Cradles to Crayons

FINANCIAL STATEMENTS
MARCH 31, 2023 AND 2022

CRADLES TO CRAYONS, INC.

Contents
March 31, 2023 and 2022

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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, 2023 and 2022, 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, 2023 and 2022, 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

As disclosed in Notes 2 and 10 to the financial statements, effective April 1, 2022, the Organization adopted Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. 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.

AAFCPAs, Inc.

Boston, Massachusetts
July 31, 2023

CRADLES TO CRAYONS, INC.

Statements of Financial Position
March 31, 2023 and 2022

Assets	**2023**	**2022**
Current Assets:		
Cash and cash equivalents	$ 4,639,682	$ 10,367,221
Other receivable	2,027,321	2,089,586
Current portion of pledges receivable, net of allowance for doubtful accounts	503,897	381,087
Prepaid expenses	168,282	132,122
Total current assets	7,339,182	12,970,016
Investments	12,520,975	6,676,186
Pledges Receivable, net of current portion	-	54,000
Right-of-Use Operating Lease Assets	2,865,324	-
Deferred Hosting Arrangement Costs	127,794	286,667
Property and Equipment, net	13,413,483	11,928,380
Security Deposit	77,254	77,254
Total assets	$ 36,344,012	$ 31,992,503
Liabilities and Net Assets		
Current Liabilities:		
Current portion of bonds payable	$ 113,608	$ 111,090
Current portion of operating lease liabilities	478,021	-
Accounts payable	380,682	989,483
Accrued expenses	873,729	708,495
Total current liabilities	1,846,040	1,809,068
Bonds Payable, net of current portion and issuance costs	3,922,794	4,034,713
Operating Lease Liabilities, net	3,357,453	-
Deferred Rent and Lease Incentive	-	377,071
Total liabilities	9,126,287	6,220,852
Net Assets:		
Without donor restrictions:		
Operating	17,769,250	17,275,632
Property and equipment	8,406,931	7,405,506
Total without donor restrictions	26,176,181	24,681,138
With donor restrictions	1,041,544	1,090,513
Total net assets	27,217,725	25,771,651
Total liabilities and net assets	$ 36,344,012	$ 31,992,503

The accompanying notes are an integral part of these statements.

CRADLES TO CRAYONS, INC.

Statements of Activities Without Donor Restrictions
For the Years Ended March 31, 2023 and 2022

	2023	2022
Support and Revenues:		
Donated goods	$ 21,509,077	$ 18,306,345
Contributions	15,054,236	13,719,587
Donated services	221,089	454,979
Net assets released from purpose restrictions	355,206	691,388
Total support and revenues	37,139,608	33,172,299
Expenses:		
Program services	35,115,886	28,487,732
General and administrative	1,318,767	1,354,382
Fundraising	2,390,371	2,228,591
Total expenses	38,825,024	32,070,705
Changes in net assets without donor restrictions from operations	(1,685,416)	1,101,594
Non-Operating Revenue:		
Lease cancellation income	2,900,000	1,000,000
Net assets released from capital restrictions	346,655	-
COVID relief grants	-	2,089,586
Net investment return	(66,196)	254,369
Total non-operating revenue	3,180,459	3,343,955
Changes in net assets without donor restrictions	$ 1,495,043	$ 4,445,549

CRADLES TO CRAYONS, INC.

Statements of Changes in Net Assets
For the Years Ended March 31, 2023 and 2022

Net Assets, March 31, 2021	$ 21,575,666
Changes in net assets without donor restrictions	4,445,549
Changes in net assets with donor restrictions:	
Contributions	441,824
Net assets released from capital and purpose restrictions	(691,388)
Total changes in net assets with donor restrictions	(249,564)
Changes in net assets	4,195,985
Net Assets, March 31, 2022	25,771,651
Changes in net assets without donor restrictions	1,495,043
Changes in net assets with donor restrictions:	
Contributions	666,592
Uncollectible pledges	(13,700)
Net assets released from capital and purpose restrictions	(701,861)
Total changes in net assets with donor restrictions	(48,969)
Changes in net assets	1,446,074
Net Assets, March 31, 2023	$ 27,217,725

CRADLES TO CRAYONS, INC.

