

CRADLES TO CRAYONS, INC.

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

Years Ended December 31, 2013 and 2012



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Cradles to Crayons, Inc.

We have audited the accompanying financial statements of Cradles to Crayons, Inc. (a non-profit organization) which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and changes in net assets and cash flows for the year 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 audit 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 auditor's 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 Cradles to Crayons, Inc. as of December 31, 2013 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Cradles to Crayons, Inc. 2012 financial statements, and our report dated July 16, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Chestnut Hill, Massachusetts
August 25, 2014



CRADLES TO CRAYONS, INC.

STATEMENTS OF FINANCIAL POSITION
December 31, 2013 with Comparative Totals as of December 31, 2012

ASSETS

| | 2013 | | | 2012 |
|--|---------------------|-------------------------------|---------------------|---------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> | <u>Total</u> |
| Cash and cash equivalents | \$ 1,188,800 | \$ 167,014 | \$ 1,355,814 | \$ 1,152,370 |
| Cash and cash equivalents - Board restricted | 500,000 | - | 500,000 | 500,000 |
| Investments | 3,029,677 | - | 3,029,677 | 2,240,354 |
| Pledges receivable | 667,436 | 347,300 | 1,014,736 | 916,609 |
| Prepaid expenses and other assets | 82,869 | - | 82,869 | 158,569 |
| Property and equipment, net | <u>699,529</u> | <u>-</u> | <u>699,529</u> | <u>824,953</u> |
| Total assets | \$ <u>6,168,311</u> | \$ <u>514,314</u> | \$ <u>6,682,625</u> | \$ <u>5,792,855</u> |

LIABILITIES AND NET ASSETS

Liabilities:

| | | | | |
|------------------|----------------|----------|----------------|----------------|
| Accounts payable | \$ 59,238 | \$ - | \$ 59,238 | \$ 46,499 |
| Accrued expenses | 122,919 | - | 122,919 | 173,591 |
| Deferred rent | <u>82,647</u> | <u>-</u> | <u>82,647</u> | <u>64,281</u> |
| | <u>264,804</u> | <u>-</u> | <u>264,804</u> | <u>284,371</u> |

Net assets:

| | | | | |
|----------------------------------|---------------------|-------------------|---------------------|---------------------|
| Unrestricted - general | 5,403,507 | - | 5,403,507 | 4,465,401 |
| Board restricted | <u>500,000</u> | <u>-</u> | <u>500,000</u> | <u>500,000</u> |
| Total unrestricted | 5,903,507 | - | 5,903,507 | 4,965,401 |
| Temporarily restricted | <u>-</u> | <u>514,314</u> | <u>514,314</u> | <u>543,083</u> |
| Total net assets | <u>5,903,507</u> | <u>514,314</u> | <u>6,417,821</u> | <u>5,508,484</u> |
| Total liabilities and net assets | \$ <u>6,168,311</u> | \$ <u>514,314</u> | \$ <u>6,682,625</u> | \$ <u>5,792,855</u> |



CRADLES TO CRAYONS, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

Year Ended December 31, 2013 with Comparative Totals for the Year Ended December 31, 2012

| | 2013 | | | 2012 |
|---|---------------------|-----------------------------------|---------------------|---------------------|
| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Total</u> | <u>Total</u> |
| Support and revenues: | | | | |
| Contributions | \$ 4,320,444 | \$ 486,121 | \$ 4,806,565 | \$ 4,356,522 |
| Donated goods | 4,765,814 | - | 4,765,814 | 4,163,681 |
| Donated services | - | - | - | 6,160 |
| Interest, dividend and other income | 84,711 | - | 84,711 | 47,884 |
| Realized and unrealized gains on investments | 138,731 | - | 138,731 | 38,497 |
| Total support and revenues | <u>9,309,700</u> | <u>486,121</u> | <u>9,795,821</u> | <u>8,612,744</u> |
| Net assets released from restrictions | <u>491,395</u> | <u>(491,395)</u> | <u>-</u> | <u>-</u> |
| Total support and revenues | <u>9,801,095</u> | <u>(5,274)</u> | <u>9,795,821</u> | <u>8,612,744</u> |
| Expenses: | | | | |
| Program services | 7,950,072 | - | 7,950,072 | 7,137,707 |
| General and administrative | 344,357 | - | 344,357 | 286,444 |
| Fundraising | 592,055 | - | 592,055 | 493,932 |
| Total expenses | <u>8,886,484</u> | <u>-</u> | <u>8,886,484</u> | <u>7,918,083</u> |
| Changes in net assets from operations | 914,611 | (5,274) | 909,337 | 694,661 |
| Contributions - non-operating | <u>23,495</u> | <u>(23,495)</u> | <u>-</u> | <u>-</u> |
| Changes in net assets | 938,106 | (28,769) | 909,337 | 694,661 |
| Net assets, beginning of year | <u>4,965,401</u> | <u>543,083</u> | <u>5,508,484</u> | <u>4,813,823</u> |
| Net assets, end of year | \$ <u>5,903,507</u> | \$ <u>514,314</u> | \$ <u>6,417,821</u> | \$ <u>5,508,484</u> |



