CRAYONS TO CLASSROOMS

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

CRAYONS TO CLASSROOMS

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YEARS ENDED DECEMBER 31, 2018 AND 2017

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, 2018 and 2017, 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.

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, 2018 and 2017, 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.

Effects of Adopting New Accounting Standards

As discussed in Note 1, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, Presentation of Financial Statements of Not-for-profit Entities, during 2018. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.

Brady, Ware & Schoenfeld, Inc.

Dayton, Ohio
June 19, 2019

CRAYONS TO CLASSROOMS

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash	$ 164,493	$ 157,994
Current portion of pledges receivable	53,907	75,008
Inventory	4,707,442	4,123,409
Prepaid expenses	7,748	8,373
	4,933,590	4,364,784
PROPERTY AND EQUIPMENT, NET	241,450	281,072
OTHER ASSETS		
Long-term pledges receivable, less current portion	23,132	7,315
Beneficial interest in funds held by others	303,193	400,817
	326,325	408,132
	$ 5,501,365	$ 5,053,988
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 36,306	$ 43,199
NET ASSETS		
Without donor restrictions	5,233,173	4,629,088
With donor restrictions	231,886	381,701
	5,465,059	5,010,789
	$ 5,501,365	$ 5,053,988

CRAYONS TO CLASSROOMS

STATEMENTS OF ACTIVITES

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
PUBLIC SUPPORT AND REVENUE		
Public Support		
Contributions	**$ 397,290**	$ 466,188
In-kind contributions	**3,433,760**	3,202,193
Net assets released from restrictions	**177,093**	105,741
Change in beneficial interest in funds held by others - net	**87,120**	5,535
Total Public Support	**4,095,263**	3,779,657
Revenue		
Change in beneficial interest in funds held by others - net	**6,431**	3,762
Total Public Support and Revenue Without Donor Restrictions	**4,101,694**	3,783,419
EXPENSES		
Program services	**3,278,700**	3,387,554
Management and general	**94,210**	98,648
Fundraising	**124,699**	115,737
Total Expenses	**3,497,609**	3,601,939
Change in Net Assets Without Donor Restrictions	**604,085**	181,480
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	**29,623**	7,642
Pledges NPV adjustment	**(2,583)**	1,570
Change in beneficial interest in funds held by others	**238**	137
Net assets released from restrictions	**(177,093)**	(105,741)
Total Change in Net Assets With Donor Restrictions	**(149,815)**	(96,392)
CHANGE IN NET ASSETS	**454,270**	85,088
NET ASSETS		
Beginning of year	**5,010,789**	4,925,701
End of year	**$ 5,465,059**	$ 5,010,789

CRAYONS TO CLASSROOMS

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Program Services	Management and General	Fundraising	Total Expenses
Payroll and benefits	$ 267,696	$ 21,899	$ 98,843	**$ 388,438**
In-kind school supplies distributed	2,754,230	-	-	**2,754,230**
Occupancy	137,264	7,577	-	**144,841**
Repairs and maintenance	23,566	-	-	**23,566**
Supplies	13,609	-	-	**13,609**
Postage and shipping	8,320	-	198	**8,518**
Transportation	2,246	-	113	**2,359**
Telephone and communication	1,249	-	-	**1,249**
Printing and publication	7,808	207	1,059	**9,074**
Meetings and conferences	385	-	7,095	**7,480**
Taxes, licenses, and permits	-	240	-	**240**
Dues and subscriptions	285	3,562	-	**3,847**
Specific Assistance	2,300	-	-	**2,300**
Professional fees	20,120	60,725	17,391	**98,236**
Depreciation	39,622	-	-	**39,622**
Total Functional Expenses	$ 3,278,700	$ 94,210	$ 124,699	**$ 3,497,609**

CRAYONS TO CLASSROOMS

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

	Program Services	Management and General	Fundraising	Total Expenses
Payroll and benefits	$ 274,922	$ 22,989	$ 99,262	**$ 397,173**
In-kind school supplies distributed	2,877,992	-	-	**2,877,992**
Occupancy	138,535	6,712	-	**145,247**
Repairs and maintenance	17,919	-	-	**17,919**
Supplies	12,670	-	15	**12,685**
Postage and shipping	9,664	-	186	**9,850**
Transportation	2,539	-	252	**2,791**
Telephone and communication	1,449	-	-	**1,449**
Printing and publication	4,335	20	-	**4,355**
Meetings and conferences	1,837	-	-	**1,837**
Taxes, licenses, and permits	-	208	-	**208**
Dues and subscriptions	635	2,825	-	**3,460**
Professional fees	5,435	65,894	16,022	**87,351**
Depreciation	39,622	-	-	**39,622**
Total Functional Expenses	$ 3,387,554	$ 98,648	$ 115,737	**$ 3,601,939**

CRAYONS TO CLASSROOMS

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
OPERATING ACTIVITIES		
Change in net assets	**$ 454,270**	$ 85,088
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	**39,622**	39,622
Net present value adjustments	**2,583**	(1,570)
Change in beneficial interest in funds held by others	**97,624**	14,140
Donated inventory	**(3,303,680)**	(3,202,193)
Donated inventory distributed	**2,754,230**	2,877,992
	44,649	(186,921)
Changes in operating assets and liabilities:		
Pledges receivable	**2,701**	65,977
Inventory	**(34,583)**	92,994
Prepaid expenses	**625**	(1,309)
Accounts payable	**(6,893)**	2,122
NET INCREASE (DECREASE) IN CASH	**6,499**	(27,137)
CASH		
Beginning of year	**157,994**	185,131
End of year	**$ 164,493**	$ 157,994

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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

> **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor restrictions.
>
> **Net Assets With Donor Restrictions** - Net assets subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

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 based upon direct allocation or indirect allocation based upon usage by each function.

