

Classroom Central



Classroom Central

Financial Statements

For the Years Ended June 30, 2018, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Classroom Central:

We have audited the accompanying financial statements of Classroom Central (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018, 2017 and 2016, 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.

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 from 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Classroom Central as of June 30, 2018, 2017 and 2016, 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.

DAVIES, GOLDSTEIN & ASSOCIATES, CPA'S, PLLC

Matthews, North Carolina

September 5, 2018

Classroom Central
Statements of Financial Position
As of June 30, 2018, 2017 and 2016

Assets	<u>2018</u>	<u>2017</u>	<u>2016</u>
Current Assets			
Cash and Equivalents	\$ 1,017,404	\$ 625,033	\$ 351,329
Grants and Pledges Receivable, net (Note 2)	32,887	51,160	15,083
Other Current Assets	5,722	9,608	8,730
Inventory	2,607,788	2,003,809	1,750,487
Total Current Assets	<u>3,663,801</u>	<u>2,689,610</u>	<u>2,125,629</u>
Long-term Assets			
Pledges Receivable, net (Note 2)	87,736	57,526	53,571
Property and Equipment, net	775,737	701,440	725,883
Total Long-term Assets	<u>863,473</u>	<u>758,966</u>	<u>779,454</u>
Total Assets	<u>\$ 4,527,274</u>	<u>\$ 3,448,576</u>	<u>\$ 2,905,083</u>
Liabilities and Net Assets			
Current Liabilities			
Accounts Payable and Accrued Expenses	\$ 30,165	\$ 875	\$ 17,830
Current portion of Note Payable	46,523	42,245	39,665
Total Current Liabilities	<u>76,688</u>	<u>43,120</u>	<u>57,495</u>
Note Payable, net of current portion	109,697	157,067	199,177
Total Liabilities	<u>186,385</u>	<u>200,187</u>	<u>256,672</u>
Net Assets			
Unrestricted	4,179,232	3,143,667	2,592,985
Temporarily Restricted	147,495	94,560	50,264
Permanently Restricted	14,162	10,162	5,162
Total Net Assets	<u>4,340,889</u>	<u>3,248,389</u>	<u>2,648,411</u>
Total Liabilities and Net Assets	<u>\$ 4,527,274</u>	<u>\$ 3,448,576</u>	<u>\$ 2,905,083</u>

The accompanying notes are an integral part of these financial statements

Classroom Central
Statements of Activities
For the Years Ended June 30, 2018, 2017 and 2016

	<u>June 30, 2018</u>				<u>June 30, 2017</u>	<u>June 30, 2016</u>
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total	Total
Revenues and Other Support						
In-Kind Donations	\$ 5,428,692	\$ -	\$ -	\$ 5,428,692	\$ 5,126,446	\$ 3,311,406
Contributions and Grants	951,090	282,067	4,000	1,237,157	1,083,775	721,979
Fundraising Event Income	264,359	-	-	264,359	224,590	194,257
Less: Costs of Direct Benefits to Donors	(96,563)	-	-	(96,563)	(90,377)	(39,286)
Net Income from Fundraising Events	167,796	-	-	167,796	134,213	154,971
Interest Income	1,539	-	-	1,539	128	544
Other Income, Net	18,938	-	-	18,938	2,386	4,648
Release from Restrictions	229,132	(229,132)	-	-	-	-
Total Revenues and Other Support	<u>6,797,187</u>	<u>52,935</u>	<u>4,000</u>	<u>6,854,122</u>	<u>6,346,948</u>	<u>4,193,548</u>
Expenses						
Program Expenses	5,488,522	-	-	5,488,522	5,515,957	3,296,630
Management and General Expenses	97,156	-	-	97,156	86,949	88,187
Fundraising Expenses	175,944	-	-	175,944	144,064	144,120
Total Expenses	<u>5,761,622</u>	<u>-</u>	<u>-</u>	<u>5,761,622</u>	<u>5,746,970</u>	<u>3,528,937</u>
Change in Net Assets	<u>\$ 1,035,565</u>	<u>\$ 52,935</u>	<u>\$ 4,000</u>	<u>\$ 1,092,500</u>	<u>\$ 599,978</u>	<u>\$ 664,611</u>
Net Assets, Beginning of Year	\$ 3,143,667	\$ 94,560	\$ 10,162	\$ 3,248,389	\$ 2,648,411	\$ 1,983,800
Change in Net Assets	1,035,565	52,935	4,000	1,092,500	599,978	664,611
Net Assets, End of Year	<u>\$ 4,179,232</u>	<u>\$ 147,495</u>	<u>\$ 14,162</u>	<u>\$ 4,340,889</u>	<u>\$ 3,248,389</u>	<u>\$ 2,648,411</u>