CRADLES TO CRAYONS, INC.

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2013 and 2012

| | <u>2013</u> | <u>2012</u> |
|--|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 909,337 | \$ 694,661 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Non-cash investment contributions | (51,854) | (160,499) |
| Contributions - non-operating | (23,495) | (112,269) |
| Depreciation and amortization | 190,381 | 199,329 |
| Realized and unrealized gains on investments | (138,731) | (38,497) |
| Changes in operating assets and liabilities: | | |
| Pledges receivable | (98,127) | 190,878 |
| Prepaid expenses and other assets | 75,700 | (93,728) |
| Accounts payable | 12,739 | (1,499) |
| Accrued expenses | (50,672) | 13,663 |
| Deferred rent | 18,366 | 27,549 |
| Net cash provided by operating activities | <u>843,644</u> | <u>719,588</u> |
| Cash flows from investing activities: | | |
| Contributions used for property and equipment purchases | 23,495 | 112,269 |
| Purchase of marketable securities | (1,595,290) | (2,108,645) |
| Proceeds on sale of marketable securities | 996,552 | 67,287 |
| Purchase of property and equipment | <u>(64,957)</u> | <u>(118,624)</u> |
| Net cash used for investing activities | <u>(640,200)</u> | <u>(2,047,713)</u> |
| Net change in cash and cash equivalents during the year | 203,444 | (1,328,125) |
| Cash and cash equivalents, beginning of year | <u>1,652,370</u> | <u>2,980,495</u> |
| Cash and cash equivalents, end of year | \$ <u>1,855,814</u> | \$ <u>1,652,370</u> |



CRADLES TO CRAYONS, INC.

NOTES TO FINANCIAL STATEMENTS

December 31, 2013 and 2012

Note 1 **Nature of Organization and Capital campaigns**

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 the greater Philadelphia region. 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 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 the 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.

Capital campaigns

Boston New Giving Factory Campaign

The Boston New Giving Factory Campaign was initiated to build capacity in personnel, information technology, and other infrastructure areas in order to sustain and grow its operations.

The Organization secured a new site in Boston, Massachusetts, in 2010 and began to modify and equip the space. In order to fund this expansion, the Organization entered into a capital campaign for a "New Giving Factory". During the year ended December 31, 2012, the Organization received cash and multi-year pledges of \$411,100 related to this capital campaign. There were no contributions during the year ended December 31, 2013. In addition, during the years ended December 31, 2013 and 2012, \$464,787 and \$1,137,883, respectively, were expended for their restricted purposes. As of December 31, 2013 all funds have been expended for their restricted purposes and the campaign is concluded.

Philadelphia Growth Campaign

The Philadelphia Growth Campaign was initiated to build capacity in personnel, information technology, and other infrastructure areas in order to sustain and grow its operations.

The Organization is searching to secure, modify and equip a new site in the Philadelphia, Pennsylvania area in 2015. In order to fund this expansion, the Organization entered into a capital campaign for "Growth" in 2013. During the year ended December 31, 2013, the Organization received cash and multi-year pledges of \$398,600 related to this capital campaign and expended \$7,479.



CRADLES TO CRAYONS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2013 and 2012

Note 1 **Nature of Organization and Capital campaigns (continued)**

Capital campaigns (continued)

Philadelphia Growth Campaign (continued)

The Organization has planned for additional investments through 2017 associated with the move and this campaign.

Note 2 **Summary of significant accounting policies**

Income tax status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2). The Organization is also exempt from state income taxes.

The Financial Accounting Standards Board ("FASB") issued a standard that clarifies the accounting and recognition of income tax positions taken or expected to be taken in the Organization's income tax returns. The Organization assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. If the Organization incurs interest or penalties as a result of unrecognized tax benefits the policy is to classify interest accrued with interest expense and penalties thereon with operating expenses. The Organization's tax filings are subject to audit by various taxing authorities. The Organization's federal and state tax returns are generally open for examination for the past three years.

