

Cradles to Crayons

**FINANCIAL STATEMENTS
MARCH 31, 2019 AND 2018**

CRADLES TO CRAYONS, INC.

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March 31, 2019 and 2018

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50 Washington Street
Westborough, MA 01581
508.366.9100
aafcpa.com

Independent Auditor's Report

To the Board of Directors of
Cradles to Crayons, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of Cradles to Crayons, Inc. (a Massachusetts corporation, not for profit) which comprise the statement of financial position as of March 31, 2019, and the related statements of activities without donor restrictions, changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cradles to Crayons, Inc. as of March 31, 2019, 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.

Prior Period Financial Statements

The financial statements of Cradles to Crayons, Inc. as of and for the year ended March 31, 2018, were audited by other auditors whose report dated July 25, 2018, expressed an unmodified opinion on those statements.

Alexander, Acosta, Penning & Co., P.C.

Westborough, Massachusetts
August 6, 2019

CRADLES TO CRAYONS, INC.Statements of Financial Position
March 31, 2019 and 2018

Assets	2019	2018
Current Assets:		
Cash and cash equivalents	\$ 6,568,717	\$ 3,889,516
Investments	2,718,956	2,590,705
Current portion of pledges receivable	2,350,420	789,367
Prepaid expenses	129,760	116,674
Total current assets	11,767,853	7,386,262
Investments - Board designated	1,400,000	1,400,000
Pledges Receivable, net of current portion and allowance for doubtful accounts	1,112,796	4,296
Property and Equipment, net	471,720	452,291
Projects Under Development	7,410,726	473,004
Security Deposit	55,867	44,033
Total assets	<u>\$ 22,218,962</u>	<u>\$ 9,759,886</u>
Liabilities and Net Assets		
Current Liabilities:		
Current portion of bonds payable	\$ 16,043	\$ -
Accounts payable	137,661	121,297
Accrued expenses	689,735	543,226
Project under development accounts payable	780,896	-
Total current liabilities	1,624,335	664,523
Bonds Payable, net of current portion and issuance costs	4,326,248	-
Deferred Rent	126,576	143,031
Total liabilities	<u>6,077,159</u>	<u>807,554</u>
Net Assets:		
Without donor restrictions:		
Operating	8,797,462	6,303,757
Board designated	1,400,000	1,400,000
Total without donor restrictions	10,197,462	7,703,757
With donor restrictions	5,944,341	1,248,575
Total net assets	<u>16,141,803</u>	<u>8,952,332</u>
Total liabilities and net assets	<u>\$ 22,218,962</u>	<u>\$ 9,759,886</u>

CRADLES TO CRAYONS, INC.Statements of Activities Without Donor Restrictions
For the Years Ended March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Support and Revenues:		
Contributions	\$ 11,336,369	\$ 8,631,407
Donated goods	9,280,578	8,632,870
Donated services	591,543	353,700
Net assets released from purpose restrictions	<u>529,417</u>	<u>60,862</u>
Total support and revenues	<u>21,737,907</u>	<u>17,678,839</u>
Expenses:		
Program services	16,541,539	14,827,829
General and administrative	1,393,702	840,558
Fundraising	<u>1,599,260</u>	<u>1,406,555</u>
Total expenses	<u>19,534,501</u>	<u>17,074,942</u>
Changes in net assets without donor restrictions from operations	<u>2,203,406</u>	<u>603,897</u>
Non-Operating Revenue:		
Donated services for project under development	194,092	131,280
Net investment return	<u>96,207</u>	<u>316,323</u>
Total non-operating revenue	<u>290,299</u>	<u>447,603</u>
Changes in net assets without donor restrictions	<u>\$ 2,493,705</u>	<u>\$ 1,051,500</u>

CRADLES TO CRAYONS, INC.Statements of Changes in Net Assets
For the Years Ended March 31, 2019 and 2018

