THE WALKING CLASSROOM INSTITUTE

Chapel Hill, North Carolina

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016
(With Comparative Totals for the
Year Ended December 31, 2015)

BLACKMAN & SLOOP
CERTIFIED PUBLIC ACCOUNTANTS

CONTENTS

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CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS:
American Institute of
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North Carolina Association of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Directors
The Walking Classroom Institute
Chapel Hill, North Carolina

We have audited the accompanying financial statements of The Walking Classroom Institute (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and changes in net assets, cash flows, and functional expenses 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 assurances 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.

BLACKMAN & SLOOP, CPAs, P.A.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Walking Classroom Institute as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

We have previously audited The Walking Classroom Institute's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 11, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Blackman & Sloop

Chapel Hill, North Carolina
May 25, 2017

THE WALKING CLASSROOM INSTITUTE

STATEMENTS OF FINANCIAL POSITION

EXHIBIT A

December 31, 2016 and 2015

ASSETS

	2016	2015
CURRENT ASSETS:		
Cash and equivalents	$ 112,624	$ 145,173
Accounts receivable	14,591	21,209
Contributions receivable	-	2,250
Grants receivable	213,600	187,000
Inventory	35,960	52,070
Prepaid expenses and other current assets	19,955	9,363
TOTAL CURRENT ASSETS	396,730	417,065
PROPERTY AND EQUIPMENT:		
Furniture and equipment	7,269	7,269
Website development	8,093	8,093
Computers and software	12,663	8,680
	28,025	24,042
Less: Accumulated depreciation	(19,265)	(13,072)
NET PROPERTY AND EQUIPMENT	8,760	10,970
OTHER ASSETS:		
Grants receivable, net	290,183	253,546
Intangible assets	1,634,005	-
TOTAL OTHER ASSETS	1,924,188	253,546
TOTAL ASSETS	$ 2,329,678	$ 681,581

LIABILITIES AND NET ASSETS

	2016	2015
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 22,118	$ 17,825
Account payable - related party	-	6,888
Deferred rent	1,797	1,941
Note payable - related party	42,909	-
TOTAL CURRENT LIABILITIES	66,824	26,654
NET ASSETS:		
Unrestricted	1,738,072	150,929
Temporarily restricted	524,782	503,998
TOTAL NET ASSETS	2,262,854	654,927
TOTAL LIABILITIES AND NET ASSETS	$ 2,329,678	$ 681,581

The accompanying Notes to Financial Statements are an integral part of these statements.

THE WALKING CLASSROOM INSTITUTE

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

EXHIBIT B

For the Year Ended December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

	Unrestricted	Temporarily Restricted	2016 Totals	2015 Totals
SUPPORT AND REVENUE:				
SUPPORT:				
Grants	$ -	$ 544,637	$ 544,637	$ 552,716
Contributions	52,549	-	52,549	57,338
Donation of intangible assets	1,434,005	-	1,434,005	-
	1,486,554	544,637	2,031,191	610,054
REVENUE:				
Direct sales	356,012	-	356,012	332,795
Cost of direct sales	(86,723)	-	(86,723)	(73,504)
	269,289	-	269,289	259,291
Recovery of licensing fees	127,091	-	127,091	-
Other revenue	17	-	17	66
	1,882,951	544,637	2,427,588	869,411
Net assets released from restrictions	523,853	(523,853)	-	-
TOTAL SUPPORT AND REVENUE	2,406,804	20,784	2,427,588	869,411
EXPENSES:				
Program services	630,927	-	630,927	443,357
Management and general	123,550	-	123,550	124,392
Fundraising	65,184	-	65,184	63,598
TOTAL EXPENSES	819,661	-	819,661	631,347
CHANGES IN NET ASSETS	1,587,143	20,784	1,607,927	238,064
NET ASSETS - BEGINNING OF YEAR	150,929	503,998	654,927	416,863
NET ASSETS - END OF YEAR	$ 1,738,072	$ 524,782	$ 2,262,854	$ 654,927

The accompanying Notes to Financial Statements are an integral part of these statements.

