

**CRADLES TO CRAYONS, INC.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**Years Ended December 31, 2008 and 2007**



## TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5 – 9
SUPPLEMENTARY INFORMATION	
Independent Auditors' Report on Supplementary Information	10
Schedules of Functional Expenses	11



*Certified Public Accountants*

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Cradles to Crayons, Inc.

We have audited the accompanying statements of financial position of Cradles to Crayons, Inc. (a non-profit organization) as of December 31, 2008 and 2007 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on the 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cradles to Crayons, Inc. as of December 31, 2008 and 2007 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "Samet &amp; Company PC".

Chestnut Hill, Massachusetts  
August 13, 2009



CRADLES TO CRAYONS, INC.

**STATEMENTS OF FINANCIAL POSITION**

**December 31, 2008 and 2007**

**ASSETS**

	<u>2008</u>	<u>2007</u>
Cash	\$ 1,442,228	\$ 743,507
Unconditional promises to give	72,500	167,500
Contribution receivable	68,608	153,680
Prepaid expenses	18,270	7,426
Property and equipment, net	54,598	64,603
Security deposit	<u>5,496</u>	<u>5,496</u>
Total assets	\$ <u>1,661,700</u>	\$ <u>1,142,212</u>

**LIABILITIES AND NET ASSETS**

Liabilities:		
Accounts payable	\$ 25,621	\$ 10,701
Accrued expenses	<u>48,099</u>	<u>30,729</u>
Total liabilities	<u>73,720</u>	<u>41,430</u>
Net assets:		
Unrestricted	1,468,026	922,102
Temporarily restricted	<u>119,954</u>	<u>178,680</u>
Total net assets	<u>1,587,980</u>	<u>1,100,782</u>
Total liabilities and net assets	\$ <u>1,661,700</u>	\$ <u>1,142,212</u>



CRADLES TO CRAYONS, INC.

**STATEMENTS OF ACTIVITIES**

**Years Ended December 31, 2008 and 2007**

<b>Unrestricted net assets:</b>	<u>2008</u>	<u>2007</u>
Support and revenues:		
Contributions	\$ 2,195,221	\$ 1,656,203
Donated goods	2,487,571	1,703,296
Donated services	161,152	37,371
Interest income	<u>5,338</u>	<u>984</u>
Total support and revenues	4,849,282	3,397,854
Net assets released from restrictions	<u>228,726</u>	<u>176,409</u>
Total unrestricted support and revenues	<u>5,078,008</u>	<u>3,574,263</u>
Expenses:		
Program services	4,006,617	2,762,370
General and administrative	271,963	182,641
Fundraising	<u>253,504</u>	<u>104,475</u>
Total expenses	<u>4,532,084</u>	<u>3,049,486</u>
Increase in unrestricted net assets	545,924	524,777
Unrestricted net assets, beginning of year	<u>922,102</u>	<u>397,325</u>
Unrestricted net assets, end of year	<u>1,468,026</u>	<u>922,102</u>
<b>Temporarily restricted net assets:</b>		
Contributions	170,000	230,089
Net assets released from restrictions	<u>(228,726)</u>	<u>(176,409)</u>
Increase (decrease) in temporarily restricted net assets	(58,726)	53,680
Temporarily restricted net assets, beginning of year	<u>178,680</u>	<u>125,000</u>
Temporarily restricted net assets, end of year	<u>119,954</u>	<u>178,680</u>
<b>Increase in net assets</b>	487,198	578,457
Net assets, beginning of year	<u>1,100,782</u>	<u>522,325</u>
Net assets, end of year	\$ <u>1,587,980</u>	\$ <u>1,100,782</u>



CRADLES TO CRAYONS, INC.

