

Cradles to Crayons

FINANCIAL STATEMENTS
MARCH 31, 2020 AND 2019

CRADLES TO CRAYONS, INC.

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March 31, 2020 and 2019

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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 statements of financial position as of March 31, 2020 and 2019, and the related statements of activities without donor restrictions, changes in net assets, cash flows and functional expenses for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

AAFCPAs, Inc.

Westborough, Massachusetts
August 4, 2020

CRADLES TO CRAYONS, INC.Statements of Financial Position
March 31, 2020 and 2019

Assets	2020	2019
Current Assets:		
Cash and cash equivalents	\$ 4,248,116	\$ 5,028,741
Investments	5,568,452	5,658,932
Current portion of pledges receivable	3,198,003	2,350,420
Prepaid expenses	155,449	129,760
Total current assets	13,170,020	13,167,853
Pledges Receivable, net of current portion and allowance for doubtful accounts	651,963	1,112,796
Property and Equipment, net	11,991,547	471,720
Projects Under Development	21,802	7,410,726
Security Deposit	65,502	55,867
Total assets	<u>\$ 25,900,834</u>	<u>\$ 22,218,962</u>
Liabilities and Net Assets		
Current Liabilities:		
Current portion of bonds payable	\$ 50,584	\$ 16,043
Accounts payable	107,109	137,661
Accrued expenses	633,654	689,735
Project under development accounts payable	-	780,896
Total current liabilities	791,347	1,624,335
Bonds Payable, net of current portion and issuance costs	4,277,517	4,326,248
Deferred Rent and Lease Incentive	460,384	126,576
Total liabilities	<u>5,529,248</u>	<u>6,077,159</u>
Net Assets:		
Without donor restrictions:		
Operating	10,121,331	8,720,742
Property and equipment	7,685,248	1,476,720
Total without donor restrictions	17,806,579	10,197,462
With donor restrictions	2,565,007	5,944,341
Total net assets	<u>20,371,586</u>	<u>16,141,803</u>
Total liabilities and net assets	<u>\$ 25,900,834</u>	<u>\$ 22,218,962</u>

The accompanying notes are an integral part of these statements.

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CRADLES TO CRAYONS, INC.Statements of Activities Without Donor Restrictions
For the Years Ended March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Support and Revenues:		
Contributions	\$ 11,506,821	\$ 11,336,369
Donated goods	10,970,286	9,280,578
Donated services	42,029	442,117
Net assets released from purpose restrictions	<u>1,106,504</u>	<u>529,417</u>
Total support and revenues	<u>23,625,640</u>	<u>21,588,481</u>
Expenses:		
Program services	19,543,897	16,541,539
General and administrative	1,087,943	1,393,702
Fundraising	<u>1,926,080</u>	<u>1,599,260</u>
Total expenses	<u>22,557,920</u>	<u>19,534,501</u>
Changes in net assets without donor restrictions from operations	<u>1,067,720</u>	<u>2,053,980</u>
Non-Operating Revenue:		
Donated services for project under development	268,928	343,518
Net investment return (loss)	(90,478)	96,207
Net assets released from capital restrictions	<u>6,362,947</u>	<u>-</u>
Total non-operating revenue	<u>6,541,397</u>	<u>439,725</u>
Changes in net assets without donor restrictions	<u>\$ 7,609,117</u>	<u>\$ 2,493,705</u>

CRADLES TO CRAYONS, INC.Statements of Changes in Net Assets
For the Years Ended March 31, 2020 and 2019

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>16,141,803</u>
Changes in net assets without donor restrictions	<u>7,609,117</u>
Changes in net assets with donor restrictions:	
Contributions	4,341,523
Uncollectible pledges	(251,406)
Net assets released from capital and purpose restrictions	<u>(7,469,451)</u>
Total changes in net assets with donor restrictions	<u>(3,379,334)</u>
Changes in net assets	<u>4,229,783</u>
Net Assets, March 31, 2020	<u><u>\$ 20,371,586</u></u>