Net Assets, March 31, 2017	<u>\$ 7,957,998</u>
Changes in net assets without donor restrictions	<u>1,051,500</u>
Changes in net assets with donor restrictions:	
Contributions	3,696
Net assets released from purpose restrictions	<u>(60,862)</u>
Total changes in net assets with donor restrictions	<u>(57,166)</u>
Changes in net assets	<u>994,334</u>
Net Assets, March 31, 2018	<u>8,952,332</u>
Changes in net assets without donor restrictions	<u>2,493,705</u>
Changes in net assets with donor restrictions:	
Contributions	5,471,835
Uncollectible pledges	(246,652)
Net assets released from purpose restrictions	<u>(529,417)</u>
Total changes in net assets with donor restrictions	<u>4,695,766</u>
Changes in net assets	<u>7,189,471</u>
Net Assets, March 31, 2019	<u><u>\$ 16,141,803</u></u>

CRADLES TO CRAYONS, INC.Statements of Cash Flows
For the Years Ended March 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 7,189,471	\$ 994,334
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	177,844	224,892
Bad debt	126,224	40,255
Capital grants	(5,159,093)	(1,205,747)
Projects under development donated services	194,092	131,280
Non-cash donated building costs	-	(146,519)
Deferred rent	(16,455)	-
Net (gains) losses on investments	15,612	(196,208)
Changes in operating assets and liabilities:		
Pledges receivable	(468,647)	188,375
Pledges receivable - capital campaign	-	-
Prepaid expenses	(13,086)	(15,632)
Accounts payable	16,364	70,330
Accrued expenses	146,509	53,197
Net cash provided by operating activities	<u>2,208,835</u>	<u>138,557</u>
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(197,273)	-
Acquisition of projects under development	(6,350,918)	(487,836)
Purchase of investments	(2,833,488)	(1,412,074)
Proceeds from sale of investments	2,689,625	1,338,157
Security deposit	(11,834)	19,363
Net cash used in investing activities	<u>(6,703,888)</u>	<u>(542,390)</u>
Cash Flows from Financing Activities:		
Capital grants	2,831,963	928,096
Proceeds from bonds payable	4,400,000	-
Payments of debt issuance costs	(57,709)	-
Net cash provided by financing activities	<u>7,174,254</u>	<u>928,096</u>
Net Change in Cash and Cash Equivalents	2,679,201	524,263
Cash and Cash Equivalents:		
Beginning of year	<u>3,889,516</u>	<u>3,365,253</u>
End of year	<u>\$ 6,568,717</u>	<u>\$ 3,889,516</u>
Supplemental Disclosure of Cash Flow Information:		
Project under development included in accounts payable	<u>\$ 780,896</u>	<u>\$ -</u>

CRADLES TO CRAYONS, INC.

