THE WALKING CLASSROOM INSTITUTE

Chapel Hill, North Carolina

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

CONTENTS

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CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS:
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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 statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets, cash flows, and functional expenses 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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, 2018 and 2017, 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.

Blackman & Sloop

Chapel Hill, North Carolina
March 29, 2019

THE WALKING CLASSROOM INSTITUTE

STATEMENTS OF FINANCIAL POSITION

EXHIBIT A

December 31, 2018 and 2017

ASSETS

	2018	2017
CURRENT ASSETS:		
Cash and equivalents	$ 308,862	$ 154,798
Accounts receivable	2,265	12,513
Contributions receivable	2,725	660
Grants receivable	92,000	118,000
Inventory	18,075	16,866
Prepaid expenses	19,194	15,066
TOTAL CURRENT ASSETS	443,121	317,903
PROPERTY AND EQUIPMENT:		
Furniture and equipment	7,269	7,269
Website development	8,093	8,093
Computers and software	14,072	14,072
	29,434	29,434
Less: Accumulated depreciation	(27,750)	(24,903)
NET PROPERTY AND EQUIPMENT	1,684	4,531
OTHER ASSETS:		
Grants receivable, net	92,575	179,627
Security deposit	2,000	2,000
Intangible assets	1,634,005	1,634,005
TOTAL OTHER ASSETS	1,728,580	1,815,632
TOTAL ASSETS	$ 2,173,385	$ 2,138,066

LIABILITIES AND NET ASSETS

	2018	2017
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 15,756	$ 15,347
Deferred rent	-	1,829
Customer deposits	1,500	-
Note payable - related party	-	25,909
TOTAL CURRENT LIABILITIES	17,256	43,085
NET ASSETS:		
Without donor restrictions	1,963,128	1,789,854
With donor restrictions	193,001	305,127
TOTAL NET ASSETS	2,156,129	2,094,981
TOTAL LIABILITIES AND NET ASSETS	$ 2,173,385	$ 2,138,066

THE WALKING CLASSROOM INSTITUTE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

EXHIBIT B

For the Years Ended December 31, 2018 and 2017

	2018 Without Donor Restrictions	2018 With Donor Restrictions	2018 Totals
SUPPORT AND REVENUE:			
Direct sales	$ 542,955	$ -	$ 542,955
Cost of direct sales	(125,448)	-	(125,448)
Direct sales, net	417,507	-	417,507
Grants	30,000	109,948	139,948
Contributions	57,535	-	57,535
Other revenue	31		31
SUBTOTAL SUPPORT AND REVENUE	505,073	109,948	615,021
Net assets released from restrictions	222,074	(222,074)	-
TOTAL SUPPORT AND REVENUE	727,147	(112,126)	615,021
EXPENSES:			
Program services	422,758	-	422,758
Management and general	86,284	-	86,284
Fundraising	44,831	-	44,831
TOTAL EXPENSES	553,873	-	553,873
CHANGES IN NET ASSETS	173,274	(112,126)	61,148
NET ASSETS - BEGINNING OF YEAR	1,789,854	305,127	2,094,981
NET ASSETS - END OF YEAR	$ 1,963,128	$ 193,001	$ 2,156,129

	2017 Without Donor Restrictions	2017 With Donor Restrictions	2017 Totals
SUPPORT AND REVENUE:			
SUPPORT:			
Direct sales	$ 354,376	$ -	$ 354,376
Cost of direct sales	(83,638)	-	(83,638)
Direct sales, net	270,738	-	270,738
Grants	-	110,444	110,444
Contributions	39,869	5,200	45,069
Other revenue	6,447	-	6,447
SUBTOTAL SUPPORT AND REVENUE	317,054	115,644	432,698
Net assets released from restrictions	335,299	(335,299)	-
TOTAL SUPPORT AND REVENUE	652,353	(219,655)	432,698
EXPENSES:			
Program services	474,348	-	474,348
Management and general	78,146	-	78,146
Fundraising	48,077	-	48,077
TOTAL EXPENSES	600,571	-	600,571
CHANGES IN NET ASSETS	51,782	(219,655)	(167,873)
NET ASSETS - BEGINNING OF YEAR	1,738,072	524,782	2,262,854
NET ASSETS - END OF YEAR	$ 1,789,854	$ 305,127	$ 2,094,981

