

Cradles to Crayons

**FINANCIAL STATEMENTS
MARCH 31, 2022 AND 2021**

CRADLES TO CRAYONS, INC.

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March 31, 2022 and 2021

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Independent Auditor's Report

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

Opinion

We have audited the financial statements of Cradles to Crayons, Inc. (a Massachusetts nonprofit corporation) (the Organization), which comprise the statements of financial position as of March 31, 2022 and 2021, 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.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Cradles to Crayons, Inc. as of March 31, 2022 and 2021, 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.

Basis for Opinion

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

Emphasis of Matter Regarding a Change in Accounting Estimate

As discussed in Note 6 to the financial statements, the Organization has elected to change its method of estimating the value of certain donated goods and services. This change was applied only to the 2022 financial statements and 2021 financial statements have not been retroactively restated. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

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

AAFCPA, Inc.

Boston, Massachusetts
August 2, 2022

CRADLES TO CRAYONS, INC.Statements of Financial Position
March 31, 2022 and 2021

Assets	2022	2021
Current Assets:		
Cash and cash equivalents	\$ 10,367,221	\$ 7,034,725
Investments	6,676,186	6,421,817
Other receivable	2,089,586	-
Current portion of pledges receivable, net of allowance for doubtful accounts	381,087	1,066,821
Prepaid expenses	132,122	111,372
Total current assets	19,646,202	14,634,735
Pledges Receivable, net of current portion	54,000	67,500
Deferred Hosting Arrangement Costs	286,667	458,667
Property and Equipment, net	11,928,380	11,936,930
Security Deposit	77,254	52,837
Total assets	<u>\$ 31,992,503</u>	<u>\$ 27,150,669</u>
Liabilities and Net Assets		
Current Liabilities:		
Current portion of bonds payable	\$ 111,090	\$ 108,368
Accounts payable	989,483	267,425
Accrued expenses	708,495	637,554
Total current liabilities	1,809,068	1,013,347
Bonds Payable, net of current portion and issuance costs	4,034,713	4,144,107
Deferred Rent and Lease Incentive	377,071	417,549
Total liabilities	<u>6,220,852</u>	<u>5,575,003</u>
Net Assets:		
Without donor restrictions:		
Operating	16,898,561	12,551,134
Property and equipment	7,782,577	7,684,455
Total without donor restrictions	24,681,138	20,235,589
With donor restrictions	1,090,513	1,340,077
Total net assets	<u>25,771,651</u>	<u>21,575,666</u>
Total liabilities and net assets	<u>\$ 31,992,503</u>	<u>\$ 27,150,669</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, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Support and Revenues:		
Donated goods	\$ 18,306,345	\$ 6,321,145
Contributions	13,719,587	9,526,050
Donated services	454,979	577,640
Net assets released from purpose restrictions	691,388	3,847,275
	<u>33,172,299</u>	<u>20,272,110</u>
Total support and revenues		
Expenses:		
Program services	28,487,732	16,763,413
General and administrative	1,354,382	1,290,744
Fundraising	2,228,591	2,126,098
	<u>32,070,705</u>	<u>20,180,255</u>
Total expenses		
Changes in net assets without donor restrictions from operations	<u>1,101,594</u>	<u>91,855</u>
Non-Operating Revenue:		
COVID relief grants	2,089,586	1,082,697
Other income	1,000,000	-
Net investment return	254,369	853,394
Net assets released from capital restrictions	-	401,064
	<u>3,343,955</u>	<u>2,337,155</u>
Total non-operating revenue		
Changes in net assets without donor restrictions	<u>\$ 4,445,549</u>	<u>\$ 2,429,010</u>

CRADLES TO CRAYONS, INC.Statements of Changes in Net Assets
For the Years Ended March 31, 2022 and 2021

Net Assets, March 31, 2020	<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>
Net Assets, March 31, 2021	<u>21,575,666</u>
Changes in net assets without donor restrictions	<u>4,445,549</u>
Changes in net assets with donor restrictions:	
Contributions	441,824
Net assets released from purpose restrictions	<u>(691,388)</u>
Total changes in net assets with donor restrictions	<u>(249,564)</u>
Changes in net assets	<u>4,195,985</u>
Net Assets, March 31, 2022	<u><u>\$ 25,771,651</u></u>