Basis of accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting.

Basis of presentation

Accounting standards require the Organization 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. As of December 31, 2013 and 2012, the board had designated \$500,000 for capacity building and growth.

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.



CRADLES TO CRAYONS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2013 and 2012

Note 2 **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, 2013 and 2012, 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

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.

Significant estimates in the accompanying financial statements include estimates used in determining the fair value of donated goods.

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 are made, or ownership of other assets is transferred to the Organization.

Cash and cash equivalents

For purposes of the statements of cash flows, cash equivalents include time deposits, certificates of deposit, money market funds, and highly liquid debt instruments with original maturities of three months or less.

Investments

The organization follows the Not-For-Profit subtopic of the FASB Accounting Standards Codification with respect to investments. Under this subtopic, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets. For donated investments, cost is determined to be fair market value at the date of gift.

Pledges receivable

Unconditional pledges are recognized as revenues in the period the commitment is received. Conditional pledges are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.



CRADLES TO CRAYONS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2013 and 2012

Note 2 **Summary of significant accounting policies (continued)**

Donated goods and services

Donated services are recognized as contributions 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 accompanying financial statements since the recognition criteria 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.

During the years ended December 31, 2013 and 2012, the Organization received and recognized donated goods and services, recorded at fair market value, as follows:

| | <u>2013</u> | <u>2012</u> |
|---------------------|-----------------------|---------------------------|
| Goods: | | |
| Children's products | \$ 4,765,814 | \$ 4,163,281 |
| Other products | <u> -</u> | <u> 400</u> |
| Total | \$ <u>4,765,814</u> | \$ <u>4,163,681</u> |
| Services: | | |
| Legal | \$ - | \$ 4,696 |
| Other | <u> -</u> | <u> 1,464</u> |
| | \$ <u> -</u> | \$ <u> 6,160</u> |

Subsequent events

The Organization has evaluated subsequent events through August 25, 2014, which is the date the financial statements were available to be issued.

Note 3 **Investments**

Investment return for the years ended December 31, 2013 and 2012 are as follows:

| | <u>2013</u> | <u>2012</u> |
|-------------------------|-------------------|------------------------|
| Unrealized gains | \$ 153,766 | \$ 34,187 |
| Realized gains (losses) | <u>(15,035)</u> | <u> 4,310</u> |
| | \$ <u>138,731</u> | \$ <u>38,497</u> |



CRADLES TO CRAYONS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2013 and 2012

Note 4 **Pledges**

Pledges receivable

Pledges receivable are generally collectible within one year and are recorded at their net realizable value. At December 31, 2013 and 2012, the Organization had \$1,014,736 and \$916,609, respectively, in pledges receivable.

The pledges as of December 31, 2013 are due as follows:

| | <u>2013</u> | | <u>2012</u> |
|----------------------------------|---------------------|----|----------------|
| Receivable in less than one year | \$ 870,239 | \$ | 916,123 |
| Receivable in one to five years | <u>144,497</u> | | <u>486</u> |
| | \$ <u>1,014,736</u> | \$ | <u>916,609</u> |

Conditional pledges

The Organization had certain conditional promises to give totaling \$100,000 at December 31, 2013. These conditional amounts are not included in the accompanying financial statements. At the time that the applicable donor imposed conditions have been substantially met, these amounts will be recorded as contribution revenue.

Note 5 **Property and equipment**

The Organization capitalizes property and equipment with a cost of more than \$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. Normal repairs and maintenance costs are expensed as incurred.



CRADLES TO CRAYONS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2013 and 2012

Note 5 Property and equipment (continued)

As of December 31, 2013 and 2012, property and equipment consisted of the following:

| <u>Asset Category</u> | <u>Estimated Useful Life</u> | <u>2013</u> | <u>2012</u> |
|--|------------------------------|-------------------|-------------------|
| Leasehold improvements | Life of lease | \$ 501,799 | \$ 490,494 |
| Software | 3-5 years | 211,604 | 183,005 |
| Equipment | 5 years | 139,963 | 114,910 |
| Furniture and fixtures | 7 years | 420,705 | 420,705 |
| Motor vehicles | 5 years | 44,919 | 44,919 |
| Website | 3 years | 8,191 | 8,191 |
| | | <u>1,327,181</u> | <u>1,262,224</u> |
| Less accumulated depreciation and amortization | | <u>627,652</u> | <u>437,271</u> |
| | | <u>\$ 699,529</u> | <u>\$ 824,953</u> |

Depreciation and amortization expense for the years ended December 31, 2013 and 2012 was \$190,381 and \$199,329, respectively.