CRADLES TO CRAYONS, INC.Statements of Cash Flows
For the Years Ended March 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 4,229,783	\$ 7,189,471
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	375,405	177,844
Bad debt	178,557	126,224
Capital grants	(4,244,129)	(5,159,093)
Projects under development donated services	268,928	343,518
Deferred rent	333,808	(16,455)
Net losses on investments	215,354	15,612
Changes in operating assets and liabilities:		
Pledges receivable	(95,843)	(468,647)
Prepaid expenses	(25,689)	(13,086)
Accounts payable	(811,448)	16,364
Accrued expenses	(56,081)	146,509
	<u>368,645</u>	<u>2,358,261</u>
Net cash provided by operating activities		
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(1,818,625)	(197,273)
Acquisition of projects under development	(2,956,611)	(6,500,344)
Purchase of investments	(2,987,623)	(4,373,464)
Proceeds from sale of investments	2,862,749	2,689,625
Security deposit	(9,635)	(11,834)
	<u>(4,909,745)</u>	<u>(8,393,290)</u>
Net cash used in investing activities		
Cash Flows from Financing Activities:		
Capital grants	3,774,665	2,831,963
Principal payments on bonds payable	(14,190)	-
Proceeds from bonds payable	-	4,400,000
Payments of debt issuance costs	-	(57,709)
	<u>3,760,475</u>	<u>7,174,254</u>
Net cash provided by financing activities		
Net Change in Cash and Cash Equivalents	(780,625)	1,139,225
Cash and Cash Equivalents:		
Beginning of year	<u>5,028,741</u>	<u>3,889,516</u>
End of year	<u>\$ 4,248,116</u>	<u>\$ 5,028,741</u>
Supplemental Disclosure of Cash Flow Information:		
Project under development included in accounts payable	<u>\$ 14,819</u>	<u>\$ 780,896</u>
Cash paid for interest	<u>\$ 120,807</u>	<u>\$ 10,456</u>

CRADLES TO CRAYONS, INC.

 Statements of Functional Expenses
 For the Years Ended March 31, 2020 and 2019

	2020				2019			
	Program Services	General and Administrative	Fundraising	Total	Program Services	General and Administrative	Fundraising	Total
Personnel and Related Costs:								
Salaries	\$ 3,680,782	\$ 521,636	\$ 1,182,973	\$ 5,385,391	\$ 2,934,334	\$ 604,774	\$ 1,011,905	\$ 4,551,013
Fringe benefits and payroll taxes	773,548	109,626	248,612	1,131,786	616,661	127,095	212,655	956,411
Total personnel and related costs	4,454,330	631,262	1,431,585	6,517,177	3,550,995	731,869	1,224,560	5,507,424
Other Expenses:								
Occupancy	712,946	21,027	73,126	807,099	755,590	21,214	37,053	813,857
Professional fees	303,368	111,069	19,600	434,037	651,033	381,533	23,212	1,055,778
Depreciation and amortization	255,265	38,100	82,040	375,405	114,668	23,633	39,543	177,844
Event supplies and expenses	198,004	-	75,081	273,085	196,768	-	75,027	271,795
Advertising, marketing and communications	183,329	-	45,832	229,161	97,377	-	24,344	121,721
Information technology	133,307	44,176	42,844	220,327	101,228	37,618	34,908	173,754
Bad debt	-	178,557	-	178,557	-	126,224	-	126,224
Shipping supplies	146,457	-	-	146,457	167,566	6,964	-	174,530
Truck and van expense	123,594	-	-	123,594	103,367	-	-	103,367
Travel	83,031	11,767	26,685	121,483	71,710	14,780	24,729	111,219
Staff development	65,558	9,291	21,070	95,919	47,740	9,839	16,463	74,042
Repairs and maintenance	84,632	3,051	3,851	91,534	69,465	3,245	3,241	75,951
Insurance	53,659	7,605	17,246	78,510	62,195	12,819	21,448	96,462
Office supplies and other	61,177	2,787	8,699	72,663	12,792	1,697	2,228	16,717
Donation processing fees	-	-	71,379	71,379	-	-	65,482	65,482
Telephone	21,910	3,105	7,042	32,057	20,362	4,197	7,022	31,581
Dues and subscriptions	-	26,146	-	26,146	-	18,070	-	18,070
Total other expenses	2,426,237	456,681	494,495	3,377,413	2,471,861	661,833	374,700	3,508,394
Subtotal before children's products	6,880,567	1,087,943	1,926,080	9,894,590	6,022,856	1,393,702	1,599,260	9,015,818
Children's Products Distributed:								
Donated children's products	10,970,286	-	-	10,970,286	9,280,578	-	-	9,280,578
Purchased children's products	1,693,044	-	-	1,693,044	1,238,105	-	-	1,238,105
Total children's products distributed	12,663,330	-	-	12,663,330	10,518,683	-	-	10,518,683
Total expenses	\$ 19,543,897	\$ 1,087,943	\$ 1,926,080	\$ 22,557,920	\$ 16,541,539	\$ 1,393,702	\$ 1,599,260	\$ 19,534,501

