THE WALKING CLASSROOM INSTITUTE

Chapel Hill, North Carolina

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2017
(With Comparative Totals for the
Year Ended December 31, 2016)

BLACKMAN & SLOOP
CERTIFIED PUBLIC ACCOUNTANTS

CONTENTS

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BLACKMAN & SLOOP
CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS:
American Institute of
Certified Public Accountants

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, 2017, 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, 2017, 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 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 25, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Blackman & Sloop

Chapel Hill, North Carolina
April 3, 2018

THE WALKING CLASSROOM INSTITUTE

STATEMENTS OF FINANCIAL POSITION

EXHIBIT A

December 31, 2017 and 2016

ASSETS

	2017	2016
CURRENT ASSETS:		
Cash and equivalents	$ 154,798	$ 112,624
Accounts receivable	12,513	14,591
Contributions receivable	660	-
Grants receivable	118,000	213,600
Inventory	16,866	35,960
Prepaid expenses and other current assets	17,066	19,955
TOTAL CURRENT ASSETS	319,903	396,730
PROPERTY AND EQUIPMENT:		
Furniture and equipment	7,269	7,269
Website development	8,093	8,093
Computers and software	14,072	12,663
	29,434	28,025
Less: Accumulated depreciation	(24,903)	(19,265)
NET PROPERTY AND EQUIPMENT	4,531	8,760
OTHER ASSETS:		
Grants receivable, net	179,627	290,183
Intangible assets	1,634,005	1,634,005
TOTAL OTHER ASSETS	1,813,632	1,924,188
TOTAL ASSETS	$ 2,138,066	$ 2,329,678

LIABILITIES AND NET ASSETS

	2017	2016
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 15,347	$ 22,118
Deferred rent	1,829	1,797
Note payable - related party	25,909	42,909
TOTAL CURRENT LIABILITIES	43,085	66,824
NET ASSETS:		
Unrestricted	1,789,854	1,738,072
Temporarily restricted	305,127	524,782
TOTAL NET ASSETS	2,094,981	2,262,854
TOTAL LIABILITIES AND NET ASSETS	$ 2,138,066	$ 2,329,678

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, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

	Unrestricted	Temporarily Restricted	2017 Totals	2016 Totals
SUPPORT AND REVENUE:				
SUPPORT:				
Grants	$ -	$ 110,444	$ 110,444	$ 544,637
Contributions	39,869	5,200	45,069	52,549
Donation of intangible assets	-	-	-	1,434,005
	39,869	115,644	155,513	2,031,191
REVENUE:				
Direct sales	354,376	-	354,376	356,012
Cost of direct sales	(83,638)	-	(83,638)	(86,723)
	270,738	-	270,738	269,289
Recovery of licensing fees	-	-	-	127,091
Other revenue	6,447	-	6,447	17
	317,054	115,644	432,698	2,427,588
Net assets released from restrictions	335,299	(335,299)	-	-
TOTAL SUPPORT AND REVENUE	652,353	(219,655)	432,698	2,427,588
EXPENSES:				
Program services	474,348	-	474,348	630,927
Management and general	78,146	-	78,146	123,550
Fundraising	48,077	-	48,077	65,184
TOTAL EXPENSES	600,571	-	600,571	819,661
CHANGES IN NET ASSETS	51,782	(219,655)	(167,873)	1,607,927
NET ASSETS - BEGINNING OF YEAR	1,738,072	524,782	2,262,854	654,927
NET ASSETS - END OF YEAR	$ 1,789,854	$ 305,127	$ 2,094,981	$ 2,262,854

THE WALKING CLASSROOM INSTITUTE

STATEMENTS OF CASH FLOWS

EXHIBIT C

For the Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ (167,873)	$ 1,607,927
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	5,638	6,194
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	2,078	6,618
Contributions receivable	(660)	2,250
Grants receivable, net	206,156	(63,237)
Inventory	19,094	16,110
Prepaid expenses and other current assets	2,889	(10,592)
Accounts payable and accrued expenses	(6,771)	4,293
Account payable - related party	-	(6,888)
Deferred rent	32	(144)
NET CASH PROVIDED BY OPERATING ACTIVITIES	60,583	1,435
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of property and equipment	(1,409)	(3,984)
Purchase of intangible asset	-	(72,909)
NET CASH USED IN OPERATING ACTIVITIES	(1,409)	(76,893)
CASH FLOWS USED IN FINANCING ACTIVITIES:		
Proceeds from issuance of note payable - related party	-	62,909
Principal payments on note payable - related party	(17,000)	(20,000)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(17,000)	42,909
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	42,174	(32,549)
CASH AND EQUIVALENTS - BEGINNING OF YEAR	112,624	145,173
CASH AND EQUIVALENTS - END OF YEAR	$ 154,798	$ 112,624
SUPPLEMENTAL DISCLOSURES:		
In-kind donations	$ -	$ 1,434,005
Interest paid	$ 121	$ 169

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, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