 Statements of Functional Expenses
 For the Years Ended March 31, 2019 and 2018

	2019				2018			
	Program Services	General and Administrative	Fundraising	Total	Program Services	General and Administrative	Fundraising	Total
Personnel and Related Costs:								
Salaries	\$ 2,934,334	\$ 604,774	\$ 1,011,905	\$ 4,551,013	\$ 2,516,469	\$ 481,808	\$ 891,412	\$ 3,889,689
Fringe benefits and payroll taxes	616,661	127,095	212,655	956,411	508,678	97,393	180,190	786,261
Total personnel and related costs	3,550,995	731,869	1,224,560	5,507,424	3,025,147	579,201	1,071,602	4,675,950
Other Expenses:								
Professional fees	651,033	381,533	23,212	1,055,778	544,084	82,921	20,764	647,769
Occupancy	755,590	21,214	37,053	813,857	717,668	21,046	36,626	775,340
Event supplies and expenses	196,768	-	75,027	271,795	147,626	-	55,197	202,823
Depreciation	114,668	23,633	39,543	177,844	145,496	27,857	51,539	224,892
Shipping supplies	167,566	6,964	-	174,530	131,853	3,538	1,257	136,648
Information technology	101,228	37,618	34,908	173,754	84,205	31,698	29,828	145,731
Bad debt	-	126,224	-	126,224	-	40,255	-	40,255
Advertising, marketing and communications	97,377	-	24,344	121,721	48,061	-	12,015	60,076
Travel	71,710	14,780	24,729	111,219	62,751	12,015	22,229	96,995
Truck and van expense	103,367	-	-	103,367	132,703	-	-	132,703
Insurance	62,195	12,819	21,448	96,462	48,019	9,194	17,010	74,223
Repairs and maintenance	69,465	3,245	3,241	75,951	57,927	2,770	2,861	63,558
Staff development	47,740	9,839	16,463	74,042	41,364	7,920	14,652	63,936
Donation processing fees	-	-	65,482	65,482	-	-	60,783	60,783
Telephone	20,362	4,197	7,022	31,581	21,114	4,042	7,479	32,635
Dues and subscriptions	-	18,070	-	18,070	-	16,634	-	16,634
Office supplies and other	12,792	1,697	2,228	16,717	15,384	1,467	2,713	19,564
Total other expenses	2,471,861	661,833	374,700	3,508,394	2,198,255	261,357	334,953	2,794,565
Subtotal before children's products	6,022,856	1,393,702	1,599,260	9,015,818	5,223,402	840,558	1,406,555	7,470,515
Children's Products:								
Donated children's products	9,280,578	-	-	9,280,578	8,632,870	-	-	8,632,870
Purchased children's products	1,238,105	-	-	1,238,105	971,557	-	-	971,557
Total children's products	10,518,683	-	-	10,518,683	9,604,427	-	-	9,604,427
Total expenses	\$ 16,541,539	\$ 1,393,702	\$ 1,599,260	\$ 19,534,501	\$ 14,827,829	\$ 840,558	\$ 1,406,555	\$ 17,074,942

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2019 and 2018

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES

OPERATIONS

Cradles to Crayons, Inc. (the Organization) is a not for profit corporation that enhances the lives of underprivileged children and their families by providing them, free of charge, basic necessities such as clothing, school supplies, safety equipment, books and toys that are essential to their health, education, and well-being. The Organization serves children from low-income families throughout Massachusetts, the greater Philadelphia and Chicago regions. As a result of a strategic planning initiative that identified a large unmet need across the United States for the type of service it provides, the Organization has decided to expand its reach nationally, and is laying the groundwork to make that shift.

The Organization executes its mission by mobilizing widespread community and civic participation. At the community level, the Organization partners with schools, corporations, faith-based organizations, and other community groups to conduct drives for children's goods and to obtain volunteers in its warehouse. In addition, the Organization partners with a network of diverse social service agencies that order and distribute the Organization's packages to individual children receiving services from those agencies. By involving individuals and local private, not-for-profit, and public-sector organizations in its mission, the Organization is able to address the immediate needs of underprivileged children, build long-term community ownership of the Organization's mission, and raise awareness about the critical issues of poverty and homelessness.

NONPROFIT STATUS

The Organization is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC). The Organization is also exempt from state income taxes. Donors may deduct contributions made to the Organization within the IRC requirements.

SIGNIFICANT ACCOUNTING POLICIES

The Organization prepares its financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Recently Adopted Accounting Pronouncements

In fiscal year 2019, the Organization adopted FASB's Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these statements accordingly. The adoption of this ASU did not impact the Organization's net asset classes, results of operations, or cash flows for the year ended March 31, 2019. This ASU has been applied retrospectively to all periods presented. As allowed by this ASU, the Organization has elected to omit the disclosures about liquidity and availability of resources for the March 31, 2018 financial statements.

Estimates

The preparation of financial statements in accordance with U.S. GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2019 and 2018

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents and Concentration of Credit Risk

For the purpose of the statements of cash flows, cash and cash equivalents consist of checking and money market accounts, time deposits, and certificates of deposits issued with initial maturities of ninety days or less and which are held within the Organization's custody.

The Organization maintains its cash balances in financial institutions in Massachusetts. Balances at the institutions are fully insured by the Federal Deposit Insurance Corporation (FDIC). At certain times during the year, balances at another institution exceeded the insured limits of FDIC coverage.

The Organization has not experienced any losses in these accounts and management believes the Organization is not exposed to any significant credit risk on its cash and cash equivalents.

Investments

Investments primarily include exchange-traded funds which are reported at fair value (see page 10 and Note 2).