CRADLES TO CRAYONS, INC.Statements of Cash Flows
For the Years Ended March 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 4,195,985	\$ 1,204,080
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	541,825	547,385
Amortization of debt issuance costs	1,924	4,212
Bad debt	168,890	315,277
Deferred hosting arrangement costs	172,000	57,333
Capital grants	(50,000)	(90,000)
Net gains on investments	(143,430)	(793,142)
Other receivable	(2,089,586)	-
Changes in operating assets and liabilities:		
Prepaid expenses	(20,750)	44,077
Pledges receivable	530,344	2,400,368
Accounts payable	604,528	160,316
Accrued expenses	70,941	3,900
Deferred rent and lease incentive	(40,478)	(42,835)
Net cash provided by operating activities	<u>3,942,193</u>	<u>3,810,971</u>
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(415,745)	(528,299)
Acquisition of deferred hosting arrangement	-	(458,667)
Purchase of investments	(1,870,814)	(2,727,844)
Proceeds from sale of investments	1,759,875	2,667,621
Security deposit	(24,417)	12,665
Net cash used in investing activities	<u>(551,101)</u>	<u>(1,034,524)</u>
Cash Flows from Financing Activities:		
Capital grants	50,000	90,000
Principal payments on bonds payable	(108,596)	(51,634)
Payments of debt issuance costs	-	(28,204)
Net cash provided by (used in) financing activities	<u>(58,596)</u>	<u>10,162</u>
Net Change in Cash and Cash Equivalents	<u>3,332,496</u>	<u>2,786,609</u>
Cash and Cash Equivalents:		
Beginning of year	<u>7,034,725</u>	<u>4,248,116</u>
End of year	<u>\$ 10,367,221</u>	<u>\$ 7,034,725</u>
Supplemental Disclosures of Cash Flow Information:		
Project under development included in accounts payable	<u>\$ 117,530</u>	<u>\$ 22,190</u>
Cash paid for interest	<u>\$ 91,531</u>	<u>\$ 131,963</u>

CRADLES TO CRAYONS, INC.

 Statements of Functional Expenses
 For the Years Ended March 31, 2022 and 2021

	2022				2021			
	Program Services	General and Administrative	Fundraising	Total	Program Services	General and Administrative	Fundraising	Total
Personnel and Related Costs:								
Salaries	\$ 4,041,771	\$ 671,969	\$ 1,311,972	\$ 6,025,712	\$ 3,623,939	\$ 557,247	\$ 1,266,670	\$ 5,447,856
Fringe benefits and payroll taxes	970,615	161,371	315,065	1,447,051	909,718	139,886	317,973	1,367,577
Total personnel and related costs	5,012,386	833,340	1,627,037	7,472,763	4,533,657	697,133	1,584,643	6,815,433
Other Expenses:								
Professional fees	670,059	91,409	16,131	777,599	738,828	68,505	12,089	819,422
Depreciation	306,800	79,605	155,420	541,825	344,928	61,855	140,602	547,385
Occupancy	397,083	10,620	54,022	461,725	439,884	18,265	49,214	507,363
Hosting fees	413,940	-	-	413,940	156,719	-	-	156,719
Information technology	53,241	77,780	95,817	226,838	124,654	62,144	78,308	265,106
Advertising, marketing and communications	173,267	-	43,317	216,584	109,824	-	27,456	137,280
Event supplies and expenses	150,384	-	47,568	197,952	88,121	-	38,296	126,417
Repairs and maintenance	156,511	5,867	19,708	182,086	116,309	4,895	12,135	133,339
Bad debt	-	168,890	-	168,890	-	315,277	-	315,277
Shipping supplies	139,777	-	-	139,777	142,481	-	-	142,481
Truck and van expense	125,412	-	-	125,412	93,425	-	-	93,425
Interest	96,879	4,074	8,494	109,447	102,691	6,491	9,004	118,186
Insurance	68,660	11,415	22,287	102,362	64,441	9,909	22,524	96,874
Donation processing fees	-	-	100,805	100,805	-	-	112,174	112,174
Office supplies and other	39,989	24,863	16,767	81,619	51,743	2,214	23,123	77,080
Staff development	34,336	5,709	11,146	51,191	17,992	2,766	6,288	27,046
Dues and subscriptions	-	35,651	-	35,651	-	36,784	-	36,784
Telephone	18,467	3,070	5,994	27,531	20,782	3,196	7,264	31,242
Travel	12,563	2,089	4,078	18,730	8,520	1,310	2,978	12,808
Total other expenses	2,857,368	521,042	601,554	3,979,964	2,621,342	593,611	541,455	3,756,408
Subtotal before children's products	7,869,754	1,354,382	2,228,591	11,452,727	7,154,999	1,290,744	2,126,098	10,571,841
Children's Products Distributed:								
Donated children's products	18,306,345	-	-	18,306,345	6,321,145	-	-	6,321,145
Purchased children's products	2,311,633	-	-	2,311,633	3,287,269	-	-	3,287,269
Total children's products distributed	20,617,978	-	-	20,617,978	9,608,414	-	-	9,608,414
Total expenses	\$ 28,487,732	\$ 1,354,382	\$ 2,228,591	\$ 32,070,705	\$ 16,763,413	\$ 1,290,744	\$ 2,126,098	\$ 20,180,255

