

# Cradles to Crayons

**FINANCIAL STATEMENTS  
MARCH 31, 2021 AND 2020**

**CRADLES TO CRAYONS, INC.**

Contents  
March 31, 2021 and 2020

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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, 2021 and 2020, 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, 2021 and 2020, 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  
July 29, 2021

**CRADLES TO CRAYONS, INC.**Statements of Financial Position  
March 31, 2021 and 2020

<b>Assets</b>	<b>2021</b>	<b>2020</b>
Current Assets:		
Cash and cash equivalents	\$ 7,034,725	\$ 4,248,116
Investments	6,421,817	5,568,452
Current portion of pledges receivable, net of allowance for doubtful accounts	1,066,821	3,198,003
Prepaid expenses	111,372	155,449
Total current assets	14,634,735	13,170,020
Pledges Receivable, net of current portion and allowance for doubtful accounts	67,500	651,963
Deferred Hosting Arrangement Costs	458,667	-
Property and Equipment, net	11,936,930	12,013,349
Security Deposit	52,837	65,502
Total assets	<u>\$ 27,150,669</u>	<u>\$ 25,900,834</u>
<b>Liabilities and Net Assets</b>		
Current Liabilities:		
Current portion of bonds payable	\$ 108,368	\$ 50,584
Accounts payable	267,425	107,109
Accrued expenses	637,554	633,654
Total current liabilities	1,013,347	791,347
Bonds Payable, net of current portion and issuance costs	4,144,107	4,277,517
Deferred Rent and Lease Incentive	417,549	460,384
Total liabilities	<u>5,575,003</u>	<u>5,529,248</u>
Net Assets:		
Without donor restrictions:		
Operating	12,551,134	10,121,331
Property and equipment	7,684,455	7,685,248
Total without donor restrictions	20,235,589	17,806,579
With donor restrictions	1,340,077	2,565,007
Total net assets	<u>21,575,666</u>	<u>20,371,586</u>
Total liabilities and net assets	<u>\$ 27,150,669</u>	<u>\$ 25,900,834</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, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Support and Revenues:</b>		
Contributions	\$ 10,608,747	\$ 11,506,821
Donated goods	6,321,145	10,970,286
Donated services	577,640	42,029
Net assets released from purpose restrictions	<u>3,847,275</u>	<u>1,106,504</u>
Total support and revenues	<u>21,354,807</u>	<u>23,625,640</u>
<b>Expenses:</b>		
Program services	16,763,413	19,543,897
General and administrative	1,290,744	1,087,943
Fundraising	<u>2,126,098</u>	<u>1,926,080</u>
Total expenses	<u>20,180,255</u>	<u>22,557,920</u>
Changes in net assets without donor restrictions from operations	<u>1,174,552</u>	<u>1,067,720</u>
<b>Non-Operating Revenue:</b>		
Donated services for project under development	-	268,928
Net investment return	853,394	(90,478)
Net assets released from capital restrictions	<u>401,064</u>	<u>6,362,947</u>
Total non-operating revenue	<u>1,254,458</u>	<u>6,541,397</u>
Changes in net assets without donor restrictions	<u>\$ 2,429,010</u>	<u>\$ 7,609,117</u>

**CRADLES TO CRAYONS, INC.**Statements of Changes in Net Assets  
For the Years Ended March 31, 2021 and 2020

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<b>Net Assets, March 31, 2019</b>	<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>
<b>Net Assets, March 31, 2020</b>	<u>20,371,586</u>
Changes in net assets without donor restrictions	<u>2,429,010</u>
Changes in net assets with donor restrictions:	
Contributions	3,023,957
Uncollectible pledges	(548)
Net assets released from capital and purpose restrictions	<u>(4,248,339)</u>
Total changes in net assets with donor restrictions	<u>(1,224,930)</u>
Changes in net assets	<u>1,204,080</u>
<b>Net Assets, March 31, 2021</b>	<u><u>\$ 21,575,666</u></u>