The Organization records interest and dividends on its investments when earned. Gains or losses on investments are recognized as realized upon sale or based on market value changes during the period. These amounts are reported in the accompanying statements of activities without donor restrictions as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulations or by law.

Allowance for Doubtful Accounts

The allowance for doubtful pledges receivable is recorded based on management's analysis of specific pledges receivable and its estimate of amounts that may be uncollectible. As of March 31, 2019 and 2018, the allowance for doubtful accounts was \$11,204 and \$1,704, respectively (see Note 3).

Property and Equipment

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair value at the date of receipt by the Organization. Depreciation is computed using the straight-line method over an estimated useful life as follows:

<u>Asset Class</u>	<u>Useful Life</u>
Equipment	5 years
Furniture and fixtures	5 years
Leasehold improvements	10 years
Software	3 - 5 years
Vehicles	5 years

Debt Issuance Costs

The Organization incurred debt issuance costs associated with its bonds payable (see Note 8). Debt issuance costs are amortized over the period the related obligation is outstanding (thirty years) using the straight-line method, which approximates the effective interest method.

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2019 and 2018

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Net assets consist of the following:

Net assets without donor restrictions include net resources which bear no external restrictions and are currently available for operations. The Organization's Board of Directors may designate net assets for a specific purpose. As of March 31, 2019 and 2018, the Board had designated \$1,400,000 for capacity building and growth related to the capital campaigns (see below).

Net assets with donor restrictions include individual contributions and grants which are designated by donors for specific purposes or time periods. These individual contributions are recorded as net assets with donor restrictions until they are expended for their designated purposes or the time period lapses.

Net assets with donor restrictions are restricted as follows as of March 31:

	<u>2019</u>	<u>2018</u>
Specific purpose restricted funds:		
Philadelphia operations	\$ 149,173	\$ 39,133
Chicago operation	74,330	-
Boston operations	<u>3,099</u>	<u>3,695</u>
Total specific purpose restricted funds	116,602	42,828
Philadelphia Growth Campaign	2,122,703	1,205,747
Boston Forever Home Campaign	<u>3,595,036</u>	<u>-</u>
Total net assets with donor restrictions	<u>\$ 5,944,341</u>	<u>\$ 1,248,575</u>

Specific purpose restricted funds are released dollar-for-dollar as costs for eligible activity are incurred.

The Philadelphia Growth Campaign was initiated in 2013 and then again in 2018, to move to and build out a facility that would allow the Organization's local operation to build capacity to sustain and grow its operations. As well, it allowed the Organization to move to a location within Philadelphia city limits to have closer access to those served. In order to fund this capital project, the Organization entered into a capital campaign for "Growth". Amounts will be released from restriction when the project is placed in service. As of March 31, 2019 and 2018, \$728,591 and \$11,409, respectively, of the restricted funds have been spent on capital improvements but not yet placed in service. As of March 31, 2019, the Organization has \$536,225 in pledge receivables for the Philadelphia Growth Campaign. During the year ended March 31, 2018, the Organization received no cash or multi-year pledges for the Philadelphia Growth Campaign. The Philadelphia Growth Campaign will end in April 2019.

The Boston Forever Home Campaign was initiated in 2018 in an effort to purchase a facility in the greater Boston, Massachusetts area. In order to fund this acquisition and related build out of the facility, the Organization entered into a capital campaign. As of March 31, 2019, the Organization has \$1,945,832 in pledge receivables for the Boston Forever Home Campaign. During the year ended March 31, 2018, the Organization received no cash or multi-year pledges for the Boston Forever Home Campaign. As of March 31, 2019 and 2018, \$2,47,651 and \$461,595, respectively, of the restricted funds have been spent on capital improvements not yet placed in service.

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2019 and 2018

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

The Organization follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that the Organization would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

The Organization uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of the Organization. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

Level 1 - Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.

Level 2 - Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.

Level 3 - Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement.

Statements of Activities Without Donor Restrictions

Transactions deemed by management to be ongoing, major, or central to the provision services are reported as support and revenues and expenses in the accompanying statements of activities without donor restrictions. Non-operating revenue includes net investment return and revenues related to capital projects.

