CRAYONS TO CLASSROOMS

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2014 AND 2013

CRAYONS TO CLASSROOMS

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YEARS ENDED DECEMBER 31, 2014 AND 2013

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BRADY WARE
& SCHOENFELD

INDEPENDENT AUDITORS' REPORT

Board of Directors
Crayons to Classrooms
Dayton, Ohio

We have audited the accompanying financial statements of **Crayons to Classrooms** (a nonprofit organization), which comprise the statements of financial position as of December 31, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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INDEPENDENT AUDITORS' REPORT - CONTINUED

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Crayons to Classrooms** as of December 31, 2014 and 2013, 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.

Brady, Ware & Schoenfeld, Inc.

Dayton, Ohio
June 10, 2015

CRAYONS TO CLASSROOMS

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
CURRENT ASSETS		
Cash	**$ 54,812**	$ 64,467
Current portion of pledges receivable	**126,226**	120,530
Inventory	**3,426,348**	2,566,908
Prepaid expenses	**6,132**	4,791
	3,613,518	2,756,696
PROPERTY AND EQUIPMENT, NET	**-**	1,144
OTHER ASSETS		
Long-term pledges receivable, less current portion	**-**	109,125
Beneficial interest in funds held by others	**534,105**	361,792
	$ 4,147,623	$ 3,228,757
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	**$ 38,667**	$ 30,260
Deferred revenue	**3,486**	-
	42,153	30,260
NET ASSETS		
Unrestricted	**3,576,913**	2,769,088
Temporarily restricted	**528,557**	429,409
	4,105,470	3,198,497
	$ 4,147,623	$ 3,228,757

CRAYONS TO CLASSROOMS

STATEMENTS OF ACTIVITES

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
PUBLIC SUPPORT AND REVENUE		
Public Support		
Contributions	$ 300,148	$ 352,625
In-kind contributions	3,415,712	1,862,829
Net assets released from restrictions	132,431	2,102
Total Public Support	3,848,291	2,217,556
Revenue		
Interest income	8	9
Change in beneficial interest in funds held by others	213	85
Total Revenue	221	94
Total Unrestricted Public Support and Revenue	3,848,512	2,217,650
EXPENSES		
Program services	2,877,174	1,977,595
Management and general	108,571	95,932
Fundraising	50,235	30,801
Total Expenses	3,035,980	2,104,328
Change in Unrestricted Net Assets	812,532	113,322
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	48,897	275,254
Pledges NPV adjustment	5,875	(5,875)
Change in beneficial interest in funds held by others	172,100	125,030
Net assets released from restrictions	(132,431)	(2,102)
	94,441	392,307
CHANGE IN NET ASSETS	906,973	505,629
NET ASSETS		
Beginning of year	3,198,497	2,692,868
End of year	$ 4,105,470	$ 3,198,497

CRAYONS TO CLASSROOMS

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2014

	Program Services	Management and General	Fundraising	Total Expenses
Payroll and benefits	$ 248,961	$ 20,233	$ 20,233	**$ 289,427**
In-kind school supplies distributed	2,524,529	-	-	**2,524,529**
Occupancy	71,808	4,931	-	**76,739**
Repairs and maintenance	1,928	-	-	**1,928**
Supplies	5,129	85	-	**5,214**
Postage and shipping	7,489	-	1,516	**9,005**
Transportation	6,067	-	552	**6,619**
Telephone and communication	1,242	-	-	**1,242**
Printing and publication	4,919	-	1,370	**6,289**
Meetings and conferences	1,936	-	-	**1,936**
Taxes, licenses, and permits	-	200	-	**200**
Dues and subscriptions	-	2,610	-	**2,610**
Professional fees	2,022	80,512	26,564	**109,098**
Depreciation	1,144	-	-	**1,144**
Total Functional Expenses	$ 2,877,174	$ 108,571	$ 50,235	**$ 3,035,980**