Statements of Cash Flows
For the Years Ended March 31, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities:		
Changes in net assets	$ 1,446,074	$ 4,195,985
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	626,865	541,825
Amortization of debt issuance costs	1,924	1,924
Bad debt	107,300	168,890
Deferred hosting arrangement costs	173,673	172,000
Capital grants	(433,576)	(50,000)
Net (gain) loss on investments	265,474	(143,430)
Other receivable	62,265	(2,089,586)
Changes in operating assets and liabilities:		
Prepaid expenses	(36,160)	(20,750)
Pledges receivable	(217,141)	(37,390)
Accounts payable	(497,389)	604,528
Accrued expenses	165,234	70,941
Change in operating lease asset and liabilities	593,079	(40,478)
Net cash provided by operating activities	2,257,622	3,374,459
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(2,223,380)	(415,745)
Acquisition of deferred hosting arrangement	(14,800)	-
Purchase of investments	(13,314,419)	(1,870,814)
Proceeds from sale of investments	7,204,156	1,759,875
Security deposit	-	(24,417)
Net cash used in investing activities	(8,348,443)	(551,101)
Cash Flows from Financing Activities:		
Capital grants	474,607	617,734
Principal payments on bonds payable	(111,325)	(108,596)
Net cash provided by financing activities	363,282	509,138
Net Change in Cash and Cash Equivalents	(5,727,539)	3,332,496
Cash and Cash Equivalents:		
Beginning of year	10,367,221	7,034,725
End of year	$ 4,639,682	$ 10,367,221
Supplemental Disclosures of Cash Flow Information:		
Projects under development included in accounts payable	$ 6,118	$ 117,530
Cash paid for interest	$ 108,585	$ 109,447

The accompanying notes are an integral part of these statements.

CRADLES TO CRAYONS, INC.

Statements of Functional Expenses
For the Years Ended March 31, 2023 and 2022

	2023				2022			
	Program Services	General and Adminis-trative	Fundraising	Total	Program Services	General and Adminis-trative	Fundraising	Total
Personnel and Related Costs:								
Salaries	$ 5,315,524	$ 646,547	$ 1,311,099	$ 7,273,170	$ 4,041,771	$ 671,969	$ 1,311,972	$ 6,025,712
Fringe benefits and payroll taxes	1,296,294	157,673	319,737	1,773,704	970,615	161,371	315,065	1,447,051
Total personnel and related costs	6,611,818	804,220	1,630,836	9,046,874	5,012,386	833,340	1,627,037	7,472,763
Other Expenses:								
Professional fees	547,621	138,776	24,490	710,887	670,059	91,409	16,131	777,599
Depreciation	411,392	71,164	144,309	626,865	306,800	79,605	155,420	541,825
Occupancy	559,021	10,652	53,258	622,931	397,083	10,620	54,022	461,725
Advertising, marketing and communications	482,647	-	120,662	603,309	173,267	-	43,317	216,584
Hosting fees	477,391	-	-	477,391	413,940	-	-	413,940
Event supplies and expenses	345,750	-	107,147	452,897	150,384	-	47,568	197,952
Information technology	95,691	84,914	98,516	279,121	53,241	77,780	95,817	226,838
Truck and van expense	182,185	-	-	182,185	125,412	-	-	125,412
Shipping supplies	169,226	-	-	169,226	139,777	-	-	139,777
Repairs and maintenance	137,313	5,065	14,337	156,715	156,511	5,867	19,708	182,086
Donation processing fees	-	-	114,574	114,574	-	-	100,805	100,805
Staff development	79,816	9,708	19,687	109,211	34,336	5,709	11,146	51,191
Interest	96,102	4,057	8,426	108,585	96,879	4,074	8,494	109,447
Bad debt	-	107,300	-	107,300	-	168,890	-	168,890
Insurance	71,991	8,756	17,757	98,504	68,660	11,415	22,287	102,362
Office supplies and other	49,787	5,395	20,465	75,647	39,989	24,863	16,767	81,619
Dues and subscriptions	-	60,916	-	60,916	-	35,651	-	35,651
Travel	43,080	5,240	10,626	58,946	12,563	2,089	4,078	18,730
Telephone	21,412	2,604	5,281	29,297	18,467	3,070	5,994	27,531
Total other expenses	3,770,425	514,547	759,535	5,044,507	2,857,368	521,042	601,554	3,979,964
Subtotal before children's products	10,382,243	1,318,767	2,390,371	14,091,381	7,869,754	1,354,382	2,228,591	11,452,727
Children's Products Distributed:								
Donated children's products	21,509,077	-	-	21,509,077	18,306,345	-	-	18,306,345
Purchased children's products	3,224,566	-	-	3,224,566	2,311,633	-	-	2,311,633
Total children's products distributed	24,733,643	-	-	24,733,643	20,617,978	-	-	20,617,978
Total expenses	$ 35,115,886	$ 1,318,767	$ 2,390,371	$ 38,825,024	$ 28,487,732	$ 1,354,382	$ 2,228,591	$ 32,070,705

The accompanying notes are an integral part of these statements.