Revenue Recognition

The Organization records revenues from contributions when received or unconditionally committed. Grants and contributions with donor-imposed time or purpose restrictions are recorded as net assets with donor restrictions. When a donor stipulated time restriction ends or purpose restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities without donor restrictions as net assets released from donor restrictions. Donor restricted revenues for long-lived assets are released from restriction when the related assets are placed in service. All other revenue is recognized when earned.

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2019 and 2018

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expense Allocation

Expenses related directly to program or supporting functions are distributed to that program or supporting function. Certain categories of expenses that are attributable to both program and supporting functions require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, fringe benefits and payroll taxes, occupancy, and depreciation, which are allocated based on estimates of time and level of effort spent and square footage used by the Organization's program and supporting functions.

Joint Costs

The Organization operates fundraising events that serve a dual purpose of raising funds and collecting donated goods to be used as part of program operations. These expenses are reported as event supplies and expenses in the accompanying statement of functional expenses. They are allocated between program and fundraising based on the types of supplies and the purpose of each event.

Donated Services

The Organization receives donated services in support of various aspects of its programs (see Note 4). Donated services are recognized as contributions if the services create or enhance non-financial assets or require specialized skills, are performed by people with those skills, and must otherwise be purchased by the Organization. The value assigned to donated services is based on management's estimate of the fair value of services provided. Volunteers provided services throughout the fiscal year that are not recognized as contributions in the accompanying financial statements as the recognition criteria were not met.

Donated and Purchased Product Distributed

The Organization receives donations of new and gently-used children's products, including clothing, shoes, books, toys, school supplies, safety equipment, and other products from corporations and drives held throughout the fiscal year at schools, faith-based organizations, and other community organizations. These products can be donated to the Organization or purchased by the Organization for distribution (see Note 5). The Organization, in turn, provides these donated goods in customized packages, at no charge, to underprivileged children through a network of social service agencies. While the Organization maintains a stock of donated items on hand at its facilities, it observes a policy of only recording the value of the donated items upon distribution to the eligible child. Accordingly, no inventory value is reported in the accompanying statements of financial position.

Income Taxes

The Organization accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. The Organization has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at March 31, 2019 and 2018. The Organization's information returns are subject to examination by the Federal and state jurisdictions.

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2019 and 2018

1. OPERATIONS, NONPROFIT STATUS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Costs

The Organization expenses advertising costs as they are incurred. Advertising expense for the years ended March 31, 2019 and 2018, was approximately \$68,000 and \$41,000, respectively, which is included in advertising, marketing and communications in the accompanying statements of functional expenses.

Subsequent Events

Subsequent events have been evaluated through August 6, 2019, which is the date the financial statements were available to be issued. Except as disclosed in Note 9, there were no events that met the criteria for recognition or disclosure in the financial statements.

2. INVESTMENTS

The following table presents the Organization's investments by level within the valuation framework (see Note 1) as of March 31:

	2019			Total
	Level 1	Level 2	Level 3	
Cash	\$ 62,059	\$ -	\$ -	\$ 62,059
Exchange-traded funds				
Bond	2,215,328	-	-	2,215,328
Large cap	509,966	-	-	509,966
International	289,360	-	-	289,360
Other	<u>1,041,793</u>	<u>-</u>	<u>-</u>	<u>1,041,793</u>
Total	<u>\$ 4,118,956</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,118,956</u>
	2018			Total
	Level 1	Level 2	Level 3	Total
Exchange-traded funds				
Bond	\$ 1,966,448	-	-	\$ 1,966,448
Large cap	523,499	-	-	523,499
International	592,450	-	-	592,450
Other	<u>908,308</u>	<u>-</u>	<u>-</u>	<u>908,308</u>
Total	<u>\$ 3,990,705</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,990,705</u>

Exchange-traded funds are valued based quoted market prices in active markets (Level 1 inputs).

The Organization's Board of Directors has designated \$1,400,000 of the investments for the purposes of the capital campaign for facility projects (see Note 1). Accordingly, these investments are reported as assets held for long-term purposes in the accompanying statements of financial position.