**CRADLES TO CRAYONS, INC.**Statements of Cash Flows  
For the Years Ended March 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
<b>Cash Flows from Operating Activities:</b>		
Changes in net assets	\$ 1,204,080	\$ 4,229,783
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	604,718	373,481
Amortization of debt issuance costs	4,212	1,924
Bad debt	315,277	178,557
Capital grants	(90,000)	(4,244,129)
Donated services for projects under development	-	268,928
Net losses (gains) on investments	(793,142)	215,354
Changes in operating assets and liabilities:		
Pledges receivable	2,400,368	(95,843)
Prepaid expenses	44,077	(25,689)
Accounts payable	160,316	(811,448)
Accrued expenses	3,900	(56,081)
Deferred rent and lease incentive	(42,835)	333,808
Net cash provided by operating activities	<u>3,810,971</u>	<u>368,645</u>
<b>Cash Flows from Investing Activities:</b>		
Acquisition of property and equipment	(505,316)	(1,818,625)
Acquisition of deferred hosting arrangement	(458,667)	-
Acquisition of projects under development	(22,983)	(2,956,611)
Purchase of investments	(2,727,844)	(2,987,623)
Proceeds from sale of investments	2,667,621	2,862,749
Security deposit	12,665	(9,635)
Net cash used in investing activities	<u>(1,034,524)</u>	<u>(4,909,745)</u>
<b>Cash Flows from Financing Activities:</b>		
Capital grants	90,000	3,774,665
Principal payments on bonds payable	(51,634)	(14,190)
Payments of debt issuance costs	(28,204)	-
Net cash provided by financing activities	<u>10,162</u>	<u>3,760,475</u>
<b>Net Change in Cash and Cash Equivalents</b>	<u>2,786,609</u>	<u>(780,625)</u>
<b>Cash and Cash Equivalents:</b>		
Beginning of year	<u>4,248,116</u>	<u>5,028,741</u>
End of year	<u>\$ 7,034,725</u>	<u>\$ 4,248,116</u>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Project under development included in accounts payable	<u>\$ 22,190</u>	<u>\$ 14,819</u>
Cash paid for interest	<u>\$ 131,963</u>	<u>\$ 120,807</u>

