTS

Year Ended June 30, 2022
With Comparative Totals for 2021



Mayer Hoffman McCann P.C.

1000 Campbell Mithun Tower, 222 S. Ninth St. ■ Minneapolis, MN 55402
Main: 612.339.7811 ■ Fax: 612.339.9845 ■ www.mhmcpa.com

INDEPENDENT AUDITORS' REPORT

The Board of Directors
ADOPT-A-CLASSROOM, INC.

Opinion

We have audited the financial statements of Adopt-A-Classroom, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2022, 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.

Basis for Opinion

We conducted our audit(s) in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Adopt-A-Classroom's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 19, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 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 17, 2022

ADOPT-A-CLASSROOM, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2022 and 2021

	2022	2021
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 4,100,279	\$ 3,440,937
Pledges receivable	3,125,739	2,378,202
Prepays and other assets	58,230	16,976
TOTAL CURRENT ASSETS	7,284,248	5,836,115
PROPERTY AND EQUIPMENT, less accumulated depreciation	150,245	327,227
OTHER ASSETS		
Beneficial interest in a perpetual trust	524,188	608,262
TOTAL OTHER ASSETS	524,188	608,262
TOTAL ASSETS	\$ 7,958,681	\$ 6,771,604
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 330,193	\$ 354,507
Accrued expenses	26,322	47,407
Refundable advances	23,024	124,160
TOTAL CURRENT LIABILITIES	379,539	526,074
NET ASSETS		
Without donor restrictions	1,402,557	1,135,766
With donor restrictions	6,176,585	5,109,764
TOTAL NET ASSETS	7,579,142	6,245,530
TOTAL LIABILITIES AND NET ASSETS	\$ 7,958,681	\$ 6,771,604

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2022 with comparative totals for 2021

	Without Donor Restrictions	With Donor Restrictions	Total	
			2022	2021
SUPPORT AND REVENUE				
Contributions:				
Grants and general public	\$ 1,782,035	\$ 6,124,144	\$ 7,906,179	\$ 6,482,252
Investment return (loss)	5,282	-	5,282	5,033
Investment return - perpetual trust	2,639	23,753	26,392	26,254
Change in value of perpetual trust	-	(84,074)	(84,074)	118,031
PPP grant revenue	-	-	-	154,550
Net assets released from restrictions	4,997,002	(4,997,002)	-	-
TOTAL SUPPORT AND REVENUE	<u>6,786,958</u>	<u>1,066,821</u>	<u>7,853,779</u>	<u>6,786,120</u>
EXPENSES				
Program services:				
Classroom adoption	5,913,891	-	5,913,891	3,999,826
Supporting services:				
Administration and management	258,083	-	258,083	200,768
Fundraising	348,193	-	348,193	398,234
TOTAL EXPENSES	<u>6,520,167</u>	<u>-</u>	<u>6,520,167</u>	<u>4,598,828</u>
CHANGE IN NET ASSETS	266,791	1,066,821	1,333,612	2,187,292
NET ASSETS, BEGINNING OF YEAR,	<u>1,135,766</u>	<u>5,109,764</u>	<u>6,245,530</u>	<u>4,058,238</u>
NET ASSETS, END OF YEAR	<u>\$ 1,402,557</u>	<u>\$ 6,176,585</u>	<u>\$ 7,579,142</u>	<u>\$ 6,245,530</u>

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2022 with comparative totals for 2021

	Program Services	Supporting Services		Total	
	Classroom Adoption	Administration and Management	Fundraising	2022	2021
Payroll and related costs	\$ 947,873	\$ 177,106	\$ 270,535	\$ 1,395,514	\$ 1,026,317
Classroom purchases	4,429,495	75	146	4,429,716	2,825,921
Insurance	-	5,786	-	5,786	3,983
Professional fees	7,847	26,927	165	34,939	81,681
Technology	123,560	9,659	16,612	149,831	199,527
Printing and advertising	11,715	10,773	19,028	41,516	22,439
Travel and entertainment	4,047	2,268	2,928	9,243	577
Office expenses	9,544	5,458	832	15,834	7,557
Rent	44,130	3,152	3,152	50,434	51,168
Bad debt expense	68	-	-	68	-
Other	35,506	15,678	11,198	62,382	77,158
Corporate sponsor event	113,556	271	33	113,860	92,789
Depreciation	186,550	930	23,564	211,044	209,711
	<u>\$ 5,913,891</u>	<u>\$ 258,083</u>	<u>\$ 348,193</u>	<u>\$ 6,520,167</u>	<u>\$ 4,598,828</u>