Investments are not insured and are subject to market fluctuations. Investments are presented as current assets in the accompanying statements of financial position based on management's intent.

CRADLES TO CRAYONS, INC.Notes to Financial Statements
March 31, 2019 and 2018**2. INVESTMENTS (Continued)**

As of March 31, 2019 and 2018, net investment return consists of the following:

	<u>2019</u>	<u>2018</u>
Investment income	\$ 142,091	\$ 149,917
Net unrealized gain (loss) on investments	(116,708)	89,175
Net realized gain on the sale of investments	101,096	107,033
Investment fees	<u>(30,272)</u>	<u>(29,802)</u>
	<u>\$ 96,207</u>	<u>\$ 316,323</u>

3. PLEDGES RECEIVABLE

Pledges receivable are recorded at their present value using a discount rate against the long-term portion of pledges where significant. Pledges are expected to be received as follows as of March 31:

	<u>2019</u>		
	<u>Operating Support</u>	<u>Capital Campaign</u>	<u>Total</u>
Due in one year	\$ 790,447	\$ 1,559,973	\$ 2,350,420
Due in one to five years	<u>195,916</u>	<u>928,084</u>	<u>1,124,000</u>
	986,363	2,488,057	3,474,420
Less - allowance for doubtful accounts	-	<u>(11,204)</u>	<u>(11,204)</u>
	986,363	2,476,853	3,463,216
Less - current portion	<u>790,447</u>	<u>1,599,973</u>	<u>2,350,420</u>
Long-term portion	<u>\$ 195,916</u>	<u>\$ 916,880</u>	<u>\$ 1,112,796</u>
	<u>2018</u>		
	<u>Operating Support</u>	<u>Capital Campaign</u>	<u>Total</u>
Due in one year	\$ 517,716	\$ 271,651	\$ 789,367
Due in one to five years	-	<u>6,000</u>	<u>6,000</u>
	517,716	277,651	795,367
Less - allowance for doubtful accounts	-	<u>(1,704)</u>	<u>(1,704)</u>
	517,716	275,947	793,663
Less - current portion	<u>517,716</u>	<u>271,651</u>	<u>789,367</u>
Long-term portion	<u>\$ -</u>	<u>\$ 4,296</u>	<u>\$ 4,296</u>

There was no discount as of March 31, 2019 and 2018, as it was not significant to the financial statements as a whole.

Concentrations

One donor's pledge balance represented approximately 15% of the total outstanding pledges receivable balance at March 31, 2019. Two donors' pledge balances represented approximately 40% of the total outstanding pledge receivable balance as of March 31, 2018.

For the year ended March 31, 2018, two donors' contributions represented approximately 33% of the total operating support and revenues without donor restrictions.

CRADLES TO CRAYONS, INC.Notes to Financial Statements
March 31, 2019 and 2018

3. PLEDGES RECEIVABLE (Continued)**Related Donors**

During the years ended March 31, 2019 and 2018, employees, certain directors, related family members, and related companies made contributions to the Organization totaling \$1,704,009 and \$344,728, respectively. As of March 31, 2019 and 2018, pledges receivable from these related parties were \$1,196,557 and \$111,875, respectively.

4. DONATED SERVICES

The Organization received certain donated professional services related both to the general operations of the organization and to the purchase and renovation of a building. For the years ended March 31, 2019 and 2018, \$194,092 and \$131,280, respectively, of these services have been rendered and included as projects under development in the accompanying statements of financial position.