**CRADLES TO CRAYONS, INC.**

 Statements of Functional Expenses  
 For the Years Ended March 31, 2021 and 2020

	2021				2020			
	Program Services	General and Administrative	Fundraising	Total	Program Services	General and Administrative	Fundraising	Total
<b>Personnel and Related Costs:</b>								
Salaries	\$ 3,623,939	\$ 557,247	\$ 1,266,670	\$ 5,447,856	\$ 3,680,782	\$ 521,636	\$ 1,182,973	\$ 5,385,391
Fringe benefits and payroll taxes	909,718	139,886	317,973	1,367,577	773,548	109,626	248,612	1,131,786
Total personnel and related costs	<u>4,533,657</u>	<u>697,133</u>	<u>1,584,643</u>	<u>6,815,433</u>	<u>4,454,330</u>	<u>631,262</u>	<u>1,431,585</u>	<u>6,517,177</u>
<b>Other Expenses:</b>								
Professional fees	738,828	68,505	12,089	819,422	303,368	111,069	19,600	434,037
Depreciation and amortization	402,261	61,855	140,602	604,718	255,265	36,176	82,040	373,481
Occupancy	439,884	18,265	49,214	507,363	712,946	21,027	73,126	807,099
Information technology	224,040	62,144	78,308	364,492	133,307	44,176	42,844	220,327
Bad debt	-	315,277	-	315,277	-	178,557	-	178,557
Shipping supplies	142,481	-	-	142,481	146,457	-	-	146,457
Advertising, marketing and communications	109,824	-	27,456	137,280	183,329	-	45,832	229,161
Repairs and maintenance	116,309	4,895	12,135	133,339	84,632	3,051	3,851	91,534
Event supplies and expenses	88,121	-	38,296	126,417	198,004	-	75,081	273,085
Interest	102,691	6,491	9,004	118,186	-	1,924	-	1,924
Donation processing fees	-	-	112,174	112,174	-	-	71,379	71,379
Insurance	64,441	9,909	22,524	96,874	53,659	7,605	17,246	78,510
Truck and van expense	93,425	-	-	93,425	123,594	-	-	123,594
Office supplies and other	51,743	2,214	23,123	77,080	61,177	2,787	8,699	72,663
Dues and subscriptions	-	36,784	-	36,784	-	26,146	-	26,146
Telephone	20,782	3,196	7,264	31,242	21,910	3,105	7,042	32,057
Staff development	17,992	2,766	6,288	27,046	65,558	9,291	21,070	95,919
Travel	8,520	1,310	2,978	12,808	83,031	11,767	26,685	121,483
Total other expenses	<u>2,621,342</u>	<u>593,611</u>	<u>541,455</u>	<u>3,756,408</u>	<u>2,426,237</u>	<u>456,681</u>	<u>494,495</u>	<u>3,377,413</u>
Subtotal before children's products	<u>7,154,999</u>	<u>1,290,744</u>	<u>2,126,098</u>	<u>10,571,841</u>	<u>6,880,567</u>	<u>1,087,943</u>	<u>1,926,080</u>	<u>9,894,590</u>
<b>Children's Products Distributed:</b>								
Donated children's products	6,321,145	-	-	6,321,145	10,970,286	-	-	10,970,286
Purchased children's products	3,287,269	-	-	3,287,269	1,693,044	-	-	1,693,044
Total children's products distributed	<u>9,608,414</u>	<u>-</u>	<u>-</u>	<u>9,608,414</u>	<u>12,663,330</u>	<u>-</u>	<u>-</u>	<u>12,663,330</u>
Total expenses	<u>\$ 16,763,413</u>	<u>\$ 1,290,744</u>	<u>\$ 2,126,098</u>	<u>\$ 20,180,255</u>	<u>\$ 19,543,897</u>	<u>\$ 1,087,943</u>	<u>\$ 1,926,080</u>	<u>\$ 22,557,920</u>

The accompanying notes are an integral part of these statements.



## **CRADLES TO CRAYONS, INC.**

Notes to Financial Statements  
March 31, 2021 and 2020

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### **1. OPERATIONS AND NONPROFIT STATUS**

#### **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, diapers and hygiene supplies, and books that are essential to their health, education, and well-being. Through the provision of clothing and diapers, the Organization addresses the basic need of “clothing insecurity” - the lack of access to affordable, adequate and weather-appropriate clothing - which affects an estimated 20 million U.S. children.

The Organization serves children from low-income families throughout Massachusetts and the greater Philadelphia and Chicago regions.

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, homelessness and clothing insecurity.

As a result of a comprehensive strategic planning process to determine the most effective and efficient model to serve the unmet need across the United States, the Organization developed and launched a new digital model, Giving Factory Direct. The model allows donors to send essential items directly from their homes to the children they serve via its network of service partners. In this fiscal year, the Organization piloted and tested Giving Factory Direct in its current markets and New York City.

#### **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.

### **2. 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).

#### **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 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.

## CRADLES TO CRAYONS, INC.

Notes to Financial Statements  
March 31, 2021 and 2020

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Investments

Investments primarily include certificates of deposit and exchange-traded funds which are reported at fair value (see page 10 and Note 3).

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. Investment return is 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, 2021 and 2020, the allowance for doubtful accounts was \$152,792 and \$16,204, respectively (see Note 4).

#### Deferred Hosting Arrangement Costs and Amortization

Implementation costs, including set-up and other upfront fees, that are incurred to implement a hosting arrangement service contract are capitalized. Deferred hosting arrangement costs are expensed over the term of the hosting arrangements, including any reasonably certain renewal periods. Deferred hosting arrangement costs as of March 31, 2021, include unamortized implementation costs related to the Giving Factory Direct software. The deferred hosting arrangement costs are expected to be amortized through December 2023. Amortization expense was \$57,333 for the year ended March 31, 2021, and is included in depreciation and amortization expense in the accompanying statement of functional expenses.

