Cradles to Crayons

FINANCIAL STATEMENTS
MARCH 31, 2024 AND 2023

CRADLES TO CRAYONS, INC.

Contents
March 31, 2024 and 2023

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

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, 2024 and 2023, 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, 2024 and 2023, 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.

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.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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
February 5, 2025

CRADLES TO CRAYONS, INC.

Statements of Financial Position
March 31, 2024 and 2023

Assets	**2024**	**2023**
Current Assets:		
Cash and cash equivalents	$ 2,138,228	$ 4,639,682
Other receivable	-	2,027,321
Current portion of pledges receivable, net of allowance for doubtful accounts	786,434	363,897
Prepaid expenses	190,087	168,282
Total current assets	3,114,749	7,199,182
Investments	15,837,822	12,520,975
Pledges Receivable, net of current portion	639,405	140,000
Right-of-Use Operating Lease Assets	2,514,974	2,865,324
Deferred Hosting Arrangement Costs, net	23,435	127,794
Property and Equipment, net	13,366,829	13,413,483
Security Deposit	48,058	77,254
Total assets	$ 35,545,272	$ 36,344,012
Liabilities and Net Assets		
Current Liabilities:		
Current portion of bonds payable	$ 116,736	$ 113,608
Current portion of operating lease liabilities	488,865	478,021
Accounts payable	167,605	380,682
Accrued expenses	977,543	873,729
Total current liabilities	1,750,749	1,846,040
Bonds Payable, net of current portion and issuance costs	3,807,742	3,922,794
Operating Lease Liabilities, net	2,968,085	3,357,453
Total liabilities	8,526,576	9,126,287
Net Assets:		
Without donor restrictions:		
Operating	16,924,779	17,769,250
Property and equipment	8,500,375	8,406,931
Total without donor restrictions	25,425,154	26,176,181
With donor restrictions	1,593,542	1,041,544
Total net assets	27,018,696	27,217,725
Total liabilities and net assets	$ 35,545,272	$ 36,344,012

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, 2024 and 2023

	2024	2023
Support and Revenues:		
Donated goods	$ 24,033,122	$ 21,509,077
Contributions	16,060,511	15,054,236
Net assets released from purpose restrictions	849,317	355,206
Interest and other	227,001	-
Donated services	163,770	221,089
Total support and revenues	41,333,721	37,139,608
Expenses:		
Program services	38,605,381	35,115,886
General and administrative	1,515,445	1,318,767
Fundraising	3,459,252	2,390,371
Total expenses	43,580,078	38,825,024
Changes in net assets without donor restrictions from operations	(2,246,357)	(1,685,416)
Non-Operating Revenue:		
Net investment return	1,319,850	(66,196)
Net assets released from capital restrictions	175,480	346,655
Lease cancellation and other income	-	2,900,000
Total non-operating revenue	1,495,330	3,180,459
Changes in net assets without donor restrictions	$ (751,027)	$ 1,495,043

CRADLES TO CRAYONS, INC.

Statements of Changes in Net Assets
For the Years Ended March 31, 2024 and 2023

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
Changes in net assets without donor restrictions	(751,027)
Changes in net assets with donor restrictions:	
Contributions	1,576,795
Net assets released from capital and purpose restrictions	(1,024,797)
Total changes in net assets with donor restrictions	551,998
Changes in net assets	(199,029)
Net Assets, March 31, 2024	$ 27,018,696

CRADLES TO CRAYONS, INC.