Contributions - Gifts of cash and other assets are reported as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Contributions received with donor restrictions that are met in the same reporting period are reported as net assets without restrictions and increase net assets. Investment income that is limited to specific uses by donor restrictions is reported as increases in net assets without donor restrictions if the restrictions are met in the same reporting period as the income is recognized.

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 $3,303,680 and $3,072,113 were recorded for the years 2018 and 2017. For the years 2018 and 2017, one donor contributed 45% and 70% of the in-kind donations of product. This donor receives in-kind donations from numerous donors, which are distributed to various resource 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 $130,080 to recognize the fair market value of rent for both years 2018 and 2017. See Note 7 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.

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, 2018 and 2017.

Depreciation expense was $39,622 for the years 2018 and 2017.

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.

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, 2018.

Recently Issued Accounting Standards not Yet Adopted - In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Since the issuance of this standard, there have been several additional standards issued relative to this topic. These standards will be effective for the calendar year ending December 31, 2019. The Organization is currently in the process of evaluating the impact of adoption of these standards on the financial statements.

FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958)*: *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, in June 2018. This standard will be effective for the calendar year ending December 31, 2019. The Organization is currently in the process of evaluating the impact of adoption of this standard on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which will require the recognition of right-to-use assets and lease liabilities for leases previously classified as operating leases by lessees. Since the issuance of this standard, there have been several additional standards issued relative to this topic. These standards will be effective for the calendar year ending December 31, 2020. Early application will be permitted. The Organization is currently in the process of evaluating the impact of adoption of these standards on the financial statements.

Adoption of New Accounting Standards - The Organization adopted the provisions of the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, during 2018. ASU 2016-14 addresses the complexity and understandability of net assets classifications, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. ASU 2016-14 has been applied retrospectively to all periods presented.

Subsequent Events - In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through June 19, 2019, the date the financial statements were available to be issued.

NOTE 2 - LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

Cash	$ 164,493
Current portion of of pledges receivable	53,907
Beneficial interest	303,193
Total financial assets	521,593
Less those unavailable for general expenditure within one year due to:	
Purpose restrictions	(180,383)
Financial assets available to meet cash needs for general expenditures within one year	$ 341,210

As part of their liquidity management plan, the organization utilizes a budget and compares the actual financial results to the budget on a monthly basis. The board has not designated any funds for any specific purposes, so any funds other than those with donor restrictions can be used where most beneficial.

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable at December 31, 2018 and 2017 are as follows:

	2018	2017
Less than one year	**$ 53,907**	$ 75,008
One to five years	**26,400**	8,000
	80,307	83,008
Less discount to net present value	**3,268**	685
Net pledges receivable	**$ 77,039**	$ 82,323

At December 31, 2018 and 2017, the present value of pledges receivable was determined using a discount rate of 3.3% and 2.6%.

NOTE 4 - PROPERTY AND EQUIPMENT

	2018	2017
Leasehold Improvements	**$ 283,844**	$ 283,844
Equipment	**54,209**	54,209
Total property and equipment	**338,053**	338,053
Less accumulated depreciation	**96,603**	56,981
	$ 241,450	$ 281,072

NOTE 5 - 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.

	2018	2017
Crayons to Classrooms Fund	**$ 294,841**	$ 381,961
Dayton Crayons to Classrooms Relocation Fund	**8,352**	18,856
	$ 303,193	$ 400,817

NOTE 6 - 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, 2018 and 2017.

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, 2018 and 2017.

NOTE 6 - FAIR VALUE - continued

Fair values of the Organization's financial assets measured on a recurring basis at December 31, 2018 and 2017 are as follows:

	2018			
	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	**$ 303,193**	**$ -**	**$ -**	**$ 303,193**

	2017			
	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	$ 400,817	$ -	$ -	$ 400,817

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, 2018 and 2017:

	2018	2017
Balance, beginning of year	**$ 400,817**	$ 414,957
Contributions	**26,525**	114,895
Distributions	**(130,871)**	(133,052)
Investment income	**6,722**	4,017
Balance, end of year	**$ 303,193**	$ 400,817

NOTE 7 - 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 2018 and 2017 was $43,200. Rent is being charged at $10 monthly. The Organization is also recording an in-kind donation and expense in the amount of $130,080 to represent the fair market value of the rental space for both years 2018 and 2017. These agreements renew automatically for successive one-year periods, unless terminated by either party.

NOTE 8 - OPERATING LEASES

The Organization leases office equipment under an operating lease agreement for a 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.

The Organization entered into an open-ended lease to rent warehouse space at no cost. The Organization recorded an in-kind donation and expense in the amount of $31,200 to represent the fair market value of the rental space for the year 2018.

Rent expense on these leases were $12,339 for both years 2018 and 2017, excluding the in-kind rent.

The future minimum lease payment over the next year is as follows:

2019	$ 6,350

NOTE 9 - NET ASSETS WITH DONOR RESTRICTIONS

The net assets with donor restrictions 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.

	2018	2017
Donor designated funds:		
Programs	**$ 224,995**	$ 362,845
Relocation	**8,352**	18,856
	$ 233,347	$ 381,701

NOTE 10 - NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets without donor restrictions are released by incurring expenses that satisfy the intended purpose or the occurrence of events specified by donors.

	2018	2017
Purpose and time restrictions:		
Programs	**$ 166,351**	$ 96,999
Relocation	**10,742**	8,742
	$ 177,093	$ 105,741