The value of donated services, recorded as fair market value, was as follows for the years ended March 31:

	<u>2019</u>	<u>2018</u>
Professional services	\$ 591,543	\$ 353,700
Projects under development	<u>194,092</u>	<u>131,280</u>
Total donated services	<u>\$ 785,635</u>	<u>\$ 484,980</u>

5. DONATED AND PURCHASED CHILDREN'S PRODUCTS DISTRIBUTED

The value of children's products distributed was as follows for the years ended March 31:

	<u>2019</u>	<u>2018</u>
Donated products distributed	\$ 9,280,578	\$ 8,632,870
Purchased products distributed	<u>1,238,105</u>	<u>971,557</u>
Total products distributed	<u>\$ 10,518,683</u>	<u>\$ 9,604,427</u>

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2019 and 2018

6. PROPERTY AND EQUIPMENT

As of March 31, 2019 and 2018, property and equipment consisted of the following:

	<u>2019</u>	<u>2018</u>
Equipment	\$ 429,731	\$ 359,005
Furniture and fixtures	684,074	557,525
Leasehold improvements	529,043	529,043
Software	324,881	324,881
Vehicles	<u>167,317</u>	<u>167,317</u>
	2,135,046	1,937,771
Less - accumulated depreciation	<u>1,663,326</u>	<u>1,485,480</u>
	<u>\$ 471,720</u>	<u>\$ 452,291</u>

Depreciation expense for the years ended March 31, 2019 and 2018, was \$177,846 and \$224,892, respectively.

7. PROJECTS UNDER DEVELOPMENT

In May 2018, the Organization began renovations on the space leased in Philadelphia, Pennsylvania (the Philadelphia Property) (see Note 9). Effective November 7, 2017, the Organization entered into a purchase and sale agreement to purchase a building and land in Newton, Massachusetts (the Newton Property). Projects under development at March 31, 2019 and 2018, of \$7,410,726 and \$473,004, respectively, consisted of purchase and construction costs incurred in connection with the Newton Property and Philadelphia Property. The estimated cost of the Philadelphia Property is \$2,000,000 and was completed in April 2019. The estimated cost of the Newton Property is \$8,400,000 and is expected to be completed in 2019.

As of March 31, 2019 and 2018, projects under development consisted of the following:

	<u>2019</u>	<u>2018</u>
Land	\$ 2,744,840	\$ -
Building	2,460,432	-
Construction in process	<u>2,205,454</u>	<u>473,004</u>
	<u>\$ 7,410,726</u>	<u>\$ 473,004</u>

The building purchase and construction in process are not depreciated until the projects are placed in service.

8. BONDS PAYABLE

Series A Revenue Bond

The Massachusetts Development Finance Agency (MDFA) issued \$4,400,000 of MDFA Revenue Bonds, Cradles to Crayons, Inc. Issue, Series A 2019 (the Bond) on behalf of the Organization. Interest-only payments are due through January 2020, at which time payments of principal and interest of \$18,829 are due monthly through January 2049. The Bond bears interest at 2.95% through January 2029, at which time the interest rate will be adjusted as defined in the Bond payable agreement. Interest expense was approximately \$32,000 for the year ended March 31, 2019, and is included in projects under development in the accompanying statement of financial position.

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2019 and 2018

8. BONDS PAYABLE (Continued)

The proceeds from the Bond were loaned to the Organization for the purpose of financing the purchase and construction of the Newton Property (see Note 7). The Bond is secured by substantially all assets of the Organization, including the Newton property. The Organization must comply with various compliance requirements as defined in the Bond agreements. The Organization was in compliance with these covenants at March 31, 2019.

Bonds payable as of March 31, 2019, were as follows:

Principal outstanding	\$ 4,400,000
Debt issuance costs	<u>(57,709)</u>
Net bonds payable	4,342,291
Less - current portion	<u>(16,043)</u>
Long-term portion of bonds payable	<u>\$ 4,326,348</u>

Future minimum payments of principal on the bonds payable are as follows:

<u>Fiscal Year</u>	<u>Principal</u>
2020	\$ 16,043
2021	\$ 97,934
2022	\$ 100,861
2023	\$ 103,877
2024	\$ 106,983
Thereafter	\$ 3,974,302

The Organization incurred debt issuance costs of \$57,709 in relation to the issuance of the Bond. These financing fees will be amortized over the life of the Bond, thirty years, beginning April 1, 2019. Amortization of debt issuance costs is expected to be \$1,924 each year.