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 our mission and is the only large-scale nonprofit organization to focus on this resource gap. Since its founding, the Organization has distributed more than four million customized packages of essentials to children in Chicagoland, Greater Philadelphia, Massachusetts, New York City, and the San Francisco Bay Area—processing donations in physical locations as well as connecting donors to children virtually through Giving Factory Direct, a first-of-its-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 our Giving Factory warehouses to sort and package high volumes of new and like-new donations from our communities for our 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).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncements

Leases

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*, which provides guidance on the recognition, measurement, presentation, and disclosure of leases (see Note 10). The most significant change in the new leasing guidance is the requirement to recognize right-of-use (ROU) assets and lease liabilities for operating leases on the statement of financial position. The Organization elected to adopt *Topic 842* on April 1, 2022, using the optional transition method. Under the optional transition method, the reported results for fiscal year 2023 reflect the application of *Topic 842* guidance, whereas comparative periods and their respective disclosures prior to the adoption of *Topic 842* are presented using the legacy guidance of *Topic 840*.

The Organization elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allowed the Organization to carry forward the historical lease classification as operating or capital leases. The Organization elected to combine lease and non-lease components and to exclude short-term leases from the statements of financial position. The Organization did not elect the hindsight practical expedient in determining the lease term for existing leases as of April 1, 2022.

The following table summarizes the statement of financial position line items affected by adopting *Topic 842* as of April 1, 2022:

Statement of Financial Position	As Previously Reported	Effect of Adoption	As Adjusted
Operating lease ROU asset	$ -	$ 3,253,273	$ 3,253,273
Operating lease liability	$ -	$ 3,992,196	$ 3,992,196
Lease incentive	$ 738,923	$ (738,923)	$ -

The Organization expects the impact of adoption to be immaterial to the accompanying statements of activities without donor restrictions, changes in net assets and cash flows on an ongoing basis.

Contributed Nonfinancial Assets

In September 2020, the FASB issued ASU 2020-07, Not-for-Profit Entities (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (see Notes 5 and 6). ASU 2020-07 is intended to increase the transparency of contributed nonfinancial assets (in-kind goods and services) for not-for-profit entities through enhancements to presentation and disclosure. The amendments in this ASU did not change the recognition and measurement requirements of in-kind goods and services but rather enhanced disclosures about these items. During fiscal year 2023, the Organization adopted ASU 2020-07, which did not impact the Organization’s net asset classes, changes in net assets, or cash flows for the year ended March 31, 2023. This ASU has been applied retrospectively to all periods presented.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents and Concentration of Credit Risk

For the purpose of the statements of cash flows, cash and cash equivalents consist of checking and money market accounts, and 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 considered investments for purposes of the statements of cash flows.

The Organization maintains its cash balances in financial institutions in Massachusetts. Balances at the institutions are insured by the Federal Deposit Insurance Corporation (FDIC) at each bank up to certain amounts. At certain times during the year, cash balances exceeded the insured amounts. 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 11 and Note 3).

The Organization records interest and dividends from 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, 2023 and 2022, the allowance for doubtful pledges was $253,257 and $212,957, 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, 2023 and 2022, include unamortized implementation costs related to the Giving Factory Direct software. The deferred hosting arrangement costs are expected to be amortized through December 2023. Hosting fees expense was $477,391 and $413,940 for the years ended March 31, 2023 and 2022, respectively, including amortization expense of $173,673 and $172,000 for the years ended March 31, 2023 and 2022, respectively.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

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.

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:

	2023	2022
Specific purpose restricted funds:		
Chicago operations	$ 27,038	$ 10,530
Philadelphia operations	42,733	184,523
Boston operations	112,529	124,146
National operations	75,650	75,650
New York operations	2,232	1,712
Total specific purpose restricted funds	260,182	396,561
Boston Forever Home Campaign	690,166	693,952
Chicago Campaign	91,196	-
Total net assets with donor restrictions	$ 1,041,544	$ 1,090,513

Specific purpose restricted funds are released from restrictions dollar-for-dollar as costs for eligible activities are incurred.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

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. The Boston facility project was completed and placed in service in 2021 and there were no restricted funds spent on capital improvements for the years ended March 31, 2023 and 2022. As of March 31, 2023 and 2022, the Organization had $56,500 and $297,531, respectively, outstanding in pledges receivable for the Boston Forever Home Campaign (see also Note 4).