Statements of Cash Flows
For the Years Ended March 31, 2024 and 2023

	2024	2023
Cash Flows from Operating Activities:		
Changes in net assets	$ (199,029)	$ 1,446,074
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	888,944	626,865
Amortization of debt issuance costs	1,924	1,924
Noncash lease expenses	449,847	847,562
Bad debt	101,000	107,300
Change in discount on pledges receivable	37,545	-
Deferred hosting arrangement costs	122,995	173,673
Capital grants	(88,708)	(433,576)
Net (gain) loss on investments	(953,743)	265,474
Other receivable	2,027,321	62,265
Changes in operating assets and liabilities:		
Prepaid expenses	(21,805)	(36,160)
Pledges receivable	(1,199,487)	(217,141)
Accounts payable	(220,704)	(497,389)
Accrued expenses	103,814	165,234
Operating lease liabilities	(478,021)	(254,483)
Net cash provided by operating activities	571,893	2,257,622
Cash Flows from Investing Activities:		
Acquisition of property and equipment	(834,663)	(2,223,380)
Acquisition of deferred hosting arrangement	(18,636)	(14,800)
Purchase of investments	(6,243,055)	(13,314,419)
Proceeds from sale of investments	3,879,951	7,204,156
Security deposit	29,196	-
Net cash used in investing activities	(3,187,207)	(8,348,443)
Cash Flows from Financing Activities:		
Capital grants	227,708	474,607
Principal payments on bonds payable	(113,848)	(111,325)
Net cash provided by financing activities	113,860	363,282
Net Change in Cash and Cash Equivalents	(2,501,454)	(5,727,539)
Cash and Cash Equivalents:		
Beginning of year	4,639,682	10,367,221
End of year	$ 2,138,228	$ 4,639,682
Supplemental Disclosures of Cash Flow Information:		
Projects under development included in accounts payable	$ 13,745	$ 6,118
Cash paid for interest	$ 103,062	$ 108,585

The accompanying notes are an integral part of these statements.

CRADLES TO CRAYONS, INC.

Statements of Functional Expenses
For the Years Ended March 31, 2024 and 2023

	2024				2023			
	Program Services	General and Adminis-trative	Fundraising	Total	Program Services	General and Adminis-trative	Fundraising	Total
Personnel and Related Costs:								
Salaries	$ 5,171,432	$ 725,424	$ 1,966,167	$ 7,863,023	$ 5,315,524	$ 646,547	$ 1,311,099	$ 7,273,170
Fringe benefits and payroll taxes	1,261,945	177,020	479,789	1,918,754	1,296,294	157,673	319,737	1,773,704
Total personnel and related costs	6,433,377	902,444	2,445,956	9,781,777	6,611,818	804,220	1,630,836	9,046,874
Other Expenses:								
Depreciation	542,547	93,359	253,038	888,944	411,392	71,164	144,309	626,865
Occupancy	687,878	15,458	69,561	772,897	559,021	10,652	53,258	622,931
Advertising, marketing and communications	597,524	-	149,381	746,905	482,647	-	120,662	603,309
Professional fees	450,235	121,748	21,485	593,468	547,621	138,776	24,490	710,887
Event supplies and expenses	328,194	-	80,252	408,446	345,750	-	107,147	452,897
Hosting fees	384,751	-	-	384,751	477,391	-	-	477,391
Information technology	96,385	84,325	136,164	316,874	95,691	84,914	98,516	279,121
Staff development	141,570	19,859	53,824	215,253	79,816	9,708	19,687	109,211
Shipping supplies	171,657	-	-	171,657	169,226	-	-	169,226
Repairs and maintenance	143,885	5,961	13,418	163,264	137,313	5,065	14,337	156,715
Donation processing fees	-	-	143,839	143,839	-	-	114,574	114,574
Insurance	92,910	13,033	35,324	141,267	71,991	8,756	17,757	98,504
Dues and subscriptions	-	128,776	-	128,776	-	60,916	-	60,916
Office supplies and other	72,768	16,046	22,336	111,150	49,787	5,395	20,465	75,647
Truck and van expense	106,753	-	-	106,753	182,185	-	-	182,185
Interest	92,036	3,441	7,585	103,062	96,102	4,057	8,426	108,585
Bad debt	-	101,000	-	101,000	-	107,300	-	107,300
Travel	53,303	7,477	20,266	81,046	43,080	5,240	10,626	58,946
Telephone	17,947	2,518	6,823	27,288	21,412	2,604	5,281	29,297
Total other expenses	3,980,343	613,001	1,013,296	5,606,640	3,770,425	514,547	759,535	5,044,507
Subtotal before children's products	10,413,720	1,515,445	3,459,252	15,388,417	10,382,243	1,318,767	2,390,371	14,091,381
Children's Products Distributed:								
Donated children's products	24,033,122	-	-	24,033,122	21,509,077	-	-	21,509,077
Purchased children's products	4,158,539	-	-	4,158,539	3,224,566	-	-	3,224,566
Total children's products distributed	28,191,661	-	-	28,191,661	24,733,643	-	-	24,733,643
Total expenses	$ 38,605,381	$ 1,515,445	$ 3,459,252	$ 43,580,078	$ 35,115,886	$ 1,318,767	$ 2,390,371	$ 38,825,024

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 5.38 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 -** Tens of thousands of children and adults volunteer annually at our Giving Factory warehouses, sorting and packaging a high volume of quality donated children's clothing and other supplies for our Service Partners to distribute to the children and families they support.

