

CRAYONS TO CLASSROOMS
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

CRAYONS TO CLASSROOMS

TABLE OF CONTENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

	Page
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5 - 6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 14



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, 2016 and 2015, and the related statements of activities, functional expenses 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 audit 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.

3601 Rigby Road • Suite 400 • Dayton, Ohio • 45342
One Woodside Drive • Richmond, Indiana • 47374-2630
4249 Easton Way • Suite 100 • Columbus, Ohio • 43219-6170
10375 Old Alabama Road Connector • Suite 300 • Alpharetta, Georgia • 30022-1122

www.bradyware.com

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, 2016 and 2015, 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 14, 2017

CRAYONS TO CLASSROOMS
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash	\$ 185,131	\$ 112,334
Current portion of pledges receivable	91,985	179,360
Inventory	3,892,202	3,135,151
Prepaid expenses	<u>7,064</u>	<u>413</u>
	4,176,382	3,427,258
PROPERTY AND EQUIPMENT, NET	320,694	-
OTHER ASSETS		
Long-term pledges receivable, less current portion	54,745	61,870
Beneficial interest in funds held by others	<u>414,957</u>	<u>635,359</u>
	<u>469,702</u>	<u>697,229</u>
	\$ 4,966,778	\$ 4,124,487
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 41,077	\$ 42,750
NET ASSETS		
Unrestricted	4,447,608	3,388,041
Temporarily restricted	<u>478,093</u>	<u>693,696</u>
	<u>4,925,701</u>	<u>4,081,737</u>
	\$ 4,966,778	\$ 4,124,487

CRAYONS TO CLASSROOMS

STATEMENTS OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
PUBLIC SUPPORT AND REVENUE		
Public Support		
Contributions	\$ 476,000	\$ 190,998
In-kind contributions	3,696,299	2,052,679
Net assets released from restrictions	331,915	216,448
Change in beneficial interest in funds held by others	62,763	70,250
Fundraiser net of \$59,489 of expenses	<u>-</u>	<u>53,898</u>
Total Public Support	<u>4,566,977</u>	<u>2,584,273</u>
Revenue		
Gain on sale of property and equipment	1,500	-
Interest income	3	12
Change in beneficial interest in funds held by others	<u>1,700</u>	<u>487</u>
Total Revenue	<u>3,203</u>	<u>499</u>
Total Unrestricted Public Support and Revenue	<u>4,570,180</u>	<u>2,584,772</u>
EXPENSES		
Program services	3,306,094	2,664,297
Management and general	99,065	97,961
Fundraising	<u>105,453</u>	<u>41,186</u>
Total Expenses	<u>3,510,612</u>	<u>2,803,444</u>
Change in Unrestricted Net Assets	1,059,568	(218,672)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	113,487	385,000
Pledges NPV adjustment	1,875	(4,130)
Change in beneficial interest in funds held by others	949	30,517
Net assets released from restrictions	<u>(331,915)</u>	<u>(216,448)</u>
Total Change in Temporarily Restricted Net Assets	<u>(215,604)</u>	<u>194,939</u>
Change in Net Assets	843,964	(23,733)
NET ASSETS		
Beginning of year	<u>4,081,737</u>	<u>4,105,470</u>
End of year	<u>\$ 4,925,701</u>	<u>\$ 4,081,737</u>

See independent auditors' report and notes to financial statements.

CRAYONS TO CLASSROOMS**STATEMENT OF FUNCTIONAL EXPENSES****YEAR ENDED DECEMBER 31, 2016**

	Program Services	Management and General	Fundraising	Total Expenses
Payroll and benefits	\$ 258,140	\$ 23,907	\$ 93,388	\$ 375,435
In-kind school supplies distributed	2,901,450	-	-	2,901,450
Occupancy	81,982	7,234	-	89,216
Repairs and maintenance	12,283	-	-	12,283
Supplies	8,416	-	-	8,416
Postage and shipping	11,333	750	311	12,394
Transportation	5,654	-	497	6,151
Telephone and communication	1,288	-	-	1,288
Printing and publication	8,231	188	370	8,789
Meetings and conferences	990	-	-	990
Taxes, licenses, and permits	-	200	-	200
Dues and subscriptions	-	2,640	-	2,640
Professional fees	9,723	64,146	10,887	84,756
Depreciation	<u>6,604</u>	<u>-</u>	<u>-</u>	<u>6,604</u>
Total Functional Expenses	<u>\$ 3,306,094</u>	<u>\$ 99,065</u>	<u>\$ 105,453</u>	<u>\$ 3,510,612</u>