The accompanying notes are an integral part of these statements.

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2020 and 2019

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 2020, the Organization adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, as management believes the standard improves the usefulness and understandability of the entity's financial reporting. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore, no changes to the previously issued audited financial statements were required on a retrospective basis.

In fiscal year 2020, the Organization also adopted FASB's ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU clarifies and improves guidance for contributions received and contributions made and provides guidance to organizations on how to account for certain exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. Based on the Organization's evaluation of its grants and contributions, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard. No changes were required to previously reported revenues as a result of the adoption. However, the adoption resulted in additional disclosures surrounding conditional grants (see Note 12).

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2020 and 2019

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 and certificates of deposit issued with initial maturities of ninety days or less.

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 certificate of deposits and 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, 2020 and 2019, the allowance for doubtful accounts was \$16,204 and \$11,204, 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. Renewals and betterments are capitalized, while repairs and maintenance are expensed. Depreciation is computed using the straight-line method over estimated useful lives as follows:

Building and improvements	6 - 39 years
Equipment	5 years
Furniture and fixtures	5 years
Leasehold improvements	10 years
Software	3 - 5 years
Vehicles	5 years

Land is not depreciated.

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. Unamortized debt issuance costs are reported as a reduction in the recorded value of the related debt.

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2020 and 2019

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.

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>2020</u>	<u>2019</u>
Specific purpose restricted funds:		
Philadelphia operations	\$ 202,062	\$ 149,173
Boston operations	100,467	3,099
Chicago operation	79,210	74,330
National operations	<u>76,423</u>	<u>-</u>
Total specific purpose restricted funds	458,162	226,602
Philadelphia Growth Campaign	-	2,122,703
Boston Forever Home Campaign	<u>2,106,845</u>	<u>3,595,036</u>
Total net assets with donor restrictions	<u>\$ 2,565,007</u>	<u>\$ 5,944,341</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". The Philadelphia Growth Campaign ended in April 2019. During the year ended March 31, 2020, the restricted funds spent on capital improvements of \$1,691,341 were released from restriction as the project was placed in service. As of March 31, 2019, \$728,591 of the restricted funds had been spent on capital improvements but not yet released because the project had not been placed in service. As of March 31, 2020 and 2019, the Organization has \$340,277 and \$542,225, respectively, in pledges receivable for the Philadelphia Growth Campaign.

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2020 and 2019

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

The Boston Forever Home Campaign was initiated in 2018 to raise funds to purchase and build out a new facility in the greater Boston, Massachusetts area. Funds raised through the Campaign also provide support for initiatives including improving customer service, deepening the organization's impact with local children and families, and expanding the Organization's reach into new communities across the country. In order to fund this acquisition and related build out of the facility, the Organization entered into a capital campaign. Additional funds received for the campaign will be utilized during the year ended March 31, 2020. The restricted funds spent on capital improvements of \$4,671,607 were released from restriction when the project was placed into service. As of March 31, 2019, \$247,651 of the restricted funds had been spent on capital improvements not yet placed in service. As of March 31, 2020 and 2019, the Organization had \$2,443,687 and \$1,945,832, respectively, in pledges receivable for the Boston Forever Home Campaign.

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.

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.

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statements of Activities Without Donor Restrictions

Transactions deemed by management to be ongoing, major, or central to the provision of 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 (loss) and revenues related to capital projects.