#### 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 - 40 years
Equipment	5 years
Furniture and fixtures	5 years
Leasehold improvements	Lease term
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 9). Debt issuance costs are amortized over the period the related obligation is outstanding 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, 2021 and 2020

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### 2. 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>2021</u>	<u>2020</u>
Specific purpose restricted funds:		
Philadelphia operations	\$ 186,727	\$ 202,062
Boston operations	125,097	100,467
National operations	75,755	76,423
Chicago operations	12,461	79,210
New York operations	463	-
Total specific purpose restricted funds	<u>400,503</u>	<u>458,162</u>
Boston Forever Home Campaign	<u>939,574</u>	<u>2,106,845</u>
Total net assets with donor restrictions	<u>\$ 1,340,077</u>	<u>\$ 2,565,007</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 years ended March 31, 2021 and 2020, the restricted funds released for capital improvements of \$25,000 and \$1,691,340 were released from restriction as the project was previously placed in service. As of March 31, 2021 and 2020, the Organization had \$75,000 and \$340,277, respectively, in pledges receivable for the Philadelphia Growth Campaign.

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, 2022. The restricted funds spent on capital improvements of \$401,064 were released from restriction when the project was placed into service. As of March 31, 2020, \$4,671,607 of the restricted funds had been spent on capital improvements placed in service. As of March 31, 2021 and 2020, the Organization had \$968,057 and \$2,443,687, respectively, in pledges receivable for the Boston Forever Home Campaign.

## CRADLES TO CRAYONS, INC.

Notes to Financial Statements  
March 31, 2021 and 2020

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### 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.

#### 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 and revenues related to capital projects.

## CRADLES TO CRAYONS, INC.

Notes to Financial Statements  
March 31, 2021 and 2020

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue Recognition

Grants and contributions may either be conditional or unconditional in accordance with Accounting Standards Update (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 5). 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, 2021 and 2020

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### 2. 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, school supplies, hygiene items and other products from corporations and drives held throughout the fiscal year at schools, faith-based organizations, and other community organizations. In addition to collecting donated products, the Organization purchases additional children's products for distribution (see Note 6). The Organization, in turn, provides these donated and purchased goods, 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, 2021 and 2020. 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 expenses for the years ended March 31, 2021 and 2020, were approximately \$41,000 and \$140,000, respectively, which are included in advertising, marketing, and communications in the accompanying statements of functional expenses.

#### **Subsequent Events**

Subsequent events have been evaluated through July 29, 2021, which is the date the financial statements were available to be issued. There was one event that met the criteria for recognition or disclosure in the financial statements (see Note 8).

**CRADLES TO CRAYONS, INC.**Notes to Financial Statements  
March 31, 2021 and 2020

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**3. INVESTMENTS**

The following table presents the Organization's investments by level within the valuation framework (see Note 2) as of March 31:

	<b>2021</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Cash and cash equivalents	\$ 1,720,544	\$ -	\$ -	\$ 1,720,544
Exchange-traded funds:				
Bond	2,021,617	-	-	2,021,617
Other	1,402,675	-	-	1,402,675
Alternative	690,488	-	-	690,488
Large cap	<u>586,493</u>	<u>-</u>	<u>-</u>	<u>586,493</u>
Total	<u>\$ 6,421,817</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,421,817</u>
<b>2020</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Cash and cash equivalents	\$ 1,664,271	\$ -	\$ -	\$ 1,664,271
Exchange-traded funds:				
Bond	2,090,017	-	-	2,090,017
Other	783,975	-	-	783,975
Alternative	437,060	-	-	437,060
Large cap	<u>593,129</u>	<u>-</u>	<u>-</u>	<u>593,129</u>
Total	<u>\$ 5,568,452</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,568,452</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.