CRAYONS TO CLASSROOMS**STATEMENT OF FUNCTIONAL EXPENSES****YEAR ENDED DECEMBER 31, 2015**

	Program Services	Management and General	Fundraising	Total Expenses
Payroll and benefits	\$ 256,413	\$ 23,366	\$ 23,366	\$ 303,145
In-kind school supplies distributed	2,303,733	-	-	2,303,733
Occupancy	69,967	7,160	-	77,127
Repairs and maintenance	4,306	-	-	4,306
Supplies	8,063	-	155	8,218
Postage and shipping	6,139	-	1,351	7,490
Transportation	7,933	1,300	-	9,233
Telephone and communication	1,276	-	-	1,276
Printing and publication	3,676	-	1	3,677
Meetings and conferences	989	-	-	989
Taxes, licenses, and permits	-	200	-	200
Dues and subscriptions	-	2,759	-	2,759
Professional fees	<u>1,802</u>	<u>63,176</u>	<u>16,313</u>	<u>81,291</u>
Total Functional Expenses	<u>\$ 2,664,297</u>	<u>\$ 97,961</u>	<u>\$ 41,186</u>	<u>\$ 2,803,444</u>

CRAYONS TO CLASSROOMS**STATEMENTS OF CASH FLOWS****YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 843,964	\$ (23,733)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	6,604	-
Net present value adjustments	(2,255)	(4,130)
(Gain) on sale of property and equipment	(1,500)	-
Change in beneficial interest in funds held by others	220,402	(101,254)
Donated inventory and rent	(3,696,299)	(2,052,679)
Donated inventory distributed	<u>2,901,450</u>	<u>2,303,733</u>
	272,366	121,937
Changes in operating assets and liabilities:		
Pledges receivable	96,755	(110,874)
Inventory	37,798	40,143
Prepaid expenses	(6,651)	5,719
Accounts payable	(1,674)	4,083
Deferred revenue	<u>-</u>	<u>(3,486)</u>
Net Cash Provided by Operating Activities	398,594	57,522
INVESTING ACTIVITIES		
Purchases of property and equipment	(327,297)	-
Proceeds from sale of property and equipment	<u>1,500</u>	<u>-</u>
Net Cash Used by Investing Activities	<u>(325,797)</u>	<u>-</u>
NET INCREASE IN CASH	72,797	57,522
CASH		
Beginning of year	<u>112,334</u>	<u>54,812</u>
End of year	<u>\$ 185,131</u>	<u>\$ 112,334</u>

CRAYONS TO CLASSROOMS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - 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, 2016 and 2015.

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.

CRAYONS TO CLASSROOMS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - 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. In-kind donations of product \$3,621,179 and \$1,939,466 were recorded for the years 2016 and 2015. For the years ended December 31, 2016 and 2015, one donor contributed 82% and 71% of the in-kind donations of product. 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 \$75,120 and \$69,659 to recognize the fair market value of rent for the years 2016 and 2015. See Note 6 for additional information related to Service and Rental Agreements. The Organization also received \$43,554 in-kind donations for its 2015 5th anniversary fundraiser.

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. At December 31, 2015, property and equipment was fully depreciated.

The Organization reviews for impairment of long-lived assets in accordance with accounting standards. These standards require companies to determine if changes in circumstances indicate that the carrying amount of its long-lived assets may not be recoverable. If a change in circumstances warrants such an evaluation, undiscounted future cash flows from the use and ultimate disposition of the asset, as well as respective market values, are estimated to determine if an impairment exists. Management believes that there has been no impairment of the carrying value of its long-lived assets at December 31, 2016 and 2015.

Depreciation expense was \$6,604 for the year 2016.

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.