**STATEMENTS OF CASH FLOWS**  
**Years Ended December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Increase in net assets	\$ 487,198	\$ 578,457
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	18,358	16,629
Non-cash contribution	-	(153,680)
Donated rent	85,072	-
Changes in operating assets and liabilities:		
Unconditional promises to give	95,000	(82,500)
Prepaid expenses	(10,844)	(115)
Security deposit	-	(717)
Accounts payable	14,920	2,691
Accrued expenses	<u>17,370</u>	<u>(5,996)</u>
Net cash provided by operating activities	<u>707,074</u>	<u>354,769</u>
Cash flows from investing activities:		
Purchase of property and equipment	<u>(8,353)</u>	<u>(32,460)</u>
Net increase in cash during the year	698,721	322,309
Cash, beginning of year	<u>743,507</u>	<u>421,198</u>
Cash, end of year	\$ <u><u>1,442,228</u></u>	\$ <u><u>743,507</u></u>



## CRADLES TO CRAYONS, INC.

### NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

Note 1 **Summary of significant accounting policies**

**Nature of Organization**

Cradles to Crayons, Inc. (the "Organization") is a non-profit corporation that enhances the lives of underprivileged children and their families by providing them, free of charge, basic necessities such as clothing, school supplies, safety equipment, books and toys that are essential to their health, education, and well-being. The Organization serves children from low-income families throughout Massachusetts and Pennsylvania. The Organization executes its mission by mobilizing widespread community and civic participation. At the community level, the Organization partners with schools, corporations, faith-based organizations, and other community groups to conduct drives for children's goods and to obtain volunteers in its warehouse. In addition, the Organization partners with certain neighborhood events and with a network of diverse social service agencies that order and distribute the Organization's packages to individual children receiving services from those agencies. By involving individuals and local private, not-for-profit, and public-sector organizations in its mission, the Organization is able to address immediate needs of underprivileged children, build long-term community ownership of the Organization's mission, and raise awareness about the critical issues of child poverty and homelessness.

**Income tax status**

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Internal Revenue Service has determined that the Organization is a publicly supported organization as described in sections 509(a)(1) and 170(b)(1)(A)(vi).

**Basis of accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**Basis of presentation**

The Organization presents its financial statements in accordance with Statement of Financial Accounting Standards ("SFAS") No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets:

**Unrestricted net assets** are comprised of assets relating to activities that are not subject to donor stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

**Temporarily restricted net assets** are comprised of those assets for which use is limited by donor-imposed stipulations that will either expire with the passage of time or be fulfilled by the Organization. Temporarily restricted net assets at December 31, 2008 consist primarily of the fair rental value of facilities and other temporarily restricted programs.



CRADLES TO CRAYONS, INC.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2008 and 2007

Note 1 **Summary of significant accounting policies (continued)**

**Basis of presentation (continued)**

**Permanently restricted net assets** are comprised of those assets which must be held in perpetuity as stipulated by the donor. As of December 31, 2008 and 2007, the Organization had no permanently restricted net assets.

Donor-restricted contributions that are received and expended within the same year are reported as unrestricted.

**Use of estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Functional allocation of expenses**

The costs of providing the Organization's programs and supporting services have been summarized in the schedules of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Contribution revenue**

All contributions are considered available for unrestricted use unless specifically restricted by the donor. Contributions are recorded as revenue when earned by the Organization, which may be when cash is received, unconditional promises made, or ownership of other assets is transferred to the Organization.

**Promises to give**

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

**Donated goods and services**

Donated services are recognized as contributions in accordance with SFAS No. 116, "Accounting for Contributions Received and Contributions Made," if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and may otherwise be purchased by the Organization. Volunteers provided services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria under SFAS No. 116 were not met.

The Organization receives donations of new and gently-used children's clothing, shoes, books, toys, school supplies, safety equipment, and other children's products from corporations, and drives held throughout the year at schools, faith-based organizations, and other community organizations. The Organization, in turn, gives these donated goods, at no charge, to underprivileged children through a network of social service agencies.