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.
STATEMENTS OF CASH FLOWS

Years Ended June 30, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,333,612	\$ 2,187,292
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation and amortization	211,044	209,711
Change in value of beneficial interest in a perpetual trust	84,074	(118,031)
Change in assets and liabilities:		
Pledges receivable	(747,537)	(2,007,584)
Income tax receivable	-	5,513
Prepays and other assets	(41,254)	36,062
Accounts payable	(24,314)	263,239
Accrued expenses	(21,085)	47,407
Refundable advances	(101,136)	(202,841)
	693,404	420,768
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(34,062)	(84,828)
	(34,062)	(84,828)
NET CASH FLOWS FROM OPERATING ACTIVITIES	693,404	420,768
NET CASH FLOWS FROM INVESTING ACTIVITIES	(34,062)	(84,828)
NET INCREASE IN CASH	659,342	335,940
CASH		
BEGINNING OF YEAR	3,440,937	3,104,997
END OF YEAR	\$ 4,100,279	\$ 3,440,937

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 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, actual results could differ from those estimates.

Income tax status - The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and applicable state law.

The Organization reviews and assesses its tax positions taken or expected to be taken in tax returns. Based on this assessment the Organization determines whether it is more likely than not that the position would be sustained upon examination by tax authorities. The Organization's assessment has not identified any significant positions that it believes would not be sustained under examination.

The Organization has identified its tax status as a tax exempt entity as it's only significant tax position and has determined that such tax position does not result in an uncertainty requiring recognition. The Organization is not currently under examination by any taxing jurisdiction.

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

Financial statement presentation - The Organization reports information regarding its financial position and activities based on the existence or absence of donor-imposed restrictions. Accordingly net assets of the Organization and changes therein are classified and reported as follows:

- Net assets without donor restrictions – Net assets available for general use and not subject to donor-imposed restrictions. These may be used at the discretion of the Organization's management and board of directors. Designated amounts represent those revenues which the Board has set aside for a particular purpose.
- Net assets with donor restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met, either by the passage of time or by actions of the Organization. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

NOTES TO FINANCIAL STATEMENTS

(2) Summary of significant accounting policies (continued)

Revenue recognition – Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions received with donor-imposed conditions and restrictions are reported as an increase in net assets without donor restrictions if the conditions and restrictions are met in the reporting period in which the contribution is recognized. Net investment return (loss) is reported as either increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Conditional contributions are recorded as revenue when such amounts become unconditional which generally involves the meeting of a barrier to entitlement. This can include items like meeting a matching provision, incurring specified allowable expenses in accordance with a framework of allowable costs or other barriers. The Organization records conditional contributions received in advance of conditions being met as refundable advances until the contribution becomes unconditional, at which time the support is recognized as contribution revenue.

The Organization generates revenue through vendor revenue-share agreements in the form of discounts or rebates with certain vendors. Payments from the Organization to these approved vendors are made net of a revenue-share amount or the Organization receives periodic payments from vendors for their revenue-share amount. Revenue generated through these agreements are recorded as unrestricted contributions and amounted to \$548,000 and \$352,000 for the years ended June 30, 2022 and 2021, respectively.

When the Organization receives contributions that are designated by the donor for the benefit of an individual teacher, such funds are deemed to be an increase in net assets with donor restrictions. Per the terms of use published on the Organization's website, the teacher will have one calendar year from the date of each contribution to use those funds for the purchase of classroom supplies. In the event that a teacher does not spend the contributed funds within this period of time, such funds are released from net assets with donor restrictions and reclassified to net assets without donor restrictions.

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.

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

NOTES TO FINANCIAL STATEMENTS

(2) **Summary of significant accounting policies (continued)**

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 estimated future cash flows, discounted using risk-adjusted interest rates to the years in which the promises are 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 years ending June 30, 2022 and 2021, depreciation expense amounted to \$211,000 and \$210,000, 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 contribution with donor restrictions 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 trust, are reflected as the change in value of perpetual trusts in the statements of activities.

Fair value measurement - definition and hierarchy – The Organization utilizes 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.

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

NOTES TO FINANCIAL STATEMENTS

(2) **Summary of significant accounting policies (continued)**

Fair value measurement - definition and hierarchy (continued) - 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.