THE WALKING CLASSROOM INSTITUTE

STATEMENTS OF CASH FLOWS

EXHIBIT C

For the Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 1,607,927	$ 238,064
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation	6,194	5,222
In-kind donation of intangible asset	(1,434,005)	-
Recovery of licensing fees	(127,091)	-
Increase (decrease) in cash arising from changes in assets and liabilities:		
Accounts receivable	6,618	(11,423)
Contributions receivable	2,250	(2,250)
Grants receivable, net	(63,237)	(345,546)
Inventory	16,110	(25,315)
Prepaid expenses and other current assets	(10,592)	(2,924)
Accounts payable and accrued expenses	4,293	16,454
Account payable - related party	(6,888)	6,435
Deferred rent	(144)	64
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,435	(121,219)
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of property and equipment	(3,984)	(3,997)
Purchase of intangible asset	(72,909)	-
NET CASH USED IN OPERATING ACTIVITIES	(76,893)	(3,997)
CASH FLOWS USED IN FINANCING ACTIVITIES:		
Proceeds from issuance of note payable - related party	62,909	-
Principal payments on note payable - related party	(20,000)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	42,909	-
NET DECREASE IN CASH AND EQUIVALENTS	(32,549)	(125,216)
CASH AND EQUIVALENTS - BEGINNING OF YEAR	145,173	270,389
CASH AND EQUIVALENTS - END OF YEAR	$ 112,624	$ 145,173

	2016	2015
SUPPLEMENTAL DISCLOSURES:		
In-kind donations	$ 1,434,005	$ -

The accompanying Notes to Financial Statements are an integral part of these statements.

THE WALKING CLASSROOM INSTITUTE

STATEMENT OF FUNCTIONAL EXPENSES

EXHIBIT D

For the Year Ended December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

	Program	Management and General	Fundraising	2016 Totals	2015 Totals
Salaries, taxes, and benefits	$ 231,848	$ 88,700	$ 30,854	$ 351,402	$ 274,816
Cost of audio devices granted	223,682	-	-	223,682	102,964
Professional and consulting fees	55,024	11,193	3,893	70,110	49,776
Occupancy	23,622	9,037	3,144	35,803	34,699
Conferences and meetings	15,874	4,305	15,874	36,053	38,918
Postage and freight	23,636	109	213	23,958	13,464
Marketing	7,339	-	8,695	16,034	23,198
Supplies	11,017	1,606	62	12,685	10,955
Licensing fees	11,762	-	-	11,762	49,231
Printing	6,369	-	1,327	7,696	6,727
Depreciation	4,087	1,563	544	6,194	5,222
Site visits and teacher workshops	5,338	-	-	5,338	4,611
Bank and credit card fees	5,233	-	-	5,233	2,431
Telephone	2,753	1,054	366	4,173	4,541
Technology	641	2,990	-	3,631	1,477
Insurance	1,597	611	212	2,420	3,583
Board development	702	833	-	1,535	283
Other expenses	203	756	-	959	3,153
Dues and subscriptions	200	548	-	748	1,298
Interest	-	245	-	245	-
Total expenses	$ 630,927	$ 123,550	$ 65,184	$ 819,661	$ 631,347

The accompanying Notes to Financial Statements are an integral part of these statements.

NATURE OF ORGANIZATION

The Walking Classroom Institute (the "Institute") is a nonprofit organization with a mission to help improve the physical, mental, and academic health of children by establishing and maintaining healthy lifestyle habits while building their health literacy and core content knowledge. Students walk, listen, and learn. The Institute is supported primarily through contributions, grants, and proceeds from sales of educational content to teachers and schools.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting.

The Institute's financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Accordingly, revenues and support are recognized when earned, and expenses are recognized when the obligation is incurred.

B. Revenue Recognition.

Sales are recorded when products are shipped to customers. Provisions for discounts and rebates to customers, and other adjustments are provided for in the same period the related sales are recorded.

The Institute reports grants and other contributions of cash as restricted support 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 purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

C. Cash and Equivalents.

Cash and equivalents consist of monies on deposit at a financial institution. At times, the Institute places deposits with a high-quality financial institution that may be in excess of federally insured amounts. The Institute has not experienced any financial loss related to such deposits.