The accompanying notes are an integral part of these financial statements

Classroom Central
Statement of Functional Expenses
For the Year Ended June 30, 2018

	Program	Management and General	Fundraising	Total
School Supplies Distributed	\$ 4,871,565	\$ -	\$ -	\$ 4,871,565
Compensation	451,493	64,499	128,998	644,990
Occupancy	32,557	4,512	9,025	46,094
Program Expansion - Mobile Free Store	25,361	-	-	25,361
Communications and Technology	27,218	3,555	7,399	38,172
Depreciation	20,673	2,953	5,906	29,532
Marketing	-	-	19,338	19,338
Other	5,357	9,276	-	14,633
Interest Expense	12,944	1,438	-	14,382
Insurance	11,582	1,287	-	12,869
Professional Services	1,477	6,890	-	8,367
Printing and Postage	4,976	-	2,132	7,108
Office Expenses	3,343	1,760	1,173	6,276
Bank and Finance Fees	3,867	552	1,105	5,524
Bad Debt Expense	5,354	-	-	5,354
Dues and Subscriptions	3,038	434	868	4,340
Training and Education	3,359	-	-	3,359
Travel	4,358	-	-	4,358
Total Functional Expenses	\$ 5,488,522	\$ 97,156	\$ 175,944	\$ 5,761,622

The accompanying notes are an integral part of these financial statements.

Classroom Central
Statement of Functional Expenses
For the Year Ended June 30, 2017

	Program	Management and General	Fundraising	Total
School Supplies Distributed	\$ 4,961,732	\$ -	\$ -	\$ 4,961,732
Compensation	392,569	56,081	112,163	560,813
Occupancy	26,626	3,804	7,607	38,037
Communications and Technology	23,132	2,892	2,892	28,916
Depreciation	17,110	2,444	4,889	24,443
Marketing	-	-	11,830	11,830
Other	2,893	7,946	-	10,839
Interest Expense	16,028	1,781	-	17,809
Insurance	11,682	1,298	-	12,980
Professional Services	1,480	8,224	-	9,704
Printing and Postage	3,748	-	1,606	5,354
Office Expenses	2,350	1,410	940	4,700
Bank and Finance Fees	4,079	583	1,165	5,827
Bad Debt Expense	43,692	-	-	43,692
Dues and Subscriptions	3,403	486	972	4,861
Training and Education	1,393	-	-	1,393
Travel	4,040	-	-	4,040
Total Functional Expenses	\$ 5,515,957	\$ 86,949	\$ 144,064	\$ 5,746,970

The accompanying notes are an integral part of these financial statements.

Classroom Central
Statement of Functional Expenses
For the Year Ended June 30, 2016

	Program	Management and General	Fundraising	Total
School Supplies Distributed	\$ 2,774,027	\$ -	\$ -	\$ 2,774,027
Compensation	372,371	53,196	106,392	531,959
Occupancy	23,549	6,728	3,364	33,641
Communications and Technology	14,185	1,773	1,773	17,731
Depreciation	15,853	4,530	2,265	22,648
Marketing	9,017	-	21,040	30,057
Other	2,743	3,247	-	5,990
Interest Expense	18,643	2,071	-	20,714
Insurance	13,829	1,537	-	15,366
Professional Services	1,738	8,185	-	9,923
Printing and Postage	2,447	-	1,048	3,495
Office Expenses	4,517	1,291	645	6,453
Bank and Finance Fees	2,979	851	426	4,256
Bad Debt Expense	29,996	-	-	29,996
Dues and Subscriptions	5,136	4,778	7,167	17,081
Training and Education	3,294	-	-	3,294
Travel	2,306	-	-	2,306
Total Functional Expenses	\$ 3,296,630	\$ 88,187	\$ 144,120	\$ 3,528,937

The accompanying notes are an integral part of these financial statements.

Classroom Central
Statements of Cash Flows
For the Years Ended June 30, 2018, 2017 and 2016