Functional allocation of expenses – The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Organization. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

NOTES TO FINANCIAL STATEMENTS

(2) Summary of significant accounting policies (continued)

Functional allocation of expenses (continued) - The expenses that are allocated include the following:

<u>Expenses</u>	<u>Method of Allocation</u>
Payroll and related costs	estimate of time and effort
Rent	estimate of space utilization
Other	review of actual expenses
Insurance	review of actual expenses
Office expenses	review of actual expenses
Professional fees	review of actual expenses
Printing and advertising	review of actual expenses
Travel and entertainment	review of actual expenses
Technology	review of utilized technology
Depreciation	review of utilized technology
Corporate sponsor event	review of actual expenses

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, 2021, from which the summarized information was derived.

Subsequent events - The Organization has evaluated subsequent events through October 17, 2022, which is the date the financial statements were available to be issued.

New accounting pronouncements - In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-02, *Leases (Topic 842)*. ASU 2016-02 requires lessees to recognize a right-of-use asset and lease liability on the statement of financial position and disclose key information about leasing arrangements. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current accounting principles generally accepted in the United States of America. ASU 2016-02 is effective for annual periods beginning after December 15, 2021. The Organization is assessing the impact this standard will have on its financial statements.

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

NOTES TO FINANCIAL STATEMENTS

(3) Risks and uncertainties

On March 11, 2020 the World Health Organization declared the outbreak of coronavirus (COVID-19) a pandemic. The operations of the Organization may be impacted by the pandemic and could result in material changes in the Organization's ability to provide services in its program areas. The continued extent of the impact of COVID-19 on programs and operations will depend on certain developments, including duration and spread of the outbreak, government mandates (e.g. stay at home orders), impact on donors, employees, and vendors, all of which are uncertain and cannot be predicted. Other financial impacts could occur. Such potential impacts are unknown at this time.

(4) Liquidity and availability

The Organization regularly monitors the availability of revenues required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Organization has an operating checking account as well as a money market account.

For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its general operations (teacher/school programs, administrative, and fundraising), to be general expenditures. The Organization receives contributions restricted by donors to be used for teacher and classroom purchases, and considers these restricted contributions which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures.

As of June 30, the following table shows the total financial assets held by the Organization and the amounts of those financial assets that could be made readily available within one year of the statement of financial position to meet general expenditures over the next 12 months:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 4,100,279	\$ 3,440,937
Pledges receivable	3,125,739	2,378,202
Total financial assets available over the next 12 months	<u>\$ 7,226,018</u>	<u>\$ 5,819,139</u>

In addition to financial assets available to meet general expenditures over the next 12 months, the organization strives to operate with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. Any differences to the budgeted plan will be offset by reserve funds, included in cash and cash equivalents, to the extent the financial assets are available.

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

NOTES TO FINANCIAL STATEMENTS

(5) Concentrations of credit risk and major donors and vendors

Major donors - For the years ended June 30, 2022 and 2021, two donors accounted for approximately 72% and 64% of total contributions, 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%.

For the years ended June 30, 2022 and 2021, classroom purchases from three major vendors amounted to approximately \$2,533,000 and \$1,190,000, respectively. Other than vendor discounts received, no additional contributions were received from these vendors for the years ended June 30, 2022 and 2021.

(6) Property and equipment

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

	<u>2022</u>	<u>2021</u>
Systems and website	\$ 1,257,141	\$ 1,227,031
Computers	16,344	12,390
	<u>1,273,485</u>	<u>1,239,421</u>
Less: Accumulated depreciation and amortization	<u>1,123,240</u>	<u>912,194</u>
	<u>\$ 150,245</u>	<u>\$ 327,227</u>

(7) 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 to be an endowment fund with donor restrictions. 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 received were approximately \$26,000 for both years ended June 30, 2022 and 2021, respectively. The fair value of the beneficial interest in the perpetual trust was \$524,000 and \$608,000 at June 30, 2022 and 2021, respectively.

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

NOTES TO FINANCIAL STATEMENTS

(8) 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, 2022 and 2021:

<u>2022</u>	<u>Fair value measurements at reporting day used</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in a perpetual trust	\$ -	\$ -	\$ 524,188	\$ 524,188

<u>2021</u>	<u>Fair value measurements at reporting day used</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Beneficial interest in a perpetual trust	\$ -	\$ -	\$ 608,262	\$ 608,262

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

	<u>Beneficial interest in a perpetual trust</u>	
	<u>2022</u>	<u>2021</u>
Balance, beginning of year	\$ 608,262	\$ 490,231
Change in value of a perpetual trust recognized in the change in net assets with donor restrictions	(84,074)	118,031
Balance, end of year	<u>\$ 524,188</u>	<u>\$ 608,262</u>

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, 2022 and 2021:

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.