Revenue Recognition

Grants and contributions may either be conditional or unconditional in accordance with ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. A grant or contribution is considered conditional when the donor imposes both a barrier and a right of return. Conditional grants and contributions are recognized as revenue on the date all donor-imposed barriers are overcome or explicitly waived by the donor. Barriers may include specific and measurable outcomes, limitations on the performance of an activity, and other stipulations related to the grant or contribution. A donor has a right of return of any assets transferred or a right of release of its obligation to transfer any assets in the event the Organization fails to overcome one or more barriers. Assets received before the barrier is overcome are accounted for as conditional advance liabilities.

Grants and contributions are recorded as revenue when received or committed and all conditions are met. Grants and contributions with donor restrictions are transferred to net assets without donor restrictions as purpose restrictions are satisfied or time restrictions have lapsed. 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.

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 an 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 statements of functional expenses. These expenses 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.

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2020 and 2019

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

SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated and Purchased Children's Products 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, 2020 and 2019. The Organization's information returns are subject to examination by the Federal and state jurisdictions.

Advertising Costs

The Organization expenses advertising costs as they are incurred. Advertising expense for the years ended March 31, 2020 and 2019, was approximately \$140,000 and \$68,000, 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 4, 2020, which is the date the financial statements were available to be issued. Except as disclosed in Notes 8 and 13, 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:

	2020			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 1,664,271	\$ -	\$ -	\$ 1,664,271
Exchange-traded funds:				
Bond	2,090,017	-	-	2,090,017
Large cap	593,129	-	-	593,129
Alternative	437,060	-	-	437,060
Other	783,975	-	-	783,975
Total	<u>\$ 5,568,452</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,568,452</u>

CRADLES TO CRAYONS, INC.Notes to Financial Statements
March 31, 2020 and 2019**2. INVESTMENTS (Continued)**

	2019			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 1,594,689	\$ -	\$ -	\$ 1,594,689
Exchange-traded funds:				
Bond	2,215,328	-	-	2,215,328
Large cap	509,966	-	-	509,966
International	289,360	-	-	289,360
Other	<u>1,049,588</u>	<u>-</u>	<u>-</u>	<u>1,049,588</u>
Total	<u>\$ 5,658,932</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,658,932</u>

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

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.

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:

	2020		
	Operating Support	Capital Campaigns	Total
Due in one year	\$ 1,072,206	\$ 2,125,797	\$ 3,198,003
Due in one to five years	<u>10,000</u>	<u>658,167</u>	<u>668,167</u>
	1,082,206	2,783,964	3,866,170
Less - allowance for doubtful accounts	<u>-</u>	<u>(16,204)</u>	<u>(16,204)</u>
	1,082,206	2,767,760	3,849,966
Less - current portion	<u>1,072,206</u>	<u>2,125,797</u>	<u>3,198,003</u>
Long-term portion	<u>\$ 10,000</u>	<u>\$ 641,963</u>	<u>\$ 651,963</u>
	2019		
	Operating Support	Capital Campaigns	Total
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>-</u>	<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>

There was no discount as of March 31, 2020 and 2019, as it was not significant to the financial statements.

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2020 and 2019

3. PLEDGES RECEIVABLE (Continued)

Concentrations

One donor's pledge balance represented approximately 20% and 15% of the total outstanding pledges receivable balance at March 31, 2020 and 2019, respectively.

Related Donors

During the years ended March 31, 2020 and 2019, employees, certain directors, related family members, and related companies made contributions to the Organization totaling \$729,232 and \$1,704,009, respectively. As of March 31, 2020 and 2019, pledges receivable from these related parties were \$139,288 and \$1,196,557, 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, 2020 and 2019, \$268,928 and \$343,518, respectively, of these services have been rendered and included within 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>2020</u>	<u>2019</u>
Professional services	\$ 42,029	\$ 442,117
Projects under development	<u>268,928</u>	<u>343,518</u>
Total donated services	<u>\$ 310,957</u>	<u>\$ 785,635</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>2020</u>	<u>2019</u>
Donated products distributed	\$ 10,970,286	\$ 9,280,578
Purchased products distributed	<u>1,693,044</u>	<u>1,238,105</u>
Total products distributed	<u>\$ 12,663,330</u>	<u>\$ 10,518,683</u>

The Organization has entered into a purchase order with a vendor for a custom purchase of children's products for an event in fiscal year 2021. If the Organization cancels this purchase order with the vendor, the Organization will be obligated to pay the vendor for the custom purchase in full, approximately \$720,000. Management anticipates that the invoice and fulfillment of the purchase will take place in fiscal year 2021, and therefore, no liability has been recorded in the accompanying financial statements.