2. **Online Product Donations through Giving Factory Direct (GFD) -** GFD matches clothing donors anywhere in the U.S. directly to individual children in Cradles to Crayons' communities. This growing distribution program is currently available in several communities as we expand our reach nationally.

3. **Advocacy and Awareness -** The Organization raises 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)

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.

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.

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, 2024 and 2023, the allowance for doubtful pledges was $290,965 and $253,257, 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, 2024 and 2023, include unamortized implementation costs related to the Giving Factory Direct software. The deferred hosting arrangement costs are expected to be amortized through January 2027. Hosting fees expense was $384,751 and $477,391 for the years ended March 31, 2024 and 2023, respectively, including amortization expense of $122,995 and $173,673 for the years ended March 31, 2024 and 2023, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair value at the date of receipt by the Organization. Renewals and betterments are capitalized, while repairs and maintenance are expensed.

Depreciation is computed using the straight-line method over estimated useful lives as follows:

Building and improvements	6 - 40 years
Equipment	5 years
Furniture and fixtures	5 years
Leasehold improvements	Lease term
Software	3 - 5 years
Vehicles	5 years

Land is not depreciated.

Debt Issuance Costs

The Organization incurred debt issuance costs associated with its bonds payable (see Note 9). Debt issuance costs are amortized over the period the related obligation is outstanding using the straight-line method, which approximates the effective interest method. Unamortized debt issuance costs are reported as a reduction in the recorded value of the related debt.

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:

	2024	2023
Specific purpose restricted funds:		
Chicago operations	$ 561,978	$ 27,038
Philadelphia operations	151,645	42,733
Boston operations	109,678	112,529
National operations	75,650	75,650
New York operations	-	2,232
Total specific purpose restricted funds	898,951	260,182
Boston Forever Home Campaign	694,591	690,166
Chicago Campaign	-	91,196
Total net assets with donor restrictions	$ 1,593,542	$ 1,041,544

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Specific purpose restricted funds are released from restrictions dollar-for-dollar as costs for eligible activities 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. The Boston facility project was completed and placed in service in 2021. As of March 31, 2024 and 2023, the Organization had $2,500 and $56,500, respectively, outstanding in pledges receivable for the Boston Forever Home Campaign (see 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 in fiscal year 2023. The remaining funds raised are to support the facility. As of March 31, 2024 and 2023, the Organization had $140,000 and $200,000, respectively, outstanding in pledges receivable for the Chicago Campaign (see Note 4).

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. All qualifying assets and liabilities are valued using Level 1 inputs.

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, and lease cancellation income (see Note 10).

Revenue Recognition

Grants and contributions may either be conditional or unconditional in accordance with ASC Subtopic 958-605, *Revenue Recognition*. A grant or contribution is considered conditional when the donor imposes both a barrier and a right of return. Conditional grants and contributions are recognized as revenue on the date all donor-imposed barriers are overcome or explicitly waived by the donor. Barriers may include specific and measurable outcomes, limitations on the performance of an activity, and other stipulations related to the grant or contribution. A donor has a right of return of any assets transferred or a right of release of its obligation to transfer any assets in the event the Organization fails to overcome one or more barriers. 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 based on current rates for similar services and is reported as support without donor restrictions unless explicit donor restrictions are put in place.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Services (Continued)

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, 2024 and 2023, were approximately $50,000 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, 2024 and 2023. The Organization's information returns are subject to examination by the Federal and state jurisdictions.

