FINANCIAL STATEMENTS

QUIXOTE CENTER, INC.

FOR THE YEAR ENDED JUNE 30, 2012
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2011

QUIXOTE CENTER, INC.

CONTENTS

GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Quixote Center, Inc.
College Park, Maryland

We have audited the accompanying statement of financial position of the Quixote Center, Inc. (the Center) as of June 30, 2012, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Center's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized information has been derived from the Center's 2011 financial statements and, in our report dated November 16, 2012, we expressed an unqualified opinion on those statements.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Center as of June 30, 2012, and the change in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Gelman Rosenberg & Freedman

February 5, 2013

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QUIXOTE CENTER, INC.

STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

ASSETS

	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	$ 235,347	$ 113,826
Investments (Notes 2 and 7)	33,688	32,968
Accounts receivable	47,002	188
Total current assets	316,037	146,982
PROPERTY AND EQUIPMENT		
Land	-	30,418
Buildings	-	258,388
Equipment	89,844	89,844
	89,844	378,650
Less: Accumulated depreciation	(88,020)	(292,620)
Net property and equipment	1,824	86,030
OTHER ASSETS - Deposits	2,500	2,500
TOTAL ASSETS	**$ 320,361**	**$ 235,512**

LIABILITIES AND NET ASSETS

	2012	2011
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 6)	$ 47,793	$ 45,636
LONG-TERM LIABILITIES		
Deferred rent (Note 5)	757	-
Total liabilities	48,550	45,636
NET ASSETS		
Unrestricted	45,189	(7,051)
Temporarily restricted (Note 3)	226,622	196,927
Total net assets	271,811	189,876
TOTAL LIABILITIES AND NET ASSETS	**$ 320,361**	**$ 235,512**

See accompanying notes to financial statements.

QUIXOTE CENTER, INC.

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

	2012			2011
	Unrestricted	Temporarily Restricted	Total	Total
REVENUE				
Contributions and grants	$ 110,865	$ 295,027	$ 405,892	$ 172,945
Gain on sale of property	142,576	-	142,576	-
Investment income (Note 2)	772	-	772	8,054
Publications and product sales	12,398	-	12,398	9,107
Rental income (Note 5)	7,046	5,533	12,579	6,380
Mailing list rentals	2,186	248	2,434	1,373
Miscellaneous income	17,053	-	17,053	258
Net assets released from donor restrictions (Note 4)	271,113	(271,113)	-	-
Total revenue	564,009	29,695	593,704	198,117
EXPENSES				
Program Services:				
Quest for Peace	155,294	-	155,294	76,582
Criminal Justice	23,874	-	23,874	997
Grassroots Investigation Project	6,330	-	6,330	4,058
Catholics Speak Out	27,136	-	27,136	36,748
Haiti Reborn	43,938	-	43,938	73,078
Crabgrass Christians Initiative	23,691	-	23,691	-
Bill Callahan Memorial Fund	11,300	-	11,300	-
Books for Prisoners	-	-	-	6,935
Total program services	291,563	-	291,563	198,398
Supporting Services:				
General and Administrative	189,741	-	189,741	124,185
Fundraising	30,465	-	30,465	3,534
Total supporting services	220,206	-	220,206	127,719
Total expenses	511,769	-	511,769	326,117
Change in net assets (deficit)	52,240	29,695	81,935	(128,000)
Net assets (deficit) at beginning of year	(7,051)	196,927	189,876	317,876
NET ASSETS AT END OF YEAR	**$ 45,189**	**$ 226,622**	**$ 271,811**	**$ 189,876**

See accompanying notes to financial statements.

QUIXOTE CENTER, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

	2012				
	Quest for Peace	**Criminal Justice**	**Grassroots Investigation Project**	**Catholics Speak Out**	**Haiti Reborn**
Salaries and fringe benefits (Note 6)	$ 20,883	$ 13,617	$ -	$ 9,674	$ 8,621
Printing and production	2,132	338	-	7,495	1,060
Contributions and grants	98,715	-	-	-	20,000
Contracted services	9,302	3,217	-	1,748	4,063
Occupancy - utilities and taxes (Note 5)	7,898	3,293	-	2,119	3,432
Accounting and legal	2,732	533	-	400	1,199
Insurance	2,150	419	-	315	944
Depreciation	-	-	-	-	-
Telephone	1,103	135	-	145	486
Travel	3,522	31	704	20	57
Postage and delivery	378	168	180	683	1,588
Supplies	3,935	1,084	67	640	1,721
Subscriptions and publications	872	16	-	12	36
Meetings and conferences	10	21	5,379	5	4
Advertising and promotion	82	16	-	12	36
Equipment rent and maintenance	246	203	-	67	105
Miscellaneous expenses	486	274	-	102	192
Computer expenses	848	509	-	242	394
Publications	-	-	-	3,457	-
TOTAL	**$ 155,294**	**$ 23,874**	**$ 6,330**	**$ 27,136**	**$ 43,938**