Note 6 Temporarily restricted net assets

Temporarily restricted net assets were restricted for the following purpose as of December 31, 2013 and 2012:

| | <u>2013</u> | <u>2012</u> |
|--------------------------------------|-------------------|-------------------|
| Philadelphia Growth campaign | \$ 391,120 | \$ - |
| Campaign for New Giving Factory | - | 464,787 |
| Purchase of children's goods | 95,000 | 25,300 |
| Expansion and other capital upgrades | <u>28,194</u> | <u>52,996</u> |
| | <u>\$ 514,314</u> | <u>\$ 543,083</u> |

Note 7 Commitments

The Organization leases office and warehouse space in Massachusetts under a non-cancelable operating lease agreement that was entered into during 2010 and expires June 30, 2020. This agreement contains provisions for future rent increases, or periods in which rental payments are reduced. The Organization records monthly rent expense equal to the total of the payments due over the lease term. The difference between rent expense recorded and paid is credited to deferred rent payable.



CRADLES TO CRAYONS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2013 and 2012

Note 7 **Commitments (continued)**

The Organization also leases office and warehouse space in Pennsylvania under a non-cancelable operating lease agreement that expires January 31, 2015.

Under these agreements, in addition to base rent, the Organization is responsible for paying its portion of real estate taxes and utilities.

Rent expense (including real estate taxes and utilities), related to these agreements, for the years ended December 31, 2013 and 2012 was \$377,204 and \$410,486, respectively.

Future minimum lease payments (excluding utilities and real estate taxes) under these agreements are due as follows:

| <u>Years ending December 31,</u> | <u>Amount</u> |
|----------------------------------|---------------------|
| 2014 | \$ 252,074 |
| 2015 | 181,540 |
| 2016 | 183,476 |
| 2017 | 192,659 |
| 2018 | 201,842 |
| Thereafter | <u>318,833</u> |
| | \$ <u>1,330,424</u> |

Note 8 **Related party transactions**

During the years ended December 31, 2013 and 2012, an employee, certain directors, related family members, and related companies made contributions to the Organization totaling \$265,870 and \$77,360, respectively. As of December 31, 2013 and 2012, pledges receivable from these related parties totaled \$140,000 and \$30,933, respectively.

Note 9 **Concentrations of credit risk**

The Organization maintains its cash in bank deposit accounts which may exceed Federal Deposit Insurance Corporation ("FDIC") insured levels at various times during the year. The Organization has not experienced any losses in such accounts.

Note 10 **Pension plan**

The Organization sponsors a Simplified Employee Pension plan for its eligible employees. The Organization matches contributions of up to 3% of each employee's salary to the plan. The total amount contributed by the Organization for the years ended December 31, 2013 and 2012 was \$35,621 and \$28,981, respectively, and has been included in employee benefits in the schedules of functional expenses.



CRADLES TO CRAYONS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2013 and 2012

Note 11 Fair value measurements

The financial assets and liabilities recognized or disclosed in the financial statements on a recurring basis are recognized at fair value. Fair value represents the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The Organization is required to measure fair value by maximizing the use of observable inputs and minimizing the use of unobservable inputs. Accounting standards describe three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities in active markets; quoted prices for similar assets or liabilities in markets that are not active; or model-derived valuations or other inputs that are observable or can be corroborated by observable market data for the assets or liabilities.

Level 3 - Unobservable inputs for the asset or liability. These inputs reflect the Organization's assumptions about the assumptions a market participant would use in pricing the asset or liability.

The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 2 and Level 3 inputs are only used when higher level inputs are not available.