Operating Activities	<u>2018</u>	<u>2017</u>	<u>2016</u>
Change in Net Assets	\$ 1,092,500	\$ 599,978	\$ 664,611
Depreciation expense	29,532	24,443	22,648
Bad Debt Expense	5,354	43,692	29,996
Discount on Pledges Receivable	13,006	-	6,994
Adjustments to reconcile Change in Net Assets to net cash flows from operating activities:			
(Increase) in Grants and Pledges Receivable, net	(30,297)	(83,724)	(89,811)
Decrease (Increase) in Other Current Assets	3,886	(878)	1,951
(Increase) in Inventory	(603,979)	(253,322)	(633,325)
Increase (Decrease) in Accounts Payable and Accrued Expenses	29,290	(16,955)	13,766
Net Cash Provided By Operating Activities	<u>539,292</u>	<u>313,234</u>	<u>16,830</u>
Investing Activities			
Purchases of Property and Equipment	<u>(103,829)</u>	<u>-</u>	<u>-</u>
Net Cash (Used In) Investing Activities	<u>(103,829)</u>	<u>-</u>	<u>-</u>
Financing Activities			
Principal Payments on Note Payable	<u>(43,092)</u>	<u>(39,530)</u>	<u>(36,626)</u>
Net Cash (Used In) Financing Activities	<u>(43,092)</u>	<u>(39,530)</u>	<u>(36,626)</u>
Net Increase (Decrease) in Cash and Equivalents	392,371	273,704	(19,796)
Cash and Equivalents, beginning of period	<u>625,033</u>	<u>351,329</u>	<u>371,125</u>
Cash and Equivalents, end of period	<u>\$ 1,017,404</u>	<u>\$ 625,033</u>	<u>\$ 351,329</u>
Supplemental Data:			
Interest Paid	<u>\$ 14,382</u>	<u>\$ 17,809</u>	<u>\$ 20,714</u>

The accompanying notes are an integral part of these financial statements.

Classroom Central
Notes to Financial Statements
For the Years Ended June 30, 2018, 2017 and 2016

Note 1 - The Organization

Classroom Central (hereafter referred to as the “Organization”) is a nonprofit organization formed in 2002, in Charlotte, North Carolina. The Organization’s mission is to equip students living in poverty to effectively learn by collecting and distributing free school supplies. The Organization serves high-poverty schools in six school districts: Charlotte-Mecklenburg, Gaston, Iredell-Statesville, Union, and Kannapolis in North Carolina and Lancaster in South Carolina.

Supplies are delivered by the Organization through the following core programs:

- A Free Store operated in Charlotte where teachers in qualifying schools “shop” for free school supplies for use in their classrooms;
- A Mobile Free Store that ships essential supplies to schools that are further away from the free store;
- Classroom Up, an online delivery system, allows teachers to order five essential school supplies that are delivered directly to the school; and
- Backpacks and Basics, which outfits the highest poverty schools in the region with supply kits and backpacks for the entire student body.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles in the United States (US GAAP).

Under US GAAP, the Organization has prepared its financial statements in accordance with Financial Accounting Standards Board Accounting Standards Codification (ASC) Topic 958, “Financial Statements for Not-for-Profit Entities”. Under ASC Topic 958, the Organization is 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.

Use of Estimates

The accompanying financial statements have been prepared in accordance with US GAAP, which 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents, excluding amounts whose use is limited by donor restriction. During the years ended June 30, 2018, 2017 and 2016 there were times when cash balances exceeded the Federal Deposit Insurance Corporation limit of \$250,000 per depositor. There were no losses as a result and management believes the associated risk to be minimal.

Classroom Central
Notes to Financial Statements
For the Years Ended June 30, 2018, 2017 and 2016

Note 2 - Summary of Significant Accounting Policies (continued)

Contributions, Grants and Promises to Give

The Organization recognizes unconditional promises to give as support in the period the promise is received. Some promises to give are due in future periods extending beyond one year. These are shown net of a discount of \$20,000, \$6,994 and \$6,994 to reflect the time value of money at June 30, 2018, 2017 and 2016, respectively. Management has determined that an allowance for doubtful accounts of \$35,972, \$34,916, and \$19,395 was necessary at June 30, 2018, 2017 and 2016, respectively. There were no conditional promises to give as of June 30, 2018, 2017 and 2016.

Inventory

The large majority of the inventory of school supplies is obtained through in-kind donations. Management records this inventory at fair value on the date it is donated. Fair value of donated new product is estimated using current retail pricing (e.g. Staples, Walmart, etc.) which is regularly reviewed for reasonableness. Used product donations in good condition are priced at retail value minus 10-20% depending on the condition. Inventory that is purchased typically relates to a specific program initiative or shortfall of a key supply and is recorded at the purchase price and tracked using the first-in, first-out method. Management reviewed the inventory on hand at June 30, 2018, 2017 and 2016 for decline in value or obsolescence and determined no reserve was deemed necessary.

Property and Equipment

Property and Equipment are recorded at cost if purchased and estimated fair value at the time of donation if received as a donation, subject to a \$500 capitalization threshold. During the years ended June 30, 2018, 2017 and 2016, no equipment was donated to the Organization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

Building	40 years
Building Improvements	20 years
Furniture, equipment and software	3 – 10 years

Maintenance and repairs of property and equipment are charged to operations, and major improvements are capitalized. Upon retirement, sale, or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in operations. Total depreciation expense was \$29,532, \$24,443, and \$22,648 for the years ended June 30, 2018, 2017 and 2016, respectively.