			Supporting Services			
Crabgrass Christians Initiative	Bill Callahan Memorial Fund	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	Total Expenses
$ 17,787	$ -	$ 70,582	$ 79,682	$ 14,332	$ 94,014	$ 164,596
475	-	11,500	3,365	3,615	6,980	18,480
-	11,300	130,015	28,645	-	28,645	158,660
1,240	-	19,570	14,649	2,373	17,022	36,592
1,747	-	18,489	12,234	2,161	14,395	32,884
-	-	4,864	8,701	666	9,367	14,231
-	-	3,828	5,362	524	5,886	9,714
-	-	-	14,825	-	14,825	14,825
(80)	-	1,789	199	258	457	2,246
1,186	-	5,520	4,476	32	4,508	10,028
142	-	3,139	3,141	4,509	7,650	10,789
328	-	7,775	3,088	1,007	4,095	11,870
-	-	936	596	58	654	1,590
219	-	5,638	285	5	290	5,928
-	-	146	34	20	54	200
156	-	777	634	81	715	1,492
188	-	1,242	8,161	133	8,294	9,536
303	-	2,296	1,664	691	2,355	4,651
-	-	3,457	-	-	-	3,457
$ 23,691	**$ 11,300**	**$ 291,563**	**$ 189,741**	**$ 30,465**	**$ 220,206**	**$ 511,769**

See accompanying notes to financial statements.

QUIXOTE CENTER, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 81,935	$ (128,000)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	14,825	20,271
Net appreciation of investments	(719)	(7,966)
Gain on disposal of property	(142,576)	-
(Increase) decrease in:		
Accounts receivable	(46,814)	12,149
Prepaid expenses	-	9,261
Deposits	-	(2,500)
Increase (decrease) in:		
Accounts payable and accrued liabilities	2,157	(4,175)
Transfer of programs: Nicaragua-United States Friendship Office	-	(302,455)
Transfer of programs - Konbit Pou Ayiti, Inc.	-	(50,000)
Deferred rent	757	-
Net cash used by operating activities	(90,435)	(453,415)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property	211,956	-
Net cash provided by investing activities	211,956	-
Net increase (decrease) in cash and cash equivalents	121,521	(453,415)
Cash and cash equivalents at beginning of year	113,826	567,241
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 235,347**	**$ 113,826**

See accompanying notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The Quixote Center, Inc. (the Center) is a non-profit organization, incorporated in the State of Maryland. The Center's activities focus upon religious and educational development and alleviating the plight of poor minorities. The Center produces and distributes publications and provides speakers in order to increase the public's awareness of social justice issues. The Center also acts as an intermediary for the donation of humanitarian aid supplies to the people of Nicaragua from the people of the United States. The Center's primary responsibilities in this area include arranging for the shipment of the donated supplies, including the related fundraising to raise funds to cover shipment costs, overseeing the distribution of the supplies, and maintaining the proper records of shipments in order to comply with various United States and international requirements. The Center has also used public awareness advertisements in newspapers in an effort to educate a broad section of the United States population on social justice issues.

The Center's major program activities are:

- **Quixote Center Programs** - Promotion of public awareness regarding social justice issues which are not included under the Center's primary programs and providing staffing for the Nicaraguan Cultural Alliance (a not-for-profit corporation).

- **Quest for Peace** - Collection and shipment of humanitarian aid to the people of Nicaragua through a network of church organizations; provide educational resources; assist with development efforts in Nicaragua. *Alliance for Responsible Trade* (ART) is a national network of labor, family-farm, religious, women's, environmental, development and research organizations that promotes equitable and sustainable trade and development. ART is the network representative to the Hemispheric Social Alliance, a hemispheric-wide organization of coalitions which are challenging the dominant models of power. There is also an International Monetary Fund (IMF) program focused on contracting with Nicaraguan economists to research and write studies which show how IMF and World Bank policies impact life in Nicaragua.

- **Justice Matters** - A grassroots campaign for human rights. Its mission is to educate the public about racial, economic and political biases deeply embedded in the United States legal/penal system and to organize pressure for meaningful change. *Books for Prison*ers is a volunteer-run network that collects books to send to prisoners and works to educate the public about the epidemic of prison illiteracy. *Grassroots Investigation Project* (GRIP) trains volunteer activists and family members of defendants to investigate cases when lawyers have limited resources.

- **Haiti Reborn** - Provides assistance with literacy and reforestation projects in Haiti, assists with observations of elections and disseminates educational resources which document the events and situations in Haiti.

- **Catholics Speak Out** - A network of United States Catholics committed to working for justice in the Church and the transformation of Church structures.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Center's financial statements for the year ended June 30, 2011, from which the summarized information was derived.