Series A Supplemental Revenue Bond

The MDFA also issued \$4,000,000 of MDFA Supplemental Revenue Bonds, Cradles to Crayons, Inc. Issue, Series A 2019 (the Supplemental Bond) on behalf of the Organization as a bridge loan for construction. No amount has been drawn down on the bridge loan as of March 31, 2019. The Organization may draw down the proceeds as needed to complete the Newton Property by July 2020. Interest payments on borrowings will be due monthly. Principal payments will be due quarterly beginning September 2020 and will be based on receipt of capital campaign pledges (see Note 3). The outstanding principal balance of the Supplemental Bond may not exceed 66% of total advances as of January 31, 2021, and 33% of total advances as of January 31, 2022. Bond payable borrowings are due in full on January 31, 2023.

The Organization must comply with various compliance requirements as defined in the Supplemental Bond agreements. The Organization was not in compliance with these covenants at March 31, 2019, but received a waiver.

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2019 and 2018

9. LEASE AGREEMENTS

The Organization leases office and warehouse space in Massachusetts under a non-cancelable operating lease agreement that expires June 30, 2020. Annual base rent for the fiscal year was \$204,137. This agreement contains provisions for future rent increases, or periods in which rental payments are reduced. The Organization records monthly rent expense equal to the total of the payments due over the lease term. The difference between rent expense recorded and paid is credited to deferred rent payable.

The Organization also leased office and warehouse space in Pennsylvania under a non-cancelable operating lease agreement that expired on May 31, 2019. The Organization entered into a new lease agreement at a different location subsequent to year-end. The new lease expires in December 2028. The lease has two 5-year options for extension of the lease once the 10-year term is completed. Annual base rent will be approximately \$136,500 and increases annually in accordance with the agreement. The lease agreement included a tenant improvement allowance (lease incentive) of \$420,000 in the form of a reimbursement for construction and related costs incurred by the Organization. The lease incentive will be reported as a liability and amortized on a straight-line basis over the lease term as a reduction of rent expense.

The Organization also leases office and warehouse space in Chicago, Illinois under a non-cancellable operating lease agreement expiring in February 2026. The Organization records monthly rent expense equal to the total of the payments due over the lease term. The difference between rent expense recorded and paid is credited to deferred rent payable. Annual base rent for the first year is \$175,176 and includes annual increases for the remaining life of the lease. The lease also includes two five-year extension options as described in the agreement.

Under these agreements, in addition to base rent, the Organization is responsible for paying its portion of real estate taxes and utilities. The Organization also rents office space on a tenant-at-will basis. Rent expense (including real estate taxes and utilities) related to these agreements for the years ended March 31, 2019 and 2018, was \$813,857 and \$775,340, respectively, and is shown as occupancy in the accompanying statements of functional expenses.

Minimum Payments

Future minimum lease payments under the lease agreements are as follows for the years ending March 31:

2019	\$ 526,513
2020	\$ 385,894
2021	\$ 340,129
2022	\$ 348,376
2023	\$ 356,833

10. PENSION PLAN

The Organization sponsors a Simplified Employee Pension Plan for its eligible employees. The Organization matches contributions up to 3% of each employee's salary. The total amount contributed by the Organization for the years ended March 31, 2019 and 2018, was \$91,574 and \$82,676, respectively, and is included in employee fringe benefits and payroll taxes in the accompanying statements of functional expenses.

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2019 and 2018

11. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization has a policy to structure its financial assets to be available as its obligations become due. As of March 31, 2019, the Organization's liquid financial assets totaling \$6,610,632 are available for general use by the Organization within one year from the date of the statement of financial position.

Current financial assets are as follows as of March 31, 2019:

Cash and cash equivalents	\$ 6,568,717
Investments	2,718,956
Current portion of pledges receivable	<u>2,350,420</u>
Total current financial assets	<u>11,638,093</u>
Contractual or donor-imposed restrictions:	
Cash and cash equivalents	(3,427,488)
Current portion of pledges receivable	<u>(1,599,973)</u>
	<u>(5,027,461)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 6,610,632</u>

The Organization has approximately eight and a half months of operating expenses in available current financial assets at March 31, 2019. The board designated investments are available as needed for the capital campaigns. The Organization has available a \$4,000,000 bridge loan that has not been drawn on as of March 31, 2019.