	Program	Management and General	Fundraising	2017 Totals	2016 Totals
Salaries, taxes, and benefits	$ 224,188	$ 49,001	$ 28,857	$ 302,046	$ 351,402
Cost of audio devices granted	81,802	-	-	81,802	223,682
Professional and consulting fees	43,883	17,499	-	61,382	70,110
Conferences and meetings	37,605	-	-	37,605	36,053
Occupancy	26,956	5,891	3,470	36,317	35,803
Marketing	19,795	-	14,499	34,294	16,034
Postage and freight	14,134	66	-	14,200	23,958
Supplies	7,206	959	-	8,165	12,685
Depreciation	4,185	914	539	5,638	6,194
Telephone	3,103	678	399	4,180	4,173
Bank and credit card fees	3,861	-	-	3,861	5,233
Technology	3,236	410	-	3,646	3,631
Insurance	2,434	532	313	3,279	2,420
Other expenses	503	842	-	1,345	959
Printing	1,182	-	-	1,182	7,696
Board development	75	755	-	830	1,535
Dues and subscriptions	200	539	-	739	748
Interest	-	60	-	60	245
Site visits and teacher workshops	-	-	-	-	5,338
Licensing fees	-	-	-	-	11,762
Total expenses	$ 474,348	$ 78,146	$ 48,077	$ 600,571	$ 819,661

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

THE WALKING CLASSROOM INSTITUTE

NOTES TO FINANCIAL 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.

Revenue from grants and other contributions which are deemed to be unconditional contributions are recognized when the grantor makes a promise to give to the Institute. Contributions that are restricted by the grantor are reported as increases in temporarily restricted net assets.

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, 2017 and 2016, all accounts receivable are deemed collectible by management.

THE WALKING CLASSROOM INSTITUTE

NOTES TO FINANCIAL STATEMENTS

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, 2017 and 2016, 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, 2017 and 2016, 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 $34,294 and $16,034, for the years ended December 31, 2017 and 2016, 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 2017 or 2016.

THE WALKING CLASSROOM INSTITUTE

NOTES TO FINANCIAL STATEMENTS

GRANTS RECEIVABLE

Grants receivable consists of the following at December 31:

	2017	2016
Receivable in less than one year	$ 118,000	$ 213,600
Receivable in one to five years	188,000	306,000
Total gross grants receivable	306,000	519,600
Discount at a rate of 1.80%	(8,373)	(15,817)
Net present value of grants receivable	$ 297,627	$ 503,783
Current assets:		
Grants receivable	$ 118,000	$ 213,600
Other assets:		
Grants receivable, net	179,627	290,183
Total grants receivable	$ 297,627	$ 503,783

CONDITIONAL GRANTS RECEIVABLE

During the year, the Institute was awarded a $150,000 grant from an organization. The first $75,000 of the grant was received during 2017, with the remaining $75,000 conditional upon the Institute matching $150,000 in contributions before June, 2019. The financial statements include $75,000 in grant revenue for the current year. The remaining $75,000 will be recognized upon meeting the conditions of the grant. All funds received under the grant are restricted for the purpose of donating additional class sets to teachers in NC, FL, NY, and KY.

RELATED PARTY TRANSACTIONS

The Founder and CEO 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.

THE WALKING CLASSROOM INSTITUTE

NOTES TO FINANCIAL STATEMENTS

RELATED PARTY TRANSACTIONS (CONTINUED)

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.

In December, 2017 an amendment to the agreement was signed to extend the due date of the note to December 15, 2018. The amendment requires the Institute to make monthly principal payments of $2,000 plus interest and a final payment of $3,911 in December, 2018. During 2017, the Institute paid $17,000 in principal and $121 in interest on the note payable for an outstanding balance of $25,909 at December 31, 2017.

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 in 2016.

The Institute incurred licensing fees of $0 and $11,762, in 2017 and 2016, respectively. As a result of the intellectual property purchase in 2016, the Institute is no longer required to pay licensing fees to the LLC.

OPERATING LEASE

In June 2014, the Institute entered into an operating lease agreement to lease office space for a term of two years. In May 2016, the Institute extended the lease for an additional two years, through June 2018. Office rent expense totaled $36,317 and $35,803, for the years ended December 31, 2017 and 2016, respectively. At December 31, 2017, the monthly rent payment was $3,308. The lease agreement includes rent escalation clauses, resulting in deferred rent of $1,829 and $1,874, at December 31, 2017 and 2016, respectively. Future minimum payments under the lease are as follows:

Year Ending December 31,	
2018	$ 19,851

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following:

	2017	2016
Purpose restriction:		
Classroom set grants	$ -	$ 28,668
Program support	7,500	60,629
	7,500	89,297
Time restriction	297,627	435,485
Total temporarily restricted net assets	$ 305,127	$ 524,782

Net assets released from restriction consist of the following:

	2017	2016
Purpose restriction:		
Program support	$ 44,508	$ 117,467
Classroom set grants	145,489	266,688
	189,997	384,155
Time restriction	145,302	139,698
Net assets released from restriction	$ 335,299	$ 523,853

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, 2017 and 2016.

CONCENTRATIONS

Two foundations represent 70% of total support for 2017, with one foundation representing 100% of grants receivable at December 31, 2017. In 2016, the value of the donation of intellectual property assets represented 71% of total support with one foundation representing an additional 26%. At December 31, 2016 two foundations represented 100% of grants receivable.

THE WALKING CLASSROOM INSTITUTE

NOTES TO FINANCIAL STATEMENTS

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, 2016, from which the summarized information was derived.

SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition or disclosure through April 3, 2018, 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.