CRAYONS TO CLASSROOMS

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2013

	Program Services	Management and General	Fundraising	Total Expenses
Payroll and benefits	$ 210,349	$ 20,808	$ 20,808	**$ 251,965**
In-kind school supplies distributed	1,663,708	-	-	**1,663,708**
Occupancy	55,719	4,010	-	**59,729**
Repairs and maintenance	943	-	-	**943**
Supplies	1,888	-	-	**1,888**
Postage and shipping	2,590	-	793	**3,383**
Transportation	6,172	-	-	**6,172**
Telephone and communication	766	-	-	**766**
Printing and publication	8,414	-	-	**8,414**
Meetings and conferences	1,157	-	-	**1,157**
Taxes, licenses, and permits	-	200	-	**200**
Dues and subscriptions	310	2,230	-	**2,540**
Professional fees	8,881	68,684	9,200	**86,765**
Depreciation	16,698	-	-	**16,698**
Total Functional Expenses	$ 1,977,595	$ 95,932	$ 30,801	**$ 2,104,328**

CRAYONS TO CLASSROOMS

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
OPERATING ACTIVITIES		
Change in net assets	**$ 906,973**	$ 505,629
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	**1,144**	16,698
Net present value adjustments	**(5,875)**	5,875
Change in beneficial interest in funds held by others	**(172,313)**	(125,115)
Donated inventory and rent	**(3,415,712)**	(1,862,829)
Donated inventory distributed	**2,524,529**	1,663,708
	(161,254)	203,966
Changes in operating assets and liabilities:		
Pledges receivable	**109,304**	(234,145)
Inventory	**31,743**	46,967
Prepaid expenses	**(1,341)**	(922)
Accounts payable	**8,407**	9,445
Accrued expenses	**-**	(731)
Deferred revenue	**3,486**	-
Net Cash Provided (Used) by Operating Activities	**(9,655)**	24,580
CASH		
Beginning of year	**64,467**	39,887
End of year	**$ 54,812**	$ 64,467

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business - **Crayons to Classrooms** is a nonprofit Organization. The Organization is a free store for teachers of low-income children in Dayton, Ohio. It provides donated school supplies at no charge to under-funded kindergarten through 12th grade classrooms. The Organization was incorporated in October 2007, and received their 501(c)(3) determination in March 2008. The Organization began distributing school supplies in 2009.

Basis of Presentation **-** The Organization's financial statement presentation follows the recommendation of generally accepted accounting principles, which requires the Organization to record unconditional promises to give (pledges) as receivables and revenues and requires the Organization to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions. The Organization is also required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The Organization had no permanently restricted net assets at December 31, 2014 and 2013.

> **Unrestricted Net Assets** - Unrestricted net assets include unrestricted resources, including donations, gifts and bequests, available for the use of the Organization, over which the Board of Directors has discretionary control.
>
> **Temporarily Restricted Net Assets** - Temporarily restricted net assets include contributions and grants for which donor imposed restrictions have not been met. These restrictions will be satisfied by actions of the Organization.
>
> **Permanently Restricted Net Assets** - Permanently restricted net assets are resources whose use is permanently restricted by donors.

Financial Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Functional Allocation of Expenses **-** The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Contributions **-** Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions received with temporary restriction that are met in the same reporting period are reported as unrestricted support and increase unrestricted net assets. Investment income that is limited to specific uses by donor restrictions is reported as increases in unrestricted net assets if the restrictions are met in the same reporting period as the income is recognized.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Donated materials are recorded as contributions at their estimated fair values at the date of donation. Contributions of services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Organization has recorded in-kind donations of product in the amount of $3,336,914 and $1,807,230 for the years ended December 31, 2014 and 2013, respectively. For the years ended December 31, 2014 and 2013, one donor contributed 82% and 83% of the in-kind donations of product, respectively. This donor receives in-kind donations from numerous donors, which are distributed to various recourse centers throughout the United States. The Organization pays an annual membership fee to participate in this distribution program. The Organization has also recorded an in-kind donation and expense in the amount of $71,065 and $55,599 to recognize the fair market value of rent for the years ended December 31, 2014 and 2013, respectively. See Note F for additional information related to Service and Rental Agreements.