The accompanying notes are an integral part of these statements.

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2022 and 2021

1. OPERATIONS AND NONPROFIT STATUS

Operations

Cradles to Crayons, Inc. (the Organization) is a not for profit corporation founded in 2002. The Organization provides children from birth through age 12, living in homeless or low-income situations, with the essential items they need to thrive—at home, at school, and at play. The Organization supplies clothing, shoes, diapers, school supplies, and more, free of charge. The Organization’s vision is that one day all children will have the essentials they need to thrive.

Two in five kids in the United States are currently facing Clothing Insecurity, going without basic essentials like pants, shoes, diapers, and school supplies during their critical development years. Three of the top ten reasons kids miss school are rooted in Clothing Insecurity—just one example of the significant short- and long-term social and economic costs when these needs go unmet. The Organization keeps Clothing Insecurity at the core of its mission and is the only large-scale nonprofit organization to focus on this resource gap. Since its founding, the Organization has distributed more than three million customized packages of essentials to children in Massachusetts, Greater Philadelphia, Chicagoland, New York City, and nationally, through Giving Factory Direct—a first-in-kind online product donation platform launched in 2021.

The Organization takes a three-pronged approach to mitigating Clothing Insecurity:

1. **In-person Engagement** - through tens of thousands of children and adults volunteering at their Giving Factory warehouses to sort and package high volumes of new and like-new donations from their communities for their Service Partners to distribute to the children they serve.
2. **Online Product Donations** - Giving Factory Direct (GFD) matches product donors directly to children who need the items they have to donate. GFD is currently available in a growing number of communities as we expand our reach nationally.
3. **Advocacy and Awareness** - The Organization is uniquely positioned to raise Clothing Insecurity as a national issue through awareness campaigns, data/evaluation, and legislative outreach.

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, and other highly liquid securities issued with initial maturities of ninety days or less. Such amounts held within the Organization’s investment portfolio (see Note 3) are excluded from the statements of cash flows.

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents and Concentration of Credit Risk (Continued)

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 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 cash and cash equivalents 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, 2022 and 2021, the allowance for doubtful pledges was \$212,957 and \$152,792, 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, 2022 and 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 \$172,000 and \$57,333 for the years ended March 31, 2022 and 2021, respectively, and is included in hosting fees in the accompanying statements 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.

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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>2022</u>	<u>2021</u>
Specific purpose restricted funds:		
Philadelphia operations	\$ 184,523	\$ 186,727
Boston operations	124,146	125,097
National operations	75,650	75,755
Chicago operations	10,530	12,461
New York operations	<u>1,712</u>	<u>463</u>
Total specific purpose restricted funds	396,561	400,503
Boston Forever Home Campaign	<u>693,952</u>	<u>939,574</u>
Total net assets with donor restrictions	<u>\$ 1,090,513</u>	<u>\$ 1,340,077</u>

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

The Boston Forever Home Campaign was initiated in 2018 to raise funds to purchase and buildout 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. There were no restricted funds spent on capital improvements for the year ended March 31, 2022. The restricted funds spent on capital improvements of \$401,064 for the year ended March 31, 2021, were released from restriction when spent because the project was previously placed into service in 2020. As of March 31, 2022 and 2021, the Organization had \$297,531 and \$968,057, respectively, in pledges receivable for the Boston Forever Home Campaign (see also Note 4).

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2022 and 2021

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, revenues related to capital projects, non-recurring COVID relief grants, and other income (see Note 10).