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, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 61,148	$ (167,873)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	2,847	5,638
Increase (decrease) in cash arising from changes in assets and liabilities:		
Accounts receivable	10,248	2,078
Contributions receivable	(2,065)	(660)
Grants receivable, net	113,052	206,156
Inventory	(1,209)	19,094
Prepaid expenses	(4,128)	2,889
Accounts payable and accrued expenses	409	(6,771)
Deferred rent	(1,829)	32
Customer deposits	1,500	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	179,973	60,583
CASH FLOWS USED IN INVESTING ACTIVITIES:		
Purchase of property and equipment	-	(1,409)
CASH FLOWS USED IN FINANCING ACTIVITIES:		
Principal payments on note payable - related party	(25,909)	(17,000)
NET INCREASE IN CASH AND EQUIVALENTS	154,064	42,174
CASH AND EQUIVALENTS - BEGINNING OF YEAR	154,798	112,624
CASH AND EQUIVALENTS - END OF YEAR	$ 308,862	$ 154,798
SUPPLEMENTAL DISCLOSURES:		
Interest paid	$ 90	$ 121

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

THE WALKING CLASSROOM INSTITUTE

STATEMENTS OF FUNCTIONAL EXPENSES

EXHIBIT D

For the Years Ended December 31, 2018 and 2017

	2018			
	Program	Management and General	Fundraising	Totals
Salaries, taxes, and benefits	$ 196,148	$ 44,652	$ 29,008	$ 269,808
Cost of audio devices granted	80,358	-	-	80,358
Professional and consulting fees	12,696	27,920	-	40,616
Occupancy	27,760	6,320	4,106	38,186
Conferences and meetings	32,531	-	-	32,531
Research	28,175	-	150	28,325
Marketing	16,634	-	7,594	24,228
Other expenses	8,952	5,597	2,256	16,805
Office supplies and expense	12,500	1,273	1,048	14,821
Postage and freight	4,934	51	363	5,348
Depreciation	2,070	471	306	2,847
Total expenses	$ 422,758	$ 86,284	$ 44,831	$ 553,873

	2017			
	Program	Management and General	Fundraising	Totals
Salaries, taxes, and benefits	$ 224,188	$ 49,001	$ 28,857	$ 302,046
Cost of audio devices granted	81,802	-	-	81,802
Professional and consulting fees	43,883	17,499	-	61,382
Occupancy	26,956	5,891	3,470	36,317
Conferences and meetings	37,605	-	-	37,605
Marketing	19,795	-	14,499	34,294
Other expenses	7,630	3,138	313	11,081
Office supplies and expense	14,170	1,637	399	16,206
Postage and freight	14,134	66	-	14,200
Depreciation	4,185	914	539	5,638
Total expenses	$ 474,348	$ 78,146	$ 48,077	$ 600,571

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 statements of activities and changes in net assets 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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 and 2017, and deemed a reserve was not necessary.

G. Property and Equipment.

Property and equipment are stated at cost for purchased assets and at fair 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.

Without Donor Restriction - 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.

With Donor Restriction – Resources that carry a donor-imposed restriction. Some donor restrictions allow the Institute to use or expend the donated assets for a specific purpose; those restrictions can be satisfied by the passage of time or by actions of the Institute. Other donor restrictions are perpetual in nature, where the donor stipulates that donated assets be maintained in perpetuity; those restrictions permit the Institute to use or expend part or all of the income derived from the donated assets.

THE WALKING CLASSROOM INSTITUTE

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Marketing.

The Institute expenses marketing costs as incurred. Marketing expense totaled $24,228 and $34,294, for the years ended December 31, 2018 and 2017, respectively.

K. Shipping and Handling Costs.

Shipping and handling costs that are not associated with distribution of class sets are expensed as incurred and are included in postage and freight in the statements 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 statements 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.

N. New Accounting Pronouncement.

On August 18, 2016, The Financial Accounting Standards Board ("FASB") issued ASU 2016-14 ("ASU"), Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Institute has adjusted the presentation of the accompanying financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

THE WALKING CLASSROOM INSTITUTE

NOTES TO FINANCIAL STATEMENTS

AVAILABILITY AND LIQUIDITY

The following represents the Institute's financial assets at December 31, 2018 and 2017:

Financial assets at December 31,	2018	2017
Cash and equivalents	$ 308,862	$ 154,798
Accounts receivable	2,265	12,513
Contributions receivable	2,725	660
Grants receivable, net	184,575	297,627
	498,427	465,598
Less amounts unavailable for general expenditures within one year, due to:		
Restrictions by donor for time or purpose	(193,001)	(305,127)
Financial assets available to meet cash needs for general expenditures within one year	$ 305,426	$ 160,471