D. Accounts Receivable.

Accounts receivable are recorded at net realizable value. The Institute provides an allowance for doubtful accounts equal to the estimated losses that are expected to be incurred during collection. The allowance is based on historical collection experience and a review by management of the current status of the existing receivables. As of December 31, 2016 and 2015, all accounts receivable are deemed collectible by management.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Contributions and Grants Receivable.

Unconditional contributions and grants receivable are recognized as support in the period pledged and as assets, decreases of liabilities, or expenses depending on the form of the benefit received. Amounts that are expected to be collected within one year are recorded at net realizable value. Amounts that are expected to be collected in future years are recorded at the present value of estimated future cash flows. Conditional grants receivable are recognized when the conditions upon which the grants depend are substantially met. An allowance is provided for amounts management estimates to be uncollectible. As of December 31, 2016 and 2015, all contributions and grants receivable are deemed collectible by management.

F. Inventory.

Inventory consists of pre-recorded audio devices ("WalkKits"), and associated teacher's guides and discussion guides. Inventory is valued at lower of cost or market, and cost is determined using the first-in, first-out method. The Institute records a reserve for inventory that has been identified as obsolete. The Institute determined all inventory items were properly valued at December 31, 2016 and 2015, and deemed a reserve was not necessary.

G. Property and Equipment.

Property and equipment are stated at cost for purchased assets and at fair market value on the date of gift for donated property. Property and equipment are capitalized if the life expectancy is greater than one year and if the cost exceeds $500. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, ranging from three to five years.

H. Intangible Assets.

Intangible assets consist of intellectual property and trademarks with indefinite lives. The assets are recorded at fair value at the date of acquisition, and are subject to annual impairment assessments based on future cash flows they are expected to generate. Costs related to the renewal of trademarks are expensed in the period in which they occur.

I. Net Assets.

Unrestricted - Resources of the Institute that are not restricted by donors or grantors as to use or purpose. These resources include amounts generated from operations, undesignated gifts, and investments in property and equipment.

Temporarily Restricted - Resources that carry a donor-imposed restriction that permits the Institute to use or expend the donated assets for a specific purpose. The restrictions can be satisfied by the passage of time or by actions of the Institute.

Permanently Restricted - Resources that carry a donor-imposed restriction that stipulates that donated assets be maintained in perpetuity, but may permit the Institute to use or expend part or all of the income derived from the donated assets.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Marketing.

The Institute expenses marketing costs as incurred. Marketing expense totaled $16,034 and $23,198, for the years ended December 31, 2016 and 2015, respectively.

K. Shipping and Handling Costs.

Shipping and handling costs are expensed as incurred and are included in postage and freight in the statement of functional expenses.

L. Income Tax Status.

The Walking Classroom Institute is an exempt organization under Section 501(c)(3) of the Internal Revenue Code, and is classified as other than a private foundation. It is also exempt from North Carolina income and franchise taxes under the North Carolina Non-Profit Corporation Act. If applicable, the Institute reports penalties and interest assessed by income taxing authorities related to unrecognized tax positions as other expenses in the statement of activities and changes in net assets.

M. Estimates.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect 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. Accordingly, actual results could differ from those estimates.

INTANGIBLE ASSETS

The Institute's intangible assets consist of educational content for the WalkKits, the teacher's guides and discussion guides, and "The Walking Classroom" and "Walk. Listen. Learn." trademarks acquired from The Walking Classroom, LLC, in April 2016. The assets are valued at their appraised fair value as of the date of acquisition of $1,634,005, and are not subject to amortization. The assets did not suffer an impairment in 2016.

THE WALKING CLASSROOM INSTITUTE

NOTES TO FINANCIAL STATEMENTS

GRANTS RECEIVABLE

Grants receivable consists of the following at December 31:

	2016	2015
Receivable in less than one year	$ 213,600	$ 187,000
Receivable in one to five years	306,000	264,000
Total gross grants receivable	519,600	451,000
Discount at a rate of 1.80% and 2.00%	(15,817)	(10,454)
Net present value of grants receivable	$ 503,783	$ 440,546
Current assets:		
Grants receivable	$ 213,600	$ 187,000
Other assets:		
Grants receivable, net	290,183	253,546
Total grants receivable	$ 503,783	$ 440,546

RELATED PARTY TRANSACTIONS

The Executive Director of the Institute is a majority member of The Walking Classroom, LLC, (the "LLC"), a related party.