CRADLES TO CRAYONS, INC.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2008 and 2007

Note 1 **Summary of significant accounting policies (continued)**

**Donated goods and services (continued)**

During the years ended December 31, 2008 and 2007, the Organization received and recognized donated goods and services, recorded at fair market value, as follows:

<u>Description</u>	<u>2008</u>	<u>2007</u>
Goods:		
Children's products	\$2,487,571	\$1,703,296
Services:		
Consulting	135,000	-
Legal	<u>26,152</u>	<u>37,371</u>
	<u>\$2,648,723</u>	<u>\$1,740,667</u>

Note 2 **Contribution receivable**

The Organization leases its Pennsylvania facility at below-market rates (see Note 5). For the years ended December 31, 2008 and 2007, the Organization has recorded a receivable to reflect the donation of the use of this facility for the remaining term of the lease.

	<u>2008</u>	<u>2007</u>
Estimated fair rental value for the remaining lease term	<u>\$68,608</u>	<u>\$153,680</u>

Note 3 **Property and equipment**

The Organization capitalizes property and equipment over \$1,000. Property and equipment is stated at cost, or if donated, at the approximate fair market value at the date of donation. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets. As of December 31, 2008 and 2007, property and equipment consisted of the following:

<u>Asset category</u>	<u>Estimated Useful Life</u>	<u>2008</u>	<u>2007</u>
Website	3 years	\$ 8,191	\$ 8,191
Equipment	5 years	63,964	55,611
Leasehold improvements	Life of lease	7,173	7,173
Furniture and fixtures	7 years	<u>31,053</u>	<u>31,053</u>
		110,381	102,028
Less accumulated depreciation		<u>55,783</u>	<u>37,425</u>
		<u>\$ 54,598</u>	<u>\$64,603</u>



CRADLES TO CRAYONS, INC.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2008 and 2007

Note 3 **Property and equipment (continued)**

Depreciation expense for the years ended December 31, 2008 and 2007 was \$18,358 and \$16,629, respectively.

Normal maintenance and repair costs are expensed as incurred.

Note 4 **Promises to give**

Unconditional promises

Unconditional promises to give at December 31, 2008 and 2007, are as follows:

	<u>2008</u>	<u>2007</u>
Other - unrestricted	\$ <u>72,500</u>	\$ <u>167,500</u>
Receivable in less than one year	\$57,500	\$ 167,500
Receivable in one to five years	<u>15,000</u>	<u>-</u>
Total unconditional promises to give	\$ <u>72,500</u>	\$ <u>167,500</u>

Conditional promises

In addition, and separate from unconditional promises, the Organization had certain conditional promises to give outstanding at December 31, 2008. These promises represented a grant whose funds will be used for organizational capacity building purposes based on certain criteria as determined by the donor. The amount due of \$225,000 will be recognized when all of the conditions have been substantially met, which is expected to be over the next two years.

There were no conditional promises to give outstanding at December 31, 2007.

Note 5 **Commitments**

The Organization leases office and warehouse space in Massachusetts under a non-cancelable operating lease agreement. Subsequent to year end, the Organization extended the lease which is now set to expire on March 14, 2011, with an option to extend for an additional two years, as defined in the agreement. On March 15, 2009, the monthly lease payments under the agreement will increase from \$5,496 to \$6,002 per month. In addition to base rent, the Organization is responsible for paying its portion of real estate taxes and utilities.

Rent expense, related to this agreement, for the years ended December 31, 2008 and 2007 was \$65,955 and \$59,734, respectively.



CRADLES TO CRAYONS, INC.

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**

December 31, 2008 and 2007

Note 5 **Commitments (continued)**

On May 1, 2007, the Organization entered into a lease agreement for office and warehouse space in Pennsylvania expiring on April 30, 2010. The lease provides for annual rent of \$0, \$8,233, and \$16,466, respectively, for each of the three years of the lease. The Organization is responsible for all operating expenses related to this facility. The Organization records the estimated fair rental value as a contribution receivable (see Note 2). The receivable is reduced by the amount realized during the year.