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 (see Note 13). 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. Topic 958 prescribes that the Organization should not consider probability of compliance with the barrier when determining if such awards are conditional. 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, 2022 and 2021

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, diapers, 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.

Advertising Costs

The Organization expenses advertising costs as they are incurred. Advertising expenses for the years ended March 31, 2022 and 2021, were approximately \$12,000 and \$41,000, respectively, which are included in advertising, marketing, and communications in the accompanying statements of functional expenses.

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, 2022 and 2021. The Organization's information returns are subject to examination by the Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through August 2, 2022, which is the date the financial statements were available to be issued. Other than as disclosed in Note 10, there were no other events that met the criteria for recognition or disclosure in the financial statements.

3. INVESTMENTS

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

	2022			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 1,705,888	\$ -	\$ -	\$ 1,705,888
Exchange-traded funds:				
Bond	2,244,397	-	-	2,244,397
Other	1,159,532	-	-	1,159,532
Alternative	950,044	-	-	950,044
Large cap	<u>616,325</u>	<u>-</u>	<u>-</u>	<u>616,325</u>
Total	<u>\$ 6,676,186</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,676,186</u>

CRADLES TO CRAYONS, INC.Notes to Financial Statements
March 31, 2022 and 2021**3. INVESTMENTS (Continued)**

	2021			Total
	Level 1	Level 2	Level 3	
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	586,493	-	-	586,493
Total	<u>\$ 6,421,817</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,421,817</u>

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:

	2022	2021
Unrealized gains (losses)	\$ (90,388)	\$ 539,673
Realized gains	233,818	253,469
Interest and dividends	134,316	102,360
Investment management fees	<u>(23,377)</u>	<u>(42,108)</u>
	<u>\$ 254,369</u>	<u>\$ 853,394</u>

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 collected as follows as of March 31:

	2022		Total
	Operating Support	Capital Campaigns	
Due in one year	\$ 325,513	\$ 268,531	\$ 594,044
Due in one to five years	-	54,000	54,000
	<u>325,513</u>	<u>322,531</u>	<u>648,044</u>
Less - allowance for doubtful accounts	-	(212,957)	(212,957)
	<u>325,513</u>	<u>109,574</u>	<u>435,087</u>
Less - current portion	<u>325,513</u>	<u>55,574</u>	<u>381,087</u>
Long-term portion	<u>\$ -</u>	<u>\$ 54,000</u>	<u>\$ 54,000</u>

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2022 and 2021

4. PLEDGES RECEIVABLE (Continued)

	2021		
	Operating Support	Capital Campaigns	Total
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>

There was no discount as of March 31, 2022 and 2021, as it was not significant to the financial statements.

Concentrations

Two donors' pledge balances represented approximately 54% and 55% of the total outstanding pledges receivable balance at March 31, 2022 and 2021, respectively.

Related Donors

During the years ended March 31, 2022 and 2021, employees, certain directors, related family members, and related companies made contributions to the Organization totaling \$964,641 and \$656,936, respectively. As of March 31, 2022 and 2021, pledges receivable from these related parties were \$95,601 and \$5,000 respectively.

5. DONATED SERVICES

The Organization received certain donated professional services related to the general operations of the Organization. The value of donated services, recorded at fair value, was \$454,979 and \$577,640 for the years ended March 31, 2022 and 2021 respectively, and is included in professional fees in the accompanying statements of functional expenses.

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 distribute 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 March 31, 2022, the Organization adopted a new valuation method for products for distribution, estimating value of these products using an average cost of the items in the current market. This change in accounting estimate was not applied to products distributed in fiscal year 2021. Prior to fiscal year 2022, the Organization valued these donated products below cost.

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
 March 31, 2022 and 2021

6. DONATED AND PURCHASED CHILDREN'S PRODUCTS DISTRIBUTED (Continued)

During the year ended March 31, 2022, the Organization procured and distributed 7,027,750 diapers, 53,724 winter coats and clothing items, 43,195 hygiene kits, and 72,208 children's face masks to provide a week's worth of outfits to 67,568 kids, among other essential needs.