Net investment return consists of the following for the years ended March 31:

	<b>2021</b>	<b>2020</b>
Unrealized gains (losses)	\$ 539,673	\$ (190,151)
Realized gains (losses)	253,469	(25,203)
Interest and dividends	102,360	148,966
Investment management fees	<u>(42,108)</u>	<u>(24,090)</u>
	<u>\$ 853,394</u>	<u>\$ (90,478)</u>

## CRADLES TO CRAYONS, INC.

Notes to Financial Statements  
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### 4. PLEDGES RECEIVABLE

Pledges receivable are recorded at 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:

	2021		
	<u>Operating Support</u>	<u>Capital Campaigns</u>	<u>Total</u>
Due in one year	\$ 244,056	\$ 975,557	\$ 1,219,613
Due in one to five years	-	67,500	67,500
	<u>244,056</u>	<u>1,043,057</u>	<u>1,287,113</u>
Less - allowance for doubtful accounts	-	(152,792)	(152,792)
	<u>244,056</u>	<u>890,265</u>	<u>1,134,321</u>
Less - current portion	<u>244,056</u>	<u>822,765</u>	<u>1,066,821</u>
Long-term portion	<u>\$ -</u>	<u>\$ 67,500</u>	<u>\$ 67,500</u>

  

	2020		
	<u>Operating Support</u>	<u>Capital Campaigns</u>	<u>Total</u>
Due in one year	\$ 1,072,206	\$ 2,125,797	\$ 3,298,003
Due in one to five years	10,000	658,167	668,167
	<u>1,082,206</u>	<u>2,783,964</u>	<u>3,866,170</u>
Less - allowance for doubtful accounts	-	(16,204)	(16,204)
	<u>1,082,206</u>	<u>2,767,760</u>	<u>3,849,966</u>
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>

There was no discount as of March 31, 2021 and 2020, as it was not significant to the financial statements. Pledge receivables are reclassified into operating support from capital campaign restriction when placed in service and released from restriction.

#### Concentrations

Two and one donors pledge balances represented approximately 55% and 20% of the total outstanding pledges receivable balance at March 31, 2021 and 2020, respectively.

#### Related Donors

During the years ended March 31, 2021 and 2020, employees, certain directors, related family members, and related companies made contributions to the Organization totaling \$656,936 and \$729,232, respectively. As of March 31, 2021 and 2020, pledges receivable from these related parties were \$5,000 and \$139,288, respectively.

### 5. 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 year ended March 31, 2020, \$268,928 of these services have been rendered and included in projects under development in the accompanying statements of financial position.



**CRADLES TO CRAYONS, INC.**Notes to Financial Statements  
March 31, 2021 and 2020

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**5. DONATED SERVICES (Continued)**

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

	<u>2021</u>	<u>2020</u>
Professional services	\$ 577,640	\$ 42,029
Projects under development	<u>-</u>	<u>268,928</u>
Total donated services	<u>\$ 577,640</u>	<u>\$ 310,957</u>

**6. DONATED AND PURCHASED CHILDREN'S PRODUCTS DISTRIBUTED**

The COVID-19 pandemic significantly disrupted the Organization's model of receiving, processing and distributing donations of new and gently-used children's products. To meet social distancing requirements, the Organization was forced to severely reduce collections of donated children's products and the recruitment of community volunteers to process and distributed donated products.

The Organization pivoted quickly, refocusing its operations to procure, process, and distribute highest priority children's products. To counter retail shortages of diapers, wipes and other hygiene items, the Organization more than doubled its distribution of those products during the fiscal year. Additionally, in order to support children's remote schooling and socio-emotional learning, the Organization procured and distributed additional school supplies, headphones, and face masks, among other critical products.

During the year ended on March 31, 2021, the Organization had procured and distributed 52,399 hygiene kits, 83,562 children's face masks, 8,405,900 diapers, 54,928 winter coats and clothing to provide a week's worth of outfits to 40,814 kids, among other essential needs.