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

NOTES TO FINANCIAL STATEMENTS

(9) Refundable advances

Refundable advances at June 30, 2022 and 2021 consist of the following:

	<u>2022</u>	<u>2021</u>
Contribution conditional upon classroom purchases	\$ 23,024	\$ 124,160
	<u>\$ 23,024</u>	<u>\$ 124,160</u>

The Organization received a contribution of \$200,000 for the year ended June 30, 2019 conditional upon a specified amount of classroom purchases being made. The refundable advance as of June 30, 2022 and 2021, of \$23,024 and \$124,160, respectively, represents the amount of the contribution received in advance of donor conditions being met. The refundable advance will be recognized as contribution revenue as the donor conditions are met.

(10) 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 fund absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization retains in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) any 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. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditures 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

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

NOTES TO FINANCIAL STATEMENTS

(10) Endowments (continued)

Endowment net asset composition by type of fund as of June 30, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds:			
Perpetual trust required to be maintained in perpetuity	\$ -	\$ 524,188	\$ 524,188

Endowment net asset composition by type of fund as of June 30, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds:			
Perpetual trust required to be maintained in perpetuity	\$ -	\$ 608,262	\$ 608,262

Changes in endowment net assets for the year ended June 30, 2022 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 608,262	\$ 608,262
Investment return: Change in value of perpetual trust	-	(84,074)	(84,074)
Endowment net assets, end of year	\$ -	\$ 524,188	\$ 524,188

Changes in endowment net assets for the year ended June 30, 2021 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 490,231	\$ 490,231
Investment return: Change in value of perpetual trust	-	118,031	118,031
Endowment net assets, end of year	\$ -	\$ 608,262	\$ 608,262

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

NOTES TO FINANCIAL STATEMENTS

(10) Endowments (continued)

Funds with deficiencies - From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). The Organization's policy is not to permit spending from underwater endowments. There were no funds with deficiencies as of June 30, 2022 and 2021.

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.

(11) Net assets

The net assets are summarized as follows as of June 30, 2022:

Detail of Net Assets	Without Donor Restrictions	With Donor Restrictions	Total
Undesignated	\$ 1,252,315	\$ -	\$ 1,252,315
Net investment in property and equipment	150,242	-	150,242
Restricted for classroom purchases	-	5,652,397	5,652,397
Endowment funds restricted in perpetuity for classroom purchases:			
Perpetual trust held by third party	-	524,188	524,188
	<u>\$ 1,402,557</u>	<u>\$ 6,176,585</u>	<u>\$ 7,579,142</u>

The net assets are summarized as follows as of June 30, 2021:

Detail of Net Assets	Without Donor Restrictions	With Donor Restrictions	Total
Undesignated	\$ 808,539	\$ -	\$ 808,539
Net investment in property and equipment	327,227	-	327,227
Restricted for classroom purchases	-	4,501,502	4,501,502
Endowment funds restricted in perpetuity for classroom purchases:			
Perpetual trust held by third party	-	608,262	608,262
	<u>\$ 1,135,766</u>	<u>\$ 5,109,764</u>	<u>\$ 6,245,530</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes, by the passage of time, or by the occurrence of other events specified by donors. Net assets released from restrictions for the years ended June 30, 2022 and 2021, are as follows:

	2022	2021
Classroom purchases	\$ 4,997,002	\$ 3,342,180
Technology	-	10,000
Fundraising consultant	-	21,476
	<u>\$ 4,997,002</u>	<u>\$ 3,373,656</u>

See Notes to Financial Statements

ADOPT-A-CLASSROOM, INC.

NOTES TO FINANCIAL STATEMENTS

(12) Operating lease

The Organization leases office space under a noncancelable operating lease. The lease term ends December 31, 2022. Monthly payments range from \$2,400 to \$2,500 over the lease term. Also, additional rent for common area maintenance, taxes and insurance is due. Rent expense was approximately \$51,000 for both years ended June 30, 2022 and 2021, respectively.

The future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2023	\$ 15,100
	<u>\$ 15,100</u>

The Organization entered a new operating lease subsequent to year end, effective September 1, 2022. The lease term ends December 31, 2027. Monthly payments range from \$3,000 to \$3,400.

See Notes to Financial Statements