The Chicago Campaign was initiated in 2023 to raise funds to build-out a new facility in Chicago, Illinois. The restricted funds spent on capital improvements of $346,655 were released from restriction when the project was placed into service. There were no restricted funds spent on capital improvements for the year ended March 31, 2022. As of March 31, 2023 and 2022, there were no outstanding pledges receivable for the Chicago Campaign.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statements of Activities Without Donor Restrictions

Transactions deemed by management to be ongoing, major, or central to the provision of services are reported as support and revenues and expenses in the accompanying statements of activities without donor restrictions. Non-operating revenue includes net investment return, revenues related to capital projects, non-recurring COVID relief grants, and lease cancellation income (see Note 10).

Revenue Recognition

Grants and contributions may either be conditional or unconditional in accordance with ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* A grant or contribution is considered conditional when the donor imposes both a barrier and a right of return. Conditional grants and contributions are recognized as revenue on the date all donor-imposed barriers are overcome or explicitly waived by the donor (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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 based on current rates for similar services and is reported as support without donor restrictions unless explicit donor restrictions are put in place.

The Organization receives services from a large number of volunteers who give significant amounts of their time to the Organization's programs, but which do not meet the criteria for financial statement recognition.

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. Management values these products using an average cost of the items in the current market at major retailers and updates annually. 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, 2023 and 2022, were approximately $41,000 and $12,000, 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, 2023 and 2022. The Organization's information returns are subject to examination by the Federal and state jurisdictions.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Right-of-Use (ROU) Assets and Lease Liabilities

The Organization determines if an arrangement is a lease or contains a lease at inception of a contract. A contract is determined to be or contain a lease if the contract conveys the right to control the use of identified property, plant, or equipment (an identified asset) in exchange for consideration. The Organization determines these assets are leased because the Organization has the right to obtain substantially all of the economic benefit from and the right to direct the use of the identified asset. Management only reassesses its determination if the terms and conditions of the contract are changed.

In evaluating its contracts, the Organization separately identifies lease and non-lease components such as common area and other maintenance costs, in calculating the ROU assets and lease liabilities for its office space and equipment.

Leases result in the recognition of ROU assets and lease liabilities on the statement of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Organization determines lease classification as operating or finance at the later of April 1, 2022, or the lease commencement date.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Organization uses the implicit rate when readily determinable. As most of the leases do not provide an implicit rate, the Organization uses the risk-free rate based on the information available at the later of April 1, 2022, or the lease commencement date to determine the present value of lease payments.

The lease term may include options to extend or to terminate the lease that the Organization is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The Organization has used $25,000 as the minimum market value of the underlying assets in determining if amounts will be included in ROU assets and liabilities.

Subsequent Events

Subsequent events have been evaluated through July 31, 2023, which is the date the financial statements were available to be issued. There were no such 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:

	2023			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 260,685	$ -	$ -	$ 260,685
Certificates of deposit	4,047,370	-	-	4,047,370
Exchange-traded funds:				
Bond	4,211,041	-	-	4,211,041
Large cap	2,916,519	-	-	2,916,519
Alternative	832,531	-	-	832,531
Other	252,829	-	-	252,829
Total	$ 12,520,975	$ -	$ -	$ 12,520,975

	2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 113,723	$ -	$ -	$ 113,723
Certificates of deposit	1,592,165	-	-	1,592,165
Exchange-traded funds:				
Bond	2,244,397	-	-	2,244,397
Large cap	616,325	-	-	616,325
Alternative	950,044	-	-	950,044
Other	1,159,532	-	-	1,159,532
Total	$ 6,676,186	$ -	$ -	$ 6,676,186

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:

	2023	**2022**
Interest and dividends	$ 247,428	$ 134,316
Unrealized gains (losses)	52,725	(90,388)
Investment management fees	(48,150)	(23,377)
Realized gains (losses)	(318,199)	233,818
	$ (66,196)	$ 254,369

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:

	2023		
	Operating Support	**Capital Campaigns**	**Total**
Due in one year	$ 475,654	$ 281,500	$ 757,154
Due in one to five years	-	-	-
	475,654	281,500	757,154
Less - allowance for doubtful accounts	(253,257)	-	(253,257)
	222,397	281,500	503,897
Less - current portion	222,397	281,500	503,897
Long-term portion	$ -	$ -	$ -

	2022		
	Operating Support	**Capital Campaigns**	**Total**
Due in one year	$ 325,513	$ 268,531	$ 594,044
Due in one to five years	-	54,000	54,000
	325,513	322,531	648,044
Less - allowance for doubtful accounts	(212,957)	-	(212,957)
	112,556	322,531	435,087
Less - current portion	112,556	268,531	381,087
Long-term portion	$ -	$ 54,000	$ 54,000

There was no discount as of March 31, 2023 and 2022, as it was not significant to the financial statements.