Right-of-Use 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 right-of-use (ROU) assets and lease liabilities for its office space and equipment. The Organization has elected the practical expedient to combine 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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 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 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 elected not to record leases with an initial term of twelve months or less on the statements of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

Subsequent Events

Subsequent events have been evaluated through February 5, 2025, 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 Organization records its investments at fair value using Level 1 inputs (see Note 2). Investments are reflected as long-term assets in accordance with the Organization's intent to hold investments for long-term growth. The Organization's investment portfolio consists of the following at March 31:

	2024			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	$ 208,572	$ -	$ -	$ 208,572
Certificates of deposit	6,258,150	-	-	6,258,150
Exchange-traded funds:				
U.S. Treasury notes and bonds	2,444,925	-	-	2,444,925
Other bonds	1,873,682	-	-	1,873,682
Large cap equities	3,548,073	-	-	3,548,073
Other equities	1,504,420	-	-	1,504,420
Total	$ 15,837,822	$ -	$ -	$ 15,837,822

3. INVESTMENTS (Continued)

	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:				
U.S. Treasury notes and bonds	2,302,932	-	-	2,302,932
Other bonds	1,908,109	-	-	1,908,109
Large cap equities	2,916,519	-	-	2,916,519
Other equities	1,085,360	-	-	1,085,360
Total	$ 12,520,975	$ -	$ -	$ 12,520,975

Investments are not insured and are subject to market fluctuations.

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

	2024	2023
Unrealized gains	$ 792,508	$ 52,725
Interest and dividends	409,695	247,428
Realized gains (losses)	161,235	(318,199)
Investment management fees	(43,588)	(48,150)
	$ 1,319,850	$ (66,196)

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:

	2024		
	Operating Support	Capital Campaigns	Total
Due in one year	$ 1,014,899	$ 62,500	$ 1,077,399
Due in one to five years	596,950	80,000	676,950
	1,611,849	142,500	1,754,349
Less - allowance for doubtful accounts	(290,965)	-	(290,965)
Less - discount	(37,545)	-	(37,545)
	1,283,339	142,500	1,425,839
Less - current portion	723,934	62,500	786,434
Long-term portion	$ 559,405	$ 80,000	$ 639,405

4. PLEDGES RECEIVABLE (Continued)

	2023		
	Operating Support	Capital Campaigns	Total
Due in one year	$ 475,654	$ 141,500	$ 617,154
Due in one to five years	-	140,000	140,000
	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	141,500	363,897
Long-term portion	$ -	$ 140,000	$ 140,000

At March 31, 2024, a discount on pledges receivable due in one to five years has been recorded using a 3.6% rate. There was no discount as of March 31, 2023, as it was not significant to the financial statements.

Concentrations

Two and three donors' pledge balances represented approximately 50% and 41% of the total outstanding pledges receivable balance at March 31, 2024 and 2023, respectively.

Related Donors

During the years ended March 31, 2024 and 2023, employees, certain directors, related family members, and related companies made contributions to the Organization totaling $848,324 and $800,365, respectively. As of March 31, 2024 and 2023, pledges receivable from these related parties were $200,500 and $15,000, 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 $163,770 and $221,089 for the years ended March 31, 2024 and 2023 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, 2024, the Organization procured and distributed 8,826,850 diapers, 98,984 winter coats and clothing items, 77,586 hygiene kits, and provided a week's worth of outfits to 100,906 kids, among meeting other essential needs.

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.

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

	2024	2023
Donated products distributed (fair value)	$ 24,033,122	$ 21,509,077
Purchased products distributed (at cost)	4,158,539	3,224,566
Total products distributed	$ 28,191,661	$ 24,733,643

7. PROPERTY AND EQUIPMENT

As of March 31, 2024 and 2023, property and equipment consisted of the following:

	2024	2023
Land	$ 2,744,840	$ 2,744,840
Building and improvements	7,693,036	7,691,536
Leasehold improvements	4,074,661	4,017,554
Software	712,130	456,760
Furniture and fixtures	1,096,491	955,176
Equipment	1,064,182	875,045
Vehicles	547,319	260,295
	17,932,659	17,001,206
Less - accumulated depreciation	4,641,822	3,752,878
Net property and equipment placed in service	13,290,837	13,248,328
Projects under development	75,992	165,155
	$ 13,366,829	$ 13,413,483

Depreciation expense for the years ended March 31, 2024 and 2023, was $888,944 and $626,865, respectively.