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

	<u>2021</u>	<u>2020</u>
Donated products distributed	\$ 6,321,145	\$ 10,970,286
Purchased products distributed	<u>3,287,269</u>	<u>1,693,044</u>
Total products distributed	<u>\$ 9,608,414</u>	<u>\$ 12,663,330</u>

## CRADLES TO CRAYONS, INC.

Notes to Financial Statements  
March 31, 2021 and 2020

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### 7. PROPERTY AND EQUIPMENT

As of March 31, 2021 and 2020, property and equipment consisted of the following:

	<u>2021</u>	<u>2020</u>
Land	\$ 2,744,840	\$ 2,744,840
Building and improvements	7,680,584	7,331,767
Leasehold improvements	2,236,985	2,220,384
Software	324,881	324,881
Furniture and fixtures	722,528	698,508
Equipment	599,198	540,658
Vehicles	<u>167,317</u>	<u>167,317</u>
	14,476,333	14,028,355
Less - accumulated depreciation	<u>2,584,188</u>	<u>2,036,808</u>
Net property and equipment placed in service	11,892,145	11,991,547
Projects under development	<u>44,785</u>	<u>21,802</u>
	<u>\$ 11,936,930</u>	<u>\$ 12,013,349</u>

Depreciation expense for the years ended March 31, 2021 and 2020, was \$547,363 and \$373,482, respectively.

In May 2018, the Organization began renovations on the space leased in Philadelphia, Pennsylvania (the Philadelphia Property) (see Notes 2 and 10). The Organization purchased a building and land in Newton, Massachusetts (the Newton Property) (see Note 2). Major projects at the Newton Property and Philadelphia Property were completed and placed in service during the year ended March 31, 2020.

As of March 31, 2021 and 2020, projects under development consisted of minor construction in process of \$44,785 and \$21,802, respectively.

The projects under development are not depreciated until the projects are placed in service.

### 8. LINE OF CREDIT

In June 2020, the Organization obtained a line of credit with a bank which allows for borrowings up to \$3,000,000. The line is renewable by the bank and, on July 7, 2021, the line of credit was amended to extend the expiration to September 19, 2022. Borrowings under the agreement are due no later than the expiration date and interest is payable monthly at a floating rate of the greater of the prime rate rounded upward to the nearest one-eighth of one percentage point or 3% per annum. The line of credit is secured by the Organization's property. No amounts were drawn on the line of credit during the year ended March 31, 2021.

## CRADLES TO CRAYONS, INC.

Notes to Financial Statements  
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### 9. 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 bore interest at 2.95% through January 2029, at which time the interest rate will be adjusted as defined in the Bond payable agreement. During fiscal year 2021, the Bond was refinanced at an interest rate of 2.45% through January 2029.

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 \$116,000 and \$132,000 for the years ended March 31, 2021 and 2020, respectively. All interest was capitalized to property and equipment (see Note 7) in the accompanying statements of financial position through March 31, 2020.

Bonds payable were as follows as of March 31:

	<u>2021</u>	<u>2020</u>
Principal outstanding	\$ 4,332,252	\$ 4,383,886
Less - unamortized debt issuance costs	<u>(79,777)</u>	<u>(55,785)</u>
Net bonds payable	4,252,475	4,328,101
Less - current portion	<u>(108,368)</u>	<u>(50,584)</u>
Long-term portion of bonds payable	<u>\$ 4,144,107</u>	<u>\$ 4,277,517</u>

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

<u>Fiscal Year</u>	<u>Principal</u>
2022	\$ 108,368
2023	\$ 111,090
2024	\$ 113,608
2025	\$ 116,736
2026	\$ 119,669
Thereafter	\$ 3,771,539

The Organization incurred debt issuance costs of \$85,913 and \$57,709 in relation to the issuance of the Bonds at March 31, 2021 and 2020, respectively. These costs are being amortized over the life of the Bond, thirty years. Amortization of debt issuance costs is expected to be \$2,864 each year. Amortization expense of \$4,212 and \$1,924 at March 31, 2021 and 2020, respectively, is included in interest expense in the accompanying statements of functional expenses.