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2020 and 2019

6. PROPERTY AND EQUIPMENT

As of March 31, 2020 and 2019, property and equipment consisted of the following:

	<u>2020</u>	<u>2020</u>
Land	\$ 2,744,840	\$ -
Building and improvements	7,331,767	-
Equipment	540,658	429,731
Furniture and fixtures	698,508	684,074
Leasehold improvements	2,220,384	529,043
Software	324,881	324,881
Vehicles	<u>167,317</u>	<u>167,317</u>
	14,028,355	2,135,046
Less - accumulated depreciation	<u>2,036,808</u>	<u>1,663,326</u>
	<u>\$ 11,991,547</u>	<u>\$ 471,720</u>

Depreciation expense for the years ended March 31, 2020 and 2019, was \$373,482 and \$177,844, respectively.

7. PROJECTS UNDER DEVELOPMENT

In May 2018, the Organization began renovations on the space leased in Philadelphia, Pennsylvania (the Philadelphia Property) (see Notes 1 and 9). The Organization purchased a building and land in Newton, Massachusetts (the Newton Property) (see Note 1). Projects under development at March 31, 2019, consisted of purchase and construction costs incurred in connection with the Newton Property and Philadelphia Property, both of which were completed and placed in service during the year ended March 31, 2020.

As of March 31, 2020 and 2019, projects under development consisted of the following:

	<u>2020</u>	<u>2019</u>
Land	\$ -	\$ 2,744,840
Building	-	2,460,432
Construction in process	<u>21,802</u>	<u>2,205,454</u>
	<u>\$ 21,802</u>	<u>\$ 7,410,726</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 were 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. Subsequent to March 31, 2020, the Bond was refinanced at an interest rate of 2.45% through January 2029 and the Organization obtained a \$3,000,000 operational line of credit.

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2020 and 2019

8. BONDS PAYABLE (Continued)

Series A Revenue Bond (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), which was completed in March 2020. The Bond is secured by substantially all assets of the Organization, including the Newton Property. Interest incurred was approximately \$132,000 and \$32,000 for the years ended March 31, 2020 and 2019, respectively, and was capitalized to property and equipment (see Note 6) in the accompanying statements of financial position.

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, 2020 and 2019.

Bonds payable were as follows as of March 31:

	<u>2020</u>	<u>2019</u>
Principal outstanding	\$ 4,383,886	\$ 4,400,000
Less - unamortized debt issuance costs	<u>(55,785)</u>	<u>(57,709)</u>
Net bonds payable	4,328,101	4,342,291
Less - current portion	<u>(50,584)</u>	<u>(16,043)</u>
Long-term portion of bonds payable	<u>\$ 4,277,517</u>	<u>\$ 4,326,248</u>

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

<u>Fiscal Year</u>	<u>Principal</u>
2021	\$ 50,584
2022	\$ 108,368
2023	\$ 111,090
2024	\$ 113,608
2025	\$ 116,736
Thereafter	\$ 3,883,500

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

The Organization must comply with various compliance requirements as defined in the Supplemental Bond agreement. The Organization was in compliance with these covenants at March 31, 2020. The Organization was not in compliance with these covenants at March 31, 2019, and obtained a waiver.

9. LEASE AGREEMENTS

The Organization leases office and warehouse space in Massachusetts under a non-cancelable operating lease agreement that expired on June 30, 2020, and was not renewed. Annual base rent for fiscal years 2020 and 2019 was \$213,321 and \$204,137, respectively. This agreement contained provisions for future rent increases, or periods in which rental payments are reduced. The Organization records monthly rent expense based on the total of the payments due over the lease term. The difference between rent expense recorded and paid is adjusted to deferred rent. Deferred rent was \$10,331 and \$50,288 at March 31, 2020 and 2019, respectively.