Cash and cash equivalents -

The Center considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Through December 31, 2012, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") provides temporary unlimited deposit insurance coverage for non-interest bearing transaction accounts at all Federal Deposit Insurance Corporation (FDIC) - insured depository institutions (the "Dodd-Frank Deposit Insurance Provision"). The Center maintains a portion of its cash balances at financial institutions in non-interest bearing accounts; thereby, all of these cash balances are protected by the FDIC under this Act.

At times during the year, the Center maintains cash balances at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Realized and unrealized gains and losses are included in investment income in the Statement of Activities and Change in Net Assets.

Accounts receivable -

Accounts receivable approximate fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established. Accounts receivable are expected to be collected within a year.

Property and equipment -

Property and equipment in excess of $1,000 are capitalized and stated at cost. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. The cost of maintenance and repairs is recorded as expenses are incurred. Depreciation expense for the year ended June 30, 2012 totaled $14,825.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Income taxes -

The Center is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. The Center is not a private foundation.

Uncertain tax positions -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes.

For the year ended June 30, 2012, the Center has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements. The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of the Center and include both internally designated and undesignated resources.

- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the Center and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.

Contributions and grants -

Contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Restricted contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Risks and uncertainties -

The Center invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Fair value measurement -

The Center adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements.

2. INVESTMENTS

Investments consisted of the following at June 30, 2012:

	Market Value
Mutual Funds	**$ 33,688**

Included in investment income are the following:

Interest and dividends	$ 53
Net appreciation of investments	719
TOTAL INVESTMENT INCOME	**$ 772**

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2012:

Quest for Peace	$ 94,968
Grassroots Investigation Project	2,510
Catholics Speak Out	47,854
Haiti Reborn	67,590
Bill Callahan Memorial Fund	13,700
	$ 226,622

4. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions by incurring expenses, which satisfied the restricted purposes specified by the donors:

Quest for Peace	$ 155,294
Criminal Justice	5,633
Grassroots Investigation Project	6,330
Catholics Speak Out	27,136
Haiti Reborn	43,938
Crabgrass Christians Initiative	11,641
Bill Callahan Memorial Fund	11,300
Books for Prisoners	9,841
	$ 271,113

5. LEASE COMMITMENTS

The Center leases office space under a three-year agreement, which originated in August 2011. Base rent is $30,000 per year, plus a proportionate share of expenses, increasing by a factor of 3% per year.

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability.

The following is a schedule of the future minimum lease payments:

Year Ending June 30,	
2013	$ 30,750
2014	31,670
2015	5,304
	$ 67,724

Rent expense including utilities, storage and property taxes for the year ended June 30, 2012 was $32,884. The deferred rent liability was $757.

The Center subleases a portion of its office space under a lease agreement expiring on August 31, 2014.

The following is a schedule of the future minimum rental income:

Year Ending June 30,	
2013	$ 15,413
2014	15,875
2015	2,652
	$ 33,940

Rental income for the year ended June 30, 2012 was $12,579.

6. RETIREMENT PLAN

The Center established a tax-deferred annuity retirement plan on January 1, 1991. The plan is intended to be a qualified plan under Internal Revenue Code Section 403(b). All employees are eligible to participate in the plan provided they meet the following requirements: age 18 and three months of service, with a minimum of 250 hours of service. For continued eligibility, each employee must work at least 1,000 hours during a plan year.

The plan is funded by voluntary employee salary reduction agreements. At the beginning of each plan year, the Center makes a determination as to whether or not an employer contribution will be made for eligible employees. During the year ended June 30, 2012, the Center elected to contribute $2,216 to the plan.

The Retirement Medical Benefit Policy inaugurated by the Board in 2008, entitles retired, full-time staff aged 65 or older with at least 20 years of service up to $2,400 per year, adjusted for inflation, for otherwise uncovered medical expenses, including insurance. There is currently one retiree who meets those qualifications. There are two ways the Center can pay this benefit to this retiree: on an on-going basis (as currently done through monthly reimbursements) or as a lump-sum payout. The estimated cost of a lump-sum payout at June 30, 2012 was $36,000 and is included in accounts payable and accrued expenses in the accompanying Statement of Financial Position.

7. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, the Center has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Center has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at June 30, 2012.

- *Mutual funds* - The fair value is equal to the reported net asset value of the fund, which is the price at which additional shares can be obtained.

7. FAIR VALUE MEASUREMENT (Continued)

The table below summarizes, by level within the fair value hierarchy, the Center's investments as of June 30, 2012:

	Level 1	Level 2	Level 3	Total
Asset Category:				
Mutual Funds	$ 33,688	$ -	$ -	$ 33,688

8. SUBSEQUENT EVENTS

In preparing these financial statements, the Center has evaluated events and transactions for potential recognition or disclosure through February 5, 2013, the date the financial statements were issued.