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, 2021. The Organization was not in compliance with these covenants at March 31, 2020, and obtained a waiver.

## CRADLES TO CRAYONS, INC.

Notes to Financial Statements  
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### 10. LEASE AGREEMENTS

The Organization leased 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 year 2020 was \$213,321. The Organization recorded 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 at March 31, 2020.

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 \$74,184 and \$12,877 as of March 31, 2021 and 2020, respectively, and included in deferred rent and lease incentive in the accompanying statements 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 \$317,949 and \$358,974 as of March 31, 2021 and 2020, respectively.

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 \$25,416 and \$78,202 as of March 31, 2021 and 2020, 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, Massachusetts through January 31, 2021, that was not extended. Monthly rent was \$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 \$5,000 for the year ended March 31, 2021.

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, 2021 and 2020, was \$621,337 and \$807,099, 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:

2022	\$ 340,129
2023	348,376
2024	356,833
2025	365,501
2026	249,819
Thereafter	<u>473,118</u>
Total	<u>\$ 2,133,776</u>

## CRADLES TO CRAYONS, INC.

Notes to Financial Statements  
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### 11. 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, 2021 and 2020, was \$120,257 and \$108,614, respectively, and is included in fringe benefits and payroll taxes in the accompanying statements of functional expenses.

### 12. 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, 2021 and 2020, 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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 7,034,725	\$ 4,248,116
Investments	6,421,817	5,568,452
Current portion of pledges receivable	<u>1,066,821</u>	<u>3,198,003</u>
Total current financial assets	<u>14,523,363</u>	<u>13,014,571</u>
Contractual or donor-imposed restrictions:		
Cash and cash equivalents	(1,265,052)	-
Current portion of pledges receivable	<u>-</u>	<u>(2,566,413)</u>
	<u>(1,265,052)</u>	<u>(2,566,413)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 13,258,311</u>	<u>\$ 10,448,158</u>

The Organization has approximately twelve months of operating expenses available in current financial assets at March 31, 2021. During fiscal year 2021, the Organization obtained a \$3,000,000 operational line of credit (see Note 8).

### 13. CONDITIONAL GRANTS

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 years ended March 31, 2021 and 2020, the Organization released \$25,000 into revenue without donor restrictions as the match requirements were met for the first and second years and the purpose restrictions were achieved. The remaining \$50,000 has not been recorded as the conditions have not yet been met.

## **CRADLES TO CRAYONS, INC.**

Notes to Financial Statements  
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### **13. CONDITIONAL GRANTS (Continued)**

The Organization applied for and was awarded a loan of \$1,082,697 from the Paycheck Protection Program established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act) through a bank. The funds were used to pay certain payroll costs, including benefits, during a covered period as defined in the CARES Act. A portion of these funds may be forgiven, as defined in the agreement, at the end of the covered period and the remainder of the funds will be due over a two-year period with interest at 1%. Any repayment will be deferred for a certain period from the end of the covered period as determined by the Small Business Administration (SBA). The balance of the note, if not forgiven, plus interest, will be due in equal monthly payments through the maturity date as defined by the bank. The forgiveness calculations are subject to review and approval by the lending bank and SBA. In the opinion of management, the results of such reviews, will not have a material effect on the financial position of the Organization as of March 31, 2021, and on the changes in its net assets for the year then ended.

During fiscal year 2021, the Organization applied for and was awarded full forgiveness of the loan, including accrued interest. As of March 31, 2021, the Organization has recognized \$1,082,697 of grant revenue, which is included in contributions in the accompanying statement of activities without donor restrictions.

### **14. CONTINGENCY**

Beginning 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 future 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 duration of the outbreak is 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.