As of March 31, 2024 and 2023, projects under development consisted of minor improvements across each location for a total of $75,992 and $165,155, respectively. Projects under development are not depreciated until placed in service.

8. LINE OF CREDIT

The Organization had a line of credit with a bank which allows for borrowings up to $3,000,000. The line of credit is renewable annually. In September 2023, the line of credit was extended through September 2024. The Organization did not extend the agreement beyond September 2024 and the line of credit was closed. Borrowings under the agreement were due no later than the expiration date and interest was 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 (8.5% and 8% at March 31, 2024 and 2023, respectively). The line of credit was secured by the Organization's property (see Note 7). No amounts were drawn on the line of credit during the years ended March 31, 2024 and 2023.

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 $17,916 are due monthly through January 2049. The Bond bears interest at 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 $101,000 and $107,000 for the years ended March 31, 2024 and 2023, respectively, and is included in interest expense in the accompanying statements of functional expenses.

9. BONDS PAYABLE (Continued)

Series A Revenue Bond (Continued)

Bonds payable were as follows as of March 31:

	2024	2023
Principal outstanding	$ 3,998,483	$ 4,112,331
Less - unamortized debt issuance costs	(74,005)	(75,929)
Net bonds payable	3,924,478	4,036,402
Less - current portion	(116,736)	(113,608)
Long-term portion of bonds payable	$ 3,807,742	$ 3,922,794

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

Fiscal Year	Principal
2025	$ 116,736
2026	$ 119,669
2027	$ 122,676
2028	$ 125,517
2029	$ 128,911
Thereafter	$ 3,384,974

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, 2024 and 2023, 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, 2024 and 2023.

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 $155,000 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. 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.

10. LEASE AGREEMENTS (Continued)

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 is approximately $26,000 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.

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 $356,441 and $156,722 for the years ended March 31, 2024 and 2023, respectively. As of and for the years ended, March 31, 2024 and 2023, the Organization had a ROU asset of $2,514,974 and $2,865,324, respectively, which represents the discounted total payments of the asset under the operating lease agreements of $3,992,196, net of accumulated amortization of $744,390 and lease incentives of $738,923. Cash paid for operating lease obligations totaled $478,021 and $254,483 at March 31, 2024 and 2023, respectively.

	2024	2023
Lease costs:		
Operating lease costs (included in occupancy and information technology expenses)	$ 448,387	$ 435,896
Variable lease costs (included in occupancy expenses)	341,727	210,989
Total lease costs	$ 790,114	$ 646,885

The weighted-average discount rate associated with operating leases for the years ended March 31, 2024 and 2023, is 2.47%. The Organization's weighted-average lease term for the years ended March 31, 2024 and 2023, is 7.7 and 9.0 years, respectively.

The minimum required payments (base rent) of lease liabilities as of March 31, 2024, are as follows:

2025	$ 488,865
2026	499,971
2027	509,177
2028	509,939
2029	476,015
Thereafter	1,315,253
Total future undiscounted lease payments	3,799,220
Less - current portion	(488,865)
Less - present value discount/interest	(342,270)
Present value of long-term lease liabilities	$ 2,968,085

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, 2024 and 2023, was $170,397 and $154,221, 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, 2024 and 2023, 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:

	2024	2023
Cash and cash equivalents	$ 2,138,228	$ 4,639,682
Other receivable	-	2,027,321
Current portion of pledges receivable	786,434	363,897
Total current financial assets	2,924,662	7,030,900
Less - donor-imposed restrictions	(916,592)	(901,544)
Financial assets available to meet cash needs for general expenditures within one year	$ 2,008,070	$ 6,129,356

The Organization had approximately one month and four months of operating expenses, excluding donated goods and services and depreciation, available in current financial assets at March 31, 2024 and 2023, respectively.

13. RELATED PARTY TRANSACTION

The Organization holds its primary operating bank account, certificates of deposit included in investments, and corporate credit cards at a bank for which a member of the Board of Directors is the President of Regional Banking.

14. RECLASSIFICATIONS

Certain amounts in the fiscal year 2023 financial statements have been reclassified to conform with the fiscal year 2024 presentation.