Concentrations

Three and two donors pledge balances represented approximately 41% and 54% of the total outstanding pledges receivable balance at March 31, 2023 and 2022, respectively.

Related Donors

During the years ended March 31, 2023 and 2022, employees, certain directors, related family members, and related companies made contributions to the Organization totaling $800,365 and $964,641, respectively. As of March 31, 2023 and 2022, pledges receivable from these related parties were $15,000 and $95,601, 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 $221,089 and $454,979 for the years ended March 31, 2023 and 2022 respectively, and is included in professional fees in the accompanying statements of functional expenses.

6. DONATED AND PURCHASED CHILDREN'S PRODUCTS DISTRIBUTED

During the year ended March 31, 2023, the Organization procured and distributed 8,589,750 diapers, 78,816 winter coats and clothing items, 76,086 hygiene kits, and provided a week's worth of outfits to 85,267 kids, among meeting other essential needs.

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, 72,208 children's face masks, and provided a week's worth of outfits to 67,568 kids, among meeting other essential needs.

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

	2023	2022
Donated products distributed (fair value)	$ 21,509,077	$ 18,306,345
Purchased products distributed (at cost)	3,224,566	2,311,632
Total products distributed	$ 24,733,643	$ 20,617,977

7. PROPERTY AND EQUIPMENT

As of March 31, 2023 and 2022, property and equipment consisted of the following:

	2023	2022
Land	$ 2,744,840	$ 2,744,840
Building and improvements	7,691,536	7,686,536
Leasehold improvements	4,017,554	2,238,470
Software	456,760	422,010
Furniture and fixtures	955,176	757,340
Equipment	875,045	703,648
Vehicles	260,295	198,034
	17,001,206	14,750,878
Less - accumulated depreciation	3,752,878	3,126,013
Net property and equipment placed in service	13,248,328	11,624,865
Projects under development	165,155	303,515
	$ 13,413,483	$ 11,928,380

Depreciation expense for the years ended March 31, 2023 and 2022, was $626,865 and $541,825, respectively.

In March 2022, the Organization began renovations on the space leased in Chicago (see Notes 2 and 10). Projects under development consisted of major construction in process of $303,515 at the Chicago location as of March 31, 2022. The leasehold improvements were completed and placed into service in fiscal year 2023. As of March 31, 2023, projects under development consisted of minor improvements across each location for a total of $165,155.

Projects under development are not depreciated until 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 of credit is renewable annually. In July 2022, the line of credit was extended through September 2023. 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-eight of one percentage point or 3% per annum (8% and 3.5% at March 31, 2023 and 2022, respectively). 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, 2023 and 2022.

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 $107,000 and $108,000 for the years ended March 31, 2023 and 2022, respectively, and is included in interest expense in the accompanying statements of functional expenses.

Bonds payable were as follows as of March 31:

	2023	2022
Principal outstanding	$ 4,112,331	$ 4,223,656
Less - unamortized debt issuance costs	(75,929)	(77,853)
Net bonds payable	4,036,402	4,145,803
Less - current portion	(113,608)	(111,090)
Long-term portion of bonds payable	$ 3,922,794	$ 4,034,713

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

Fiscal Year	Principal
2024	$ 113,608
2025	$ 116,736
2026	$ 119,669
2027	$ 122,676
2028	$ 125,517
Thereafter	$ 3,514,125

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 at March 31, 2023 and 2022, 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, 2023 and 2022.

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. The facility lease requires the Organization to pay its proportionate share of operating expenses, as defined in the agreement.

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. 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 effective January 11, 2022. The agreement specified payments totaling $3,900,000 be made by the lessor to the Organization. The first installment of $1,000,000 was unconditional and was received upon execution of the agreement and therefore recorded as lease cancellation income in the accompanying fiscal year 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, which took place in fiscal year 2023. This revenue was recognized as lease cancellation income in the accompanying fiscal year 2023 statement of activities without donor restrictions.