Net Assets

Unrestricted net assets are comprised of all resources without donor-imposed restrictions. Temporarily restricted contributions that are received and expended in the same year are classified as unrestricted.

Temporarily restricted net assets carry restrictions that expire upon the passage of a prescribed period or upon the occurrence of a stated event as specified by the donor. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the Statement of Activities as net assets released from restriction.

Classroom Central
Notes to Financial Statements
For the Years Ended June 30, 2018, 2017 and 2016

Note 2 - Summary of Significant Accounting Policies (continued)

Net Assets (continued)

Permanently restricted net assets are contributed to be maintained permanently by the Organization. Income earned through gains on investments on permanently restricted assets is classified as determined by the donor. There were \$14,162, \$10,162, and \$5,162 of permanently restricted net assets as of June 30, 2018, 2017 and 2016, respectively, which included interest earned on the fund.

Donated Facilities and Services

Beginning in 2009, the Organization entered into an agreement to lease an offsite storage facility from an unrelated party for free rent. The estimated fair value of the rent was \$17,600 for the years ended June 30, 2018, 2017 and 2016 and is reflected as contributions and occupancy expense in the Statements of Activities.

Contributed services for voluntary donation of services are recognized in the financial statements when those services: (1) create or enhance non-financial assets; or (2) require specialized skills provided by individuals possessing those skills and are services that would be typically purchased if not provided by donation. During the years ended June 30, 2018, 2017 and 2016, no donated services were recorded.

In addition, a substantial number of unpaid volunteers, including the Board of Directors, have made significant contributions of their time to provide services to the Organization which do not meet the criteria for recognition described above. The estimated value of their contributed time is not reflected in the financial statements.

Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized and allocated on a functional basis in the accompanying Statements of Functional Expenses. These allocations are based on management's best estimate of time and funds spent across program, management and fundraising activities.

Income Taxes

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for income taxes in the accompanying financial statements. The Organization has analyzed tax positions taken for filing with the Internal Revenue Service and the state jurisdiction of North Carolina where it operates. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Organization's financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2018, 2017 and 2016.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. As of the date of this report, the Organization believes it is no longer subject to income tax examinations for years prior to fiscal 2015.

Classroom Central
Notes to Financial Statements
For the Years Ended June 30, 2018, 2017 and 2016

Note 3 – Property and Equipment

Property and equipment consist of the following:

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Building	\$377,820	\$377,820	\$377,820
Land	375,000	375,000	375,000
Furniture and Equipment	143,184	126,184	126,184
Vehicles	139,621	52,792	52,792
	<u>1,035,625</u>	<u>931,796</u>	<u>931,796</u>
Accumulated Depreciation	(259,888)	(230,356)	(205,913)
	<u>\$775,737</u>	<u>\$701,440</u>	<u>\$725,883</u>

Note 4 – Restrictions on Net Assets

Temporarily restricted net assets are available for the following programs:

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Backpacks and Basics	\$ 41,625	\$ -	\$4,000
Building	4,057	9,514	9,514
Mobile Free Store	100,795	62,000	-
Transportation	-	8,046	8,046
STEM	1,018	15,000	9,500
Other	-	-	19,204
Total	<u>\$147,495</u>	<u>\$94,560</u>	<u>\$50,264</u>

Note 5 – Note Payable

The note payable consists of a balance due on an obligation to an unrelated individual in 180 monthly installments of \$4,778 which includes interest of 8%. The note was callable after August 1, 2012 (with a six-month notice period) but cannot be prepaid in full or in part. The loan is secured by a first deed of trust on the Organization's building and property in Charlotte, North Carolina.

Future principal maturities on the note are as follows:

Year ending June 30,	
2019	\$ 46,523
2020	50,384
2021	<u>59,313</u>
	<u>\$ 156,220</u>

Additionally, the Organization has a line of credit of \$75,000 with an interest rate of Wall Street Journal Prime plus 1.25%. Nothing was drawn on the line as of June 30, 2018, 2017 and 2016. The line can be renewed annually in February.

Classroom Central
Notes to Financial Statements
For the Years Ended June 30, 2018, 2017 and 2016

Note 6 – Retirement Plan

All employees working 1,000 hours or more that have completed one year of service are eligible to participate in a defined contribution benefit plan qualified under section 401(k) of the Internal Revenue Code. The Organization makes contributions to the plan on a discretionary basis. The Organization contributed \$10,048, \$5,344, and \$0 during the years ended June 30, 2018, 2017 and 2016, respectively. All contributions are vested immediately.

Note 7 – Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through September 5, 2018, the date the financial statements were available to be issued. The Organization has no knowledge of significant subsequent events as of this date.