Pledges Receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are discounted to present value.

Property and Equipment - Property and equipment is recorded at cost or, if donated, it is recorded at its fair market value at the date the donation is received. The Organization's policy is to capitalize all major expenditures in excess of $1,000. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, ranging from three to seven years. At retirement or sale, the costs of the assets, less related accumulated depreciation, are removed from the accounts and the resulting gains and losses are included in income. Routine maintenance and repairs are expensed when incurred.

Depreciation expense for the years ended December 31, 2014 and 2013 was $1,144 and $16,698, respectively.

Beneficial Interest in Assets Held by Others - In accordance with generally accepted accounting standards, investments in equity securities with readily determinable fair values and all investments in debt securities are valued at their fair market values in the statement of financial position. Net unrealized gains and losses are included in the change in net assets on the statement of activities as increases or decreases in support and revenue unless their use is restricted by explicit donor stipulations or by law.

Inventories - Inventories are stated at fair market value and cost is allocated using the first-in, first-out (FIFO) method. Inventory consists of purchased and donated school supplies contributed to the Organization for its free store.

Tax-Exempt Status - The Organization is operated as a nonprofit organization and is tax exempt under IRS Code Section 501(c)(3). Accordingly, no provision for income tax is presented in these financial statements.

Accounting for Uncertainty in Income Taxes - The Organization has adopted accounting rules that prescribe when to recognize, and how to measure the financial statement effects of income tax positions taken, or expected to be taken, on its income tax returns. These rules require management to evaluate the likelihood that, upon examination by relevant taxing jurisdictions, those income tax positions would be sustained. Based on that evaluation, the Organization only recognizes the maximum benefit of each income tax position that is more than 50% likely of being sustained. To the extent that all, or a portion of, the benefits of an income tax position are not recognized, a liability would be recognized for the unrecognized benefits, along with any interest and penalties that would result from disallowance of the position. Should any such penalties and interest be incurred, they would be recognized as operating expenses.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Based on the results of management's evaluation, no liability has been recognized in the accompanying balance sheets for unrecognized income tax positions. Further, no interest or penalties have been accrued or charged to expense as of December 31, 2014, or for the year then ended. The federal and state income tax returns for the Organization for 2011, 2012, and 2013 are subject to examination by taxing authorities, generally for three years after the due date.

Subsequent Events - In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through June 10, 2015, the date the financial statements were available to be issued.

NOTE B - PLEDGES RECEIVABLE

Pledges receivable at December 31, 2014 and 2013 are as follows:

	2014	2013
Less than one year	**$ 126,226**	$ 120,530
One to five years	**-**	115,000
	126,226	235,530
Less discount to net present value	**-**	5,875
Net pledges receivable	**$ 126,226**	$ 229,655

At December 31, 2013, the present value of pledges receivable was determined using a discount rate of 2.5%.

NOTE C - PROPERTY AND EQUIPMENT

	2014	2013
Leasehold Improvements	**$ 84,025**	$ 84,025
Equipment	**25,364**	25,364
Total property and equipment	**109,389**	109,389
Less accumulated depreciation	**109,389**	108,245
	$ -	$ 1,144

NOTE D - BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

The Organization has a beneficial interest in funds whose underlying investments are held and managed by the Dayton Foundation, a community foundation that invests and manages donors' charitable funds. The funds are subject to the investment and spending policies of the Dayton Foundation and are held exclusively for the benefit of the Organization. Requests for funding, including disbursements of fund principal, are initiated by the Organization, and approved by the Dayton Foundation's granting committee. Distributions from the funds are unrestricted.