Rent expense, related to this agreement, for the years ended December 31, 2008 and 2007 was \$90,560, which includes a fair market value adjustment of \$85,072 and \$64,457, which includes a fair market value adjustment of \$43,909, respectively.

Future minimum lease payments (without regard to operating expenses, real estate taxes, and utilities) are due as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2009	\$ 84,481
2010	77,513
2011	<u>15,005</u>
	<u>\$ 176,999</u>

Note 6 **Related party transactions**

During the years ended December 31, 2008 and 2007, an officer, certain directors and a related family member made contributions to the Organization totaling \$114,500 and \$150,187, respectively.

Note 7 **Financial instruments – concentrations of credit risk**

SFAS No. 107, "Disclosures About Fair Value of Financial Instruments," requires disclosure of the fair value of certain financial instruments. The carrying amounts of cash, unconditional promises to give, prepaid expenses, accounts payable, and accrued expenses approximate fair value because of their short-term nature. The Organization maintains its cash balances at several financial institutions. At times, such cash balances may be in excess of the Federal Deposit Insurance Corporation (FDIC) limit.



*Certified Public Accountants*

**INDEPENDENT AUDITORS' REPORT**  
**ON SUPPLEMENTARY INFORMATION**

To the Board of Directors  
Cradles to Crayons, Inc.

Our report on our audit of the basic financial statements of Cradles to Crayons, Inc. for December 31, 2008 and 2007 appears on page 1. That audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, for the year ended December 31, 2008 with comparative totals for the year ended December 31, 2007, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Samet &amp; Company PC".

Chestnut Hill, Massachusetts  
August 13, 2009



CRADLES TO CRAYONS, INC.

**SCHEDULES OF FUNCTIONAL EXPENSES**

**Year Ended December 31, 2008 with Comparative Totals for the Year Ended December 31, 2007**

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>	<u>2007</u>
Automobile expense	20,695	\$ -	\$ -	\$ 20,695	22,611
Bank fees	-	3,920	-	3,920	4,924
Children's products	134,382	-	-	134,382	60,749
Children's products - donated (see Note 1)	2,487,571	-	-	2,487,571	1,703,296
Clothing removal	15,329	-	-	15,329	10,431
Consulting	50,030	-	48,875	98,905	61,158
Consulting donated services (see Note 1)	135,000	-	-	135,000	-
Depreciation	4,436	13,922	-	18,358	16,629
Dues and subscriptions	-	5,857	-	5,857	3,587
Employee benefits	60,228	11,924	13,630	85,782	56,958
Event supplies and expenses	55,381	-	16,201	71,582	31,824
Information technology	39,864	-	-	39,864	29,700
Insurance	16,274	10,850	-	27,124	19,042
Marketing and communication	-	-	14,188	14,188	4,712
Miscellaneous	5,346	-	-	5,346	5,833
Payroll processing	2,367	469	535	3,371	1,639
Payroll taxes	59,473	11,774	13,460	84,707	57,586
Postage and shipping	2,233	6,698	-	8,931	2,748
Printing and reproduction	3,630	-	17,333	20,963	11,594
Professional donated services (see Note 1)	-	26,152	-	26,152	37,371
Professional fees	33,557	26,750	-	60,307	25,125
Real estate taxes	16,128	2,626	-	18,754	17,191
Rent	61,441	10,002	-	71,443	80,282
Rent, adjustment to fair market value	73,162	11,910	-	85,072	43,909
Repairs and maintenance	38,610	-	-	38,610	2,922
Salaries	571,232	113,091	129,282	813,605	611,635
Supplies	53,188	12,379	-	65,567	47,745
Telephone	24,727	-	-	24,727	18,340
Travel and entertainment	16,020	-	-	16,020	35,482
Utilities	22,352	3,639	-	25,991	16,934
Volunteer recognition	3,961	-	-	3,961	7,529
Total	<u>\$ 4,006,617</u>	<u>\$ 271,963</u>	<u>\$ 253,504</u>	<u>\$ 4,532,084</u>	<u>\$ 3,049,486</u>