During the year ended March 31, 2021, the Organization procured and distributed 8,405,900 diapers, 54,928 winter coats and clothing items, 52,399 hygiene kits, and 83,562 children's face masks 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>2022</u>	<u>2021</u>
Donated products distributed	\$ 18,306,345	\$ 6,321,145
Purchased products distributed	<u>2,311,633</u>	<u>3,287,269</u>
Total products distributed	<u>\$ 20,617,978</u>	<u>\$ 9,608,414</u>

7. PROPERTY AND EQUIPMENT

As of March 31, 2022 and 2021, property and equipment consisted of the following:

	<u>2022</u>	<u>2021</u>
Land	\$ 2,744,840	\$ 2,744,840
Building and improvements	7,686,536	7,680,584
Leasehold improvements	2,238,470	2,236,985
Software	422,010	324,881
Furniture and fixtures	757,340	722,528
Equipment	703,648	599,198
Vehicles	<u>198,034</u>	<u>167,317</u>
	14,750,878	14,476,333
Less - accumulated depreciation	<u>3,126,013</u>	<u>2,584,188</u>
Net property and equipment placed in service	11,624,865	11,892,145
Projects under development	<u>303,515</u>	<u>44,785</u>
	<u>\$ 11,928,380</u>	<u>\$ 11,936,930</u>

Depreciation expense for the years ended March 31, 2022 and 2021, was \$541,825 and \$547,385, respectively.

In March 2022, the Organization began renovations on the space leased in Chicago (see Note 2). Projects under development consisted of major construction in process of \$303,515 at the Chicago location as of March 31, 2022. As of March 31, 2021, projects under development consisted of minor construction in process of \$44,785.

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

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2022 and 2021

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 of credit 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 (see Note 7). No amounts were drawn on the line of credit during the years ended March 31, 2022 and 2021.

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. Payments of principal and interest of \$18,829 are due monthly through January 2049. The Bond originally bore interest at 2.95%. During fiscal year 2021, the Bond was refinanced at an interest rate of 2.45% through January 2029, at which time the interest rate will be adjusted as defined in the bond payable agreement.

The proceeds from the Bond were loaned to the Organization for the purpose of financing the purchase and construction of the Organization's Boston-based distribution center, 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 \$108,000 and \$116,000 for the years ended March 31, 2022 and 2021, respectively, and is included in interest expense in the accompanying statements of functional expenses.

Bonds payable were as follows as of March 31:

	<u>2022</u>	<u>2021</u>
Principal outstanding	\$ 4,223,656	\$ 4,332,252
Less - unamortized debt issuance costs	<u>(77,853)</u>	<u>(79,777)</u>
Net bonds payable	4,145,803	4,252,475
Less - current portion	<u>(111,090)</u>	<u>(108,368)</u>
Long-term portion of bonds payable	<u>\$ 4,034,713</u>	<u>\$ 4,144,107</u>

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

<u>Fiscal Year</u>	<u>Principal</u>
2023	\$ 111,090
2024	\$ 113,608
2025	\$ 116,736
2026	\$ 119,669
2027	\$ 122,676
Thereafter	\$ 3,648,863

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2022 and 2021

9. BONDS PAYABLE (Continued)

Series A Revenue Bond (Continued)

The Organization incurred debt issuance costs of \$85,913 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 \$2,864 each year. Amortization expense of \$1,924 and \$4,212 at March 31, 2022 and 2021, 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, 2022 and 2021.

10. LEASE AGREEMENTS

The Organization leases office and warehouse space in Pennsylvania under a non-cancelable operating lease agreement that expires in December 2028 and has two five-year options for extension once the initial ten-year term is completed. Annual base rent was approximately \$140,300 and will increase annually in accordance with the agreement. Deferred rent was \$100,148 and \$74,184 as of March 31, 2022 and 2021, respectively, and is 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 \$276,923 and \$317,949 as of March 31, 2022 and 2021, respectively.

The Organization also leased office and warehouse space in Chicago, Illinois under a non-cancellable operating lease agreement that was set to expire in February 2026. Annual rent under this lease was approximately \$192,000 and increased annually over the life of the lease. Deferred rent was \$25,416 at March 31, 2021, and is included in deferred rent and lease incentive in the accompanying statement of financial position. During the year ended March 31, 2022, the lessor of this space required the Organization to terminate the lease early. The Organization signed a lease termination agreement with the lessor of the space effective January 11, 2022. The agreement specifies payments be made by the lessor to the Organization. The first installment of \$1,000,000 was unconditional and received upon execution of the agreement thus recorded as other income in the accompanying 2022 statement of activities without donor restrictions. The remaining installment of \$2,900,000 was conditional upon the Organization moving out of the space completely and, therefore, was not recorded as revenue in fiscal year 2022. Subsequent to year-end, the Organization vacated this space and received this last installment of \$2,900,000 upon surrendering the leased space to the lessor (see Note 2).