The following table summarizes the valuation of the Organization's financial assets at December 31, 2013:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|----------------------------|---------------------|----------------|----------------|---------------------|
| Investments: | | | | |
| Mutual funds/ETFs | \$ 3,029,677 | \$ - | \$ - | \$ 3,029,677 |
| Total assets at fair value | \$ <u>3,029,677</u> | \$ <u>-</u> | \$ <u>-</u> | \$ <u>3,029,677</u> |



CRADLES TO CRAYONS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2013 and 2012

Note 11 **Fair value measurements (continued)**

The following table summarizes the valuation of the Organization's financial assets at December 31, 2012:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|----------------------------|---------------------|----------------|----------------|---------------------|
| Investments: | | | | |
| Equities | \$ 115,840 | \$ - | \$ - | \$ 115,840 |
| Mutual funds/ETFs | 2,124,514 | - | - | 2,124,514 |
| Total assets at fair value | <u>\$ 2,240,354</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,240,354</u> |

The fair value of assets measured using Level 1 inputs are based on quoted market prices.

Investment expenses for the years ended December 31, 2013 and 2012 were \$20,853 and \$6,951, respectively.



INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Cradles to Crayons, Inc

We have audited the financial statements of Cradles to Crayons, Inc. (a non-profit organization) as of and for the year ended December 31, 2013, and our report thereon dated July 31, 2014, which contained an unmodified opinion on those financial statements, appears on pages 1-2. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The comparative totals for 2012 have been derived from the Cradles to Crayons, Inc's 2012 supplementary information and, in our report dated July 16, 2013, we expressed an unmodified opinion on that supplementary information.

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

Chestnut Hill, Massachusetts
August 25, 2014

CRADLES TO CRAYONS, INC.

SCHEDULES OF FUNCTIONAL EXPENSES

Year Ended December 31, 2013 with Comparative Totals for the Year Ended December 31, 2012

| | Program Services | General and Administrative | Fundraising | 2013 Total | 2012 Total |
|--|------------------|----------------------------|-------------|--------------|--------------|
| Children's products - donated (see Note 2) | \$ 4,765,814 | \$ - | \$ - | \$ 4,765,814 | \$ 4,163,681 |
| Salaries | 1,316,966 | 94,927 | 423,440 | 1,835,333 | 1,724,413 |
| Children's products | 619,520 | - | - | 619,520 | 531,360 |
| Rent | 272,747 | 32,582 | - | 305,329 | 306,277 |
| Employee benefits | 138,235 | 15,259 | 41,934 | 195,428 | 191,936 |
| Depreciation and amortization | 157,826 | 23,125 | 9,430 | 190,381 | 199,329 |
| Payroll taxes | 117,201 | 8,389 | 36,992 | 162,582 | 170,027 |
| Professional fees | 55,351 | 42,422 | - | 97,773 | 29,294 |
| Supplies, printing and reproduction | 80,625 | 17,081 | - | 97,706 | 90,683 |
| Consulting | 43,320 | 29,547 | 3,800 | 76,667 | 2,195 |
| Information technology | 72,104 | - | - | 72,104 | 68,330 |
| Utilities | 65,099 | 6,776 | - | 71,875 | 104,209 |
| Event supplies and expenses | 26,851 | - | 44,967 | 71,818 | 53,906 |
| Insurance | 32,997 | 3,783 | 3,710 | 40,490 | 35,821 |
| Travel and entertainment | 33,857 | - | - | 33,857 | 37,261 |
| Telephone | 33,604 | - | - | 33,604 | 34,228 |
| Marketing and communication | 10,730 | - | 16,808 | 27,538 | 31,709 |
| Repairs and maintenance | 25,934 | - | - | 25,934 | 4,605 |
| Truck rental | 24,853 | - | - | 24,853 | 17,581 |
| Investment fees | - | 20,853 | - | 20,853 | 6,951 |
| Clothing removal | 20,502 | - | - | 20,502 | 21,522 |
| Staff development | 11,849 | 920 | 3,928 | 16,697 | - |
| Volunteer recognition | 14,478 | - | - | 14,478 | 11,706 |
| Donation processing fee | - | 12,959 | - | 12,959 | 15,505 |
| Bank fees | - | 12,426 | - | 12,426 | 9,247 |
| Bad debts | - | 11,474 | - | 11,474 | 4,250 |
| Dues and subscriptions | - | 9,177 | - | 9,177 | 6,415 |
| Postage and shipping | 4,581 | 2,290 | 2,289 | 9,160 | 9,334 |
| Payroll processing | 5,028 | 367 | 1,680 | 7,075 | 5,038 |
| Miscellaneous | - | - | 3,077 | 3,077 | 26,574 |
| Professional donated services (see Note 2) | - | - | - | - | 4,696 |
| Total | \$ 7,950,072 | \$ 344,357 | \$ 592,055 | \$ 8,886,484 | \$ 7,918,083 |

See notes to financial statements