The LLC developed the educational content for the WalkKits, teacher's guides, and discussion guides distributed by the Institute. The Institute paid the LLC a licensing fee of fifteen percent (15%) of net receipts from the sale and/or licensing of the WalkKits. Effective June 1, 2014, the LLC waived all licensing fees on classroom materials underwritten by grantors.

On April 29, 2016, the Institute agreed to purchase all of the intellectual property of the LLC, including all educational content for the WalkKits, the teacher's guides and discussion guides, and "The Walking Classroom" and "Walk. Listen. Learn." trademarks. Total assets acquired by the Institute had an appraised fair value of $1,634,005 at the time of the sale. The Institute agreed to pay $200,000 for the intellectual property and $10,000 for other setup services provided by the LLC subsequent to the purchase, reduced by $127,091 in licensing fees previously paid, for a net purchase price of $82,909. The Institute paid $20,000 cash upon execution of the agreement, and incurred a note payable to the LLC for the remaining $62,909.

The note is payable in five quarterly principal payments of $10,000, and a final payment of $12,909. Interest is assessed at an annual rate of 0.7%, and is payable quarterly. The note is secured by the intellectual property purchased from the LLC. In 2016, the Institute paid $20,000 in principal and $245 in interest on the note payable to the LLC. At December 31, 2016, the note payable had an outstanding balance of $42,909, with $77 of accrued interest. The note is due September 30, 2017.

RELATED PARTY TRANSACTIONS (CONTINUED)

The $1,434,005 difference between the intellectual property's appraised fair value and the agreed-upon purchase price was recognized by the Institute as a donation of an intangible asset.

The Institute incurred licensing fees of $11,762 and $49,231, in 2016 and 2015, respectively, including an account payable of $6,888 at December 31, 2015.

OPERATING LEASE

In June 2014, the Institute entered into an operating lease agreement to lease office space for a term of two years. The lease began June 26, 2014, and was set to end on June 30, 2016. In May 2016, the Institute renegotiated the lease to extend it for an additional two years, through June 2018. Office rent expense totaled $35,803 and $34,699, for the years ended December 31, 2016 and 2015. At December 31, 2016, the monthly rent payment was $3,245. The original and renegotiated lease agreements include rent escalation clauses, resulting in deferred rent of $1,797 and $1,941, at December 31, 2016 and 2015, respectively. Future minimum payments under the renegotiated lease are as follows:

Year Ending December 31,	
2017	$ 36,012
2018	19,851
Total minimum lease payments	$ 55,863

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	2016	2015
Purpose restriction:		
Classroom set grants	$ 28,668	$ 296,200
Classroom set program expansion	60,629	207,798
	89,297	503,998
Time restriction	435,485	-
Total temporarily restricted net assets	$ 524,782	$ 503,998

THE WALKING CLASSROOM INSTITUTE

NOTES TO FINANCIAL STATEMENTS

TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

Net assets released from restriction consist of the following:

	2016	2015
Purpose restriction:		
Classroom set program expansion	$ 117,467	$ 192,915
Classroom set grants	266,688	91,320
Programming and technical development	-	16,958
	384,155	301,193
Time restriction	139,698	-
Net assets released from restriction	$ 523,853	$ 301,193

DONATED SERVICES

The Institute recognizes donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. There were no services meeting these requirements for recognition in the financial statements for the years ended December 31, 2016 and 2015.

CONCENTRATIONS

Two donors represent 97% of total support for 2016, and one donor represents 72% of total support for 2015. Two donors represent 100% of grants receivable at December 31, 2016, and one donor represents 100% of grants receivable at December 31, 2015.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain indirect costs have been allocated between programs and supporting services benefited based on management's estimates.

PRIOR YEAR INFORMATION

The statements of activities and changes in net assets and functional expenses include certain prior-year summarized comparative information in total but not by net asset class and function. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Institute's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

THE WALKING CLASSROOM INSTITUTE

NOTES TO FINANCIAL STATEMENTS

SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition or disclosure through May 25, 2017, the date the financial statements were available to be issued. Management did not identify any events that occurred subsequent to year-end that require disclosure in the financial statements.