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2020 and 2019

9. LEASE AGREEMENTS (Continued)

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 in June 2019. The new lease expires in December 2028 and has two five-year options for extension once the initial ten-year term is completed. Annual base rent will be approximately \$136,500 and increases annually in accordance with the agreement. Deferred rent was \$12,877 as of March 31, 2020, and included in deferred rent and lease incentive in the accompanying statement of financial position. 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 is reported as a liability and amortized on a straight-line basis over the lease term as a reduction of rent expense. The unamortized portion of the lease incentive was \$358,974 as of March 31, 2020.

The Organization also leases office and warehouse space in Chicago, Illinois under a non-cancellable operating lease agreement expiring in February 2026. 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. Deferred rent was \$78,202 and \$76,288 as of March 31, 2020 and 2019, respectively, and included in deferred rent and lease incentive in the accompanying statements of financial position

On February 1, 2020, the Organization entered into a lease agreement for office space in Boston through January 31, 2021. Monthly rent is \$8,340 under the agreement and a discount of \$3,336 per month was provided by the lessor for the term of the agreement. Rent expense related to this agreement was approximately \$10,000, for the year ended March 31, 2020.

Under these agreements, in addition to base rent, the Organization is responsible for paying its portion of real estate taxes and utilities. Rent expense (including real estate taxes and utilities) related to these agreements for the years ended March 31, 2020 and 2019, was \$807,099 and \$813,857, 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:

2021	\$ 436,024
2022	340,129
2023	348,376
2024	356,833
2025	365,501
Thereafter	<u>722,937</u>
Total	<u>\$ 2,569,800</u>

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, 2020 and 2019, was \$108,614 and \$91,574, respectively, and is included in fringe benefits and payroll taxes in the accompanying statements of functional expenses.

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2020 and 2019

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, 2020 and 2019, the Organization's liquid financial assets available for general use by the Organization within one year from the date of the statements of financial position, were as follows as of March 31:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 4,248,116	\$ 5,028,741
Investments	5,568,452	5,658,932
Current portion of pledges receivable	<u>3,198,003</u>	<u>2,350,420</u>
Total current financial assets	<u>13,014,571</u>	<u>13,038,093</u>
Contractual or donor-imposed restrictions:		
Cash and cash equivalents	-	(3,427,488)
Current portion of pledges receivable	<u>(2,566,413)</u>	<u>(1,599,973)</u>
	<u>(2,566,413)</u>	<u>(5,027,461)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 10,448,158</u>	<u>\$ 8,010,632</u>

The Organization has approximately eleven months of operating expenses in available current financial assets at March 31, 2020. Subsequent to March 31, 2020, the Organization obtained a \$3,000,000 operational line of credit (see Note 8).

12. CONDITIONAL GRANT

In fiscal year 2019, the Organization was awarded a conditional grant of \$100,000 for the Philadelphia Growth Campaign spanning over four years, through April 2023. The grant is conditional upon achieving certain match requirements as defined in the agreement. During the year ended March 31, 2020, the Organization released \$25,000 into revenue without donor restrictions as the match requirements were met for the first year and the purpose restriction was achieved. The remaining \$75,000 has not been recorded as the conditions have not yet been met.

13. CONTINGENCY

In March 2020, the COVID-19 coronavirus (COVID-19) pandemic emerged in the United States triggering widespread government mandated and voluntary business closures, which in turn have led to substantial interruptions in financial markets, employment and the economy as a whole. Though the potential financial effects cannot be reasonably estimated at this time, these circumstances may have adverse effects on the Organization, its operations, and future financial statements. As of the date of this report, the Organization is unable to accurately predict how COVID-19 will affect the results of its operations because the disease's severity and the duration of the outbreak are uncertain. The accompanying financial statements have not been adjusted for any potential financial effects that may occur in the future related to the current uncertainty.

Management of the Organization continues to monitor the COVID-19 events closely to assess any additional financial impact of the situation and determine appropriate courses of action. In response, the Organization applied for and was awarded a Paycheck Protection Program loan in the amount of approximately \$1,080,000 under the Federal Coronavirus Aid, Relief and Economic Security (CARES) Act. These loan funds may be forgiven provided that the Organization expends the proceeds on qualifying costs, as defined in the agreement.