The following endowments have been created at The Dayton Foundation from which the Organization is entitled to receive certain income and benefits.

	2014	2013
Crayons to Classrooms Fund	**$ 223,966**	$ 201,762
Dayton Crayons to Classrooms Relocation Fund	**310,139**	160,030
	$ 534,105	$ 361,792

NOTE E - FAIR VALUE

Accounting standards define fair value, outline a framework for measuring fair value and detail the required disclosures about fair value measurements. The Organization has adopted these accounting standards. The standards require that certain non-financial assets and liabilities be recognized or disclosed at fair value. At the present time, the Organization does not have any non-financial assets or liabilities that would require fair value recognition or disclosures under these standards.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. The Organization uses a fair value hierarchy that has three levels of inputs, both observable and unobservable, with use of the lowest possible level of input to determine fair value. Level 1 inputs include quoted market prices in an active market or the price of an identical asset or liability. Level 2 inputs are market data, other than Level 1, that are observable either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities, quoted market prices in an inactive market, and other observable information that can be corroborated by market data. Level 3 inputs are unobservable and corroborated by little or no market data. The Organization uses valuation techniques in a consistent manner from year-to-year.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There has been no change in the methodologies used at December 31, 2014 and 2013.

Beneficial interest in funds held by others: Value determined based on the fair value of the underlying trust assets, which is estimated to approximate the present value of future cash flow of the funds held and the fair market value of the underlying assets at December 31, 2014 and 2013.

NOTE E - FAIR VALUE - continued

Fair values of the Organization's financial assets measured on a recurring basis at December 31, 2014 and 2013 are as follows:

	2014			
	Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets				
Beneficial interest in funds held by others	**$ 534,105**	**$ -**	**$ -**	**$ 534,105**

	2013			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Beneficial interest in funds held by others	$ 361,792	$ -	$ -	$ 361,792

The following table sets forth a summary of changes in the fair value of the Organization's Level 3 assets for the years ended December 31, 2014 and 2013.

	2014	2013
Balance, beginning of year	**$ 361,792**	$ 236,677
Contributions	**210,000**	125,000
Distributions	**(37,900)**	-
Unrealized gain	**213**	115
Balance, end of year	**$ 534,105**	$ 361,792

NOTE F - SERVICE AND RENTAL AGREEMENTS

The Organization entered into three separate agreements with Goodwill Easter Seals Miami Valley (Goodwill) in July 2008. These agreements state that Goodwill will provide information technology equipment and services, financial services, and building space to the Organization, for a monthly fee. The total amount of expense for the information technology and financial services for the years ended December 31, 2014 and 2013 was $66,064 and $55,737, respectively. Rent is being charged at $10 monthly. The Organization is also recording an in-kind donation and expense in the amount of $55,599 to represent the fair market value of the rental space in 2014 and 2013. These agreements renew automatically for successive one-year periods, unless terminated by either party.

The Organization also entered into an agreement with an unrelated party in July 2014. The agreement is for building space provided to the Organization in Fairborn, Ohio. No rent is being charged for this space. The Organization recorded an in-kind donation and expense in the amount of $15,466 to represent the fair market value of the rental space in 2014. The agreement expired June 1, 2015.

NOTE G - TEMPORARILY RESTRICTED NET ASSETS

The temporarily restricted net assets class includes assets of the Organization related to gifts with specific donor-imposed restrictions that have not been met as to specific purpose, or to later periods of time or after specific dates.

	2014	2013
Donor designated funds:		
Programs	**$ 218,448**	$ 269,379
Relocation	**310,109**	160,030
	$ 528,557	$ 429,409

NOTE H - NET ASSETS RELEASED FROM RESTRICTIONS

Temporary restrictions on assets are released by incurring expenses that satisfy the intended purpose or the occurrence of events specified by donors.

	2014	2013
Purpose and time restrictions:		
Programs	**$ 132,431**	$ 2,102