Historically, the Institute has been substantially supported both by restricted and unrestricted contributions. Donors include individuals, corporations, and foundations, in addition to a multi-year private foundation core support grant. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Institute must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of the Institute's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Due to the growth in sales of program materials, the Institute has become substantially supported by the net margin on sales or program materials. As part of the Institute's liquidity management, the cash on hand generated by the net margin is used to meet the Institute's general expenditures, liabilities, and other obligations as they become due. The following summarizes the Institute's net margin on direct sales for the years ended December 31, 2018 and 2017:

	2018	2017
Direct Sales	542,955	354,376
Cost of Direct Sales	(125,448)	(83,638)
Net Margin	$ 417,507	$ 270,738

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 2018 or 2017.

GRANTS RECEIVABLE

Grants receivable consists of the following at December 31:

	2018	2017
Receivable in less than one year	$ 92,000	$ 118,000
Receivable in one to five years	96,000	188,000
Total gross grants receivable	188,000	306,000
Discount at a rate of 1.80%	(3,425)	(8,373)
Net present value of grants receivable	$ 184,575	$ 297,627
Current assets:		
Grants receivable	$ 92,000	$ 118,000
Other assets:		
Grants receivable, net	92,575	179,627
Total grants receivable	$ 184,575	$ 297,627

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.

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 was payable in five quarterly principal payments of $10,000, and a final payment of $12,909. Interest was assessed at an annual rate of 0.7%, and was payable quarterly. The note was secured by the intellectual property purchased from the LLC.

THE WALKING CLASSROOM INSTITUTE

NOTES TO FINANCIAL STATEMENTS

RELATED PARTY TRANSACTIONS (CONTINUED)

In December, 2017 an amendment to the agreement was signed to extend the due date of the note to December 15, 2018. The amendment required the Institute to make monthly principal payments of $2,000 plus interest and a final payment of $3,911 in December, 2018. At December 31, 2018 and 2017, the outstanding balance was $0 and $25,909, respectively.

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, and in May 2018, the Institute extended the lease for an additional three years through June 2021. Office rent expense totaled $38,186 and $36,317, for the years ended December 31, 2018 and 2017, respectively. Future minimum payments under the lease are as follows:

Year Ending December 31,		
2019	$	39,702
2020		40,275
2021		20,423
	$	100,400

NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following:

		2018		2017
Purpose restriction:				
Classroom set grants	$	8,426	$	-
Program support		-		7,500
		8,426		7,500
Time restriction		184,575		297,627
Total net assets with donor restrictions	$	193,001	$	305,127

THE WALKING CLASSROOM INSTITUTE

NOTES TO FINANCIAL STATEMENTS

NET ASSETS WITH DONOR RESTRICTIONS (CONTINUED)

Net assets released from restriction consist of the following:

	2018	2017
Purpose restriction:		
Program support	$ 7,500	$ 44,508
Classroom set grants	96,574	145,489
	104,074	189,997
Time restriction	118,000	145,302
Net assets released from restriction	$ 222,074	$ 335,299

FUNCTIONAL EXPENSES

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets. The statements of functional expenses present the nature classification detail of expense by function. Accordingly, certain costs have been allocated between programs and supporting services benefited based on management's estimates. The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries, taxes, and benefits	Time and effort
Cost of audio devices granted	Not allocated; all program
Professional and consulting fees	Specifically allocated as incurred
Occupancy	Based on salary allocation
Conferences and meetings	Specifically allocated as incurred
Research	Specifically allocated as incurred
Marketing	Specifically allocated as incurred
Other expenses	Specifically allocated as incurred
Office supplies and expense	Specifically allocated as incurred
Postage and freight	Specifically allocated as incurred
Depreciation	Based on salary allocation

THE WALKING CLASSROOM INSTITUTE

NOTES TO FINANCIAL STATEMENTS

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, 2018 and 2017.

CONCENTRATIONS

One donor represents 100% of outstanding grants receivable at December 31, 2018 and 2017.

COMMITTMENTS

At December 31, 2018, the Institute has outstanding purchase orders for inventory of approximately $26,000 that is not reflected in the accompanying financial statements.

RECLASSIFICATIONS

Certain reclassification have been made to the 2017 financial statements in order to conform to the 2018 presentation. Such reclassifications had no effect on net assets.

SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition or disclosure through March 29, 2019, 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.