The Organization entered into a lease agreement for office space in February 2022 in Chicago, Illinois, under a non-cancelable operating lease agreement that expires in November 2032. Monthly base rent, beginning in December 2022, is approximately $25,506 and will increase annually in accordance with the agreement. The Organization received a rent abatement for the period of February 2022 through November 2022 as outlined in the lease agreement. The Chicago lease agreement included a tenant improvement allowance of $462,000 in the form of a reimbursement for construction and related costs incurred by the Organization, which is net with the ROU asset under ASC 842. The facility lease requires the Organization to pay its proportionate share of operating expenses, as defined in the agreement.

The Organization entered into an operating lease agreement for office equipment in February 2023 that expires in January 2027. Annual rent expense under this agreement is $13,077.

10. LEASE AGREEMENTS (Continued)

ASC 840

For the year ended March 31, 2022, the Organization recognized rent expense on a straight-line basis over the term of the lease agreements as described in accordance with ASC Topic 840, *Leases*. Deferred rent as of the year ended March 31, 2022, was $100,148, which is included in deferred rent and lease incentives in the accompanying 2022 statement of financial position. The Pennsylvania 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 was 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 as of March 31, 2022.

The following is a schedule of the future minimum payments in accordance with the lease agreements as of March 31, 2022:

2023	$ 111,090
2024	$ 113,608
2025	$ 116,736
2026	$ 119,669
2027	$ 122,676
Thereafter	$ 3,648,863

ASC 842

As a result of the adoption of *Topic 842* on April 1, 2022, the Organization recognized lease liabilities of $3,992,196, which represents the net present value of the remaining operating lease payments, discounted using the risk-free rate based on the adoption date of April 1, 2022. Amortization of the lease liabilities totaled $156,722 for the year ended March 31, 2023. The Organization also recognized ROU assets of $3,253,273 on April 1, 2022. As of and for the year ended, March 31, 2023, the Organization had a ROU asset of $2,865,324, which represents the discounted total payments of the asset under the operating lease agreements of $3,992,196, net of accumulated amortization of $387,949 and lease incentives of $738,923. Cash paid for operating lease obligations totaled $254,483 at March 31, 2023.

In evaluating its contracts, the Organization separately identifies lease and non-lease components, such as common area and other maintenance costs, in calculating the ROU assets and lease liabilities for its office buildings. The Organization has elected the practical expedient to not separate lease and non-lease components and classifies the contract as a lease if consideration in the contract allocated to the lease component is greater than the consideration allocated to the non-lease component.

Lease costs:	
Operating lease costs (included in occupancy and information technology expenses)	$ 435,896
Variable lease costs (included in occupancy expenses)	210,989
Total lease costs	$ 646,885

The weighted-average discount rate associated with operating leases for the year ended March 31, 2023, is 2.47%. The Organization's weighted-average lease term is nine years.

10. LEASE AGREEMENTS (Continued)

ASC 842 (Continued)

The minimum required payments (base rent) of lease liabilities as of March 31, 2023, are as follows:

2024	$ 478,021
2025	488,865
2026	499,971
2027	509,177
2028	509,939
Thereafter	1,791,268
Total future undiscounted lease payments	4,277,240
Less - current portion	(478,021)
Less - present value discount/interest	(441,766)
Present value of long-term lease liabilities	$ 3,357,453

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, 2023 and 2022, was $154,221 and $128,809, 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, 2023 and 2022, 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:

	2023	2022
Cash and cash equivalents	$ 4,639,682	$ 10,367,221
Other receivable	2,027,321	2,089,586
Current portion of pledges receivable	503,897	381,087
Total current financial assets	7,170,900	12,837,894
Less - donor-imposed restrictions	(1,041,544)	(1,090,513)
Financial assets available to meet cash needs for general expenditures within one year	$ 6,129,356	$ 11,747,381

The Organization had approximately six and eleven months of operating expenses, excluding donated goods and services and depreciation, available in current financial assets at March 31, 2023 and 2022, respectively. The Organization also has a $3,000,000 operational line of credit available (see Note 8).

13. CONDITIONAL GRANTS

The Employee Retention Tax Credit (ERTC) was first established by the Coronavirus Aid, Relief, and Economic Security Act (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, 2022 and September 30, 2022 (2022 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 2022 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 2022 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, 2023 and 2022, and on the changes in its net assets for the years then ended.

14. RECLASSIFICATIONS

Certain amounts in the fiscal year 2022 financial statements have been reclassified to conform with the fiscal year 2023 presentation.