On January 14, 2022, the Organization entered into a lease agreement for office space in Chicago, Illinois under a non-cancelable operating lease agreement that expires in May 2032. Annual base rent, beginning in May 2022, is approximately \$306,075 and will increase annually in accordance with the agreement. The Organization received a rent abatement for the period January through May 2022 as outlined in the lease agreement.

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, 2022 and 2021, was \$569,249 and \$621,337, respectively, and is shown as occupancy in the accompanying statements of functional expenses.

CRADLES TO CRAYONS, INC.Notes to Financial Statements
March 31, 2022 and 2021**10. LEASE AGREEMENTS (Continued)****Minimum Payments**

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

2023	\$ 148,798
2024	153,263
2025	157,860
2026	162,589
2027	167,472
Thereafter	<u>305,646</u>
Total	<u>\$ 1,095,628</u>

11. PENSION PLAN

The Organization sponsors a Savings Incentive Match Plan for Employees 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, 2022 and 2021, was \$128,809 and \$120,257, 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, 2022 and 2021, 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>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 10,367,221	\$ 7,034,725
Investments	6,676,186	6,421,817
Other receivable	2,089,586	-
Current portion of pledges receivable	<u>381,087</u>	<u>1,066,821</u>
Total current financial assets	19,514,080	14,523,363
Less - donor-imposed restrictions	<u>(1,090,513)</u>	<u>(1,340,077)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 18,423,567</u>	<u>\$ 13,183,286</u>

The Organization had approximately sixteen and twelve months of operating expenses, excluding donated goods and services and depreciation, available in current financial assets at March 31, 2022 and 2021, respectively. The Organization also has a \$3,000,000 operational line of credit available (see Note 8).

CRADLES TO CRAYONS, INC.

Notes to Financial Statements
March 31, 2022 and 2021

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, 2022 and 2021, the Organization released \$25,000 into revenue without donor restrictions as the match requirements were met for the second and third years and the purpose restrictions were achieved. The remaining \$25,000 has not been recorded as the conditions have not yet been met.

In fiscal year 2021, 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.

It was determined that this loan was analogous to a conditional grant and was conditional upon certain performance requirements and the incurrence of eligible expenses. Since the covered period ended in fiscal year 2021, the Organization recognized \$1,082,697 of grant revenue, which is included in COVID relief grants in the accompanying statement of activities without donor restrictions for the year ended March 31, 2021. The loan was forgiven on February 24, 2021.

The Employee Retention Tax Credit (ERTC) was first established by the CARES Act and was extended and expanded by the Consolidated Appropriations Act (CAA) and American Rescue Plan (ARP). ERTC provides a refundable tax credit against certain employment taxes equal to 50% of the first \$10,000 in qualified wages paid to each employee between March 12, 2020 and December 31, 2020 (2020 ERTC), and 70% of the first \$10,000, per quarter, in qualified wages paid to each employee between January 1, 2021 and September 30, 2021 (2021 ERTC). To be eligible, the Organization must meet certain conditions as described in applicable laws and regulations.

The Organization has determined that it qualifies for both the 2020 ERTC and 2021 ERTC and, therefore, is accounting for them as conditional grants under ASC Subtopic 958-605. These grants are conditional upon certain performance requirements and the incurrence of eligible expenses. In the opinion of management, these conditions were met as of March 31, 2022, and therefore, the entire refund of \$2,089,586 that the Organization expects to receive is included in other receivable and net assets without donor restrictions in the accompanying statement of financial position. The Organization recognized \$2,089,586 of grant revenue, which is included in COVID relief grants in the accompanying 2022 statement of activities without donor restrictions. Eligibility for the credit and the credit calculations is subject to review and approval by the Federal government. In the opinion of management, the results of such reviews and audit will not have a material effect on the financial position of the Organization as of March 31, 2022, and on the changes in its net assets for the year then ended.

14. RECLASSIFICATION

Certain amounts in the 2021 financial statements have been reclassified to conform with the 2022 presentation.