CRAYONS TO CLASSROOMS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Accounting for Uncertainty in Income Taxes - Accounting standards require the evaluation of tax positions taken, or expected to be taken, in the course of preparing the Organization's tax returns, to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. This statement provides that a tax benefit from an uncertain tax position may be recognized in the financial statements only when it is "more-likely-than-not" the position will be sustained upon examination, including resolution of any related appeals or litigation processes, based upon the technical merits and consideration of all available information. Once the recognition threshold is met, the portion of the tax benefit that is recorded represents the largest amount of tax benefit that is greater than 50 percent likely to be realized upon settlement with a taxing authority. No significant uncertain tax positions exist as of December 31, 2016.

Subsequent Events - In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through June 14, 2017, the date the financial statements were available to be issued.

NOTE 2 - PLEDGES RECEIVABLE

Pledges receivable at December 31, 2016 and 2015, are as follows:

	<u>2016</u>	<u>2015</u>
Less than one year	\$ 91,985	\$ 179,360
One to five years	<u>57,000</u>	<u>66,000</u>
	148,985	245,360
Less discount to net present value	<u>2,255</u>	<u>4,130</u>
Net pledges receivable	<u>\$ 146,730</u>	<u>\$ 241,230</u>

At December 31, 2016 and 2015, the present value of pledges receivable was determined using a discount rate of 2.3% and 2.5%.

NOTE 3 - PROPERTY AND EQUIPMENT

	<u>2016</u>	<u>2015</u>
Leasehold Improvements	\$ 283,844	\$ 84,025
Equipment	<u>54,209</u>	<u>25,364</u>
Total property and equipment	338,053	109,389
Less accumulated depreciation	<u>17,359</u>	<u>109,389</u>
	<u>\$ 320,694</u>	<u>\$ -</u>

CRAYONS TO CLASSROOMS

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - 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.

	<u>2016</u>	<u>2015</u>
Crayons to Classrooms Fund	\$ 387,496	\$ 324,733
Dayton Crayons to Classrooms Relocation Fund	<u>27,461</u>	<u>310,626</u>
	<u>\$ 414,957</u>	<u>\$ 635,359</u>

NOTE 5 - 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, 2016 and 2015.

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, 2016 and 2015.

CRAYONS TO CLASSROOMS

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - FAIR VALUE - continued

Fair values of the Organization's financial assets measured on a recurring basis at December 31, 2016 and 2015 are as follows:

	2016			
	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	\$ 414,957	\$ -	\$ -	\$ 414,957
	2015			
	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	\$ 635,359	\$ -	\$ -	\$ 635,359

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, 2016 and 2015.

	2016	2015
Balance, beginning of year	\$ 635,359	\$ 534,105
Contributions	133,875	132,000
Distributions	(356,442)	(31,615)
Investment income	2,165	869
Balance, end of year	\$ 414,957	\$ 635,359

CRAYONS TO CLASSROOMS

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - 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 ending December 31, 2016 and 2015 was \$48,000. Rent is being charged at \$10 monthly. The Organization is also recording an in-kind donation and expense in the amount of \$75,120 and \$69,659 to represent the fair market value of the rental space for the years 2016 and 2015. 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 was 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 \$14,060 to represent the fair market value of the rental space for the year ended December 31, 2015. The agreement expired June 1, 2015.

NOTE 7 - OPERATING LEASES

The Organization leases office equipment under an operating lease agreement for total monthly payment of \$290, which expires September 2019. They also lease warehouse equipment for a total monthly payment of \$729, which expires May of 2019.

Rent expense on these leases were \$8,576 and \$3,480 years 2016 and 2015.

Future minimum lease payments over the next three years are as follows:

2017	\$	12,339
2018		12,339
2019		6,350

NOTE 8 - 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.

	<u>2016</u>	<u>2015</u>
Donor designated funds:		
Programs	\$ 450,632	\$ 383,070
Relocation	<u>27,461</u>	<u>310,626</u>
	<u>\$ 478,093</u>	<u>\$ 693,696</u>

CRAYONS TO CLASSROOMS

NOTES TO FINANCIAL STATEMENTS

NOTE 9 - 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.

	<u>2016</u>	<u>2015</u>
Purpose and time restrictions:		
Programs	\$ 47,801	\$ 167,048
Fundraiser	-	49,400
Relocation	<u>284,114</u>	<u>-</u>
	<u>\$ 331,915</u>	<u>\$ 216,448</u>