

KIDS IN NEED FOUNDATION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2015 AND 2014

KIDS IN NEED FOUNDATION

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YEARS ENDED DECEMBER 31, 2015 AND 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Kids In Need Foundation
Dayton, Ohio

We have audited the accompanying financial statements of **Kids In Need Foundation** (a nonprofit organization), which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities 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.

Auditors' 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT - CONTINUED

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Kids In Need Foundation** as of December 31, 2015 and 2014, 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of program and fundraising expenses, general and administrative expenses and support and program expenses - Twin City Resource Center on pages 15 - 17 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Brady, Ware & Schoenfeld, Inc.

Dayton, Ohio
June 30, 2016

KIDS IN NEED FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 392,285	\$ 621,839
Pledges receivable	106,754	111,706
Inventory	5,982,529	5,851,727
Prepaid expenses	<u>31,886</u>	<u>29,532</u>
	<u>6,513,454</u>	<u>6,614,804</u>
EQUIPMENT, NET	<u>24,375</u>	<u>22,604</u>
OTHER ASSETS		
Investments	1,047,920	680,904
Deposits	<u>13,242</u>	<u>13,561</u>
	<u>1,061,162</u>	<u>694,465</u>
	<u>\$ 7,598,991</u>	<u>\$ 7,331,873</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 129,297	\$ 127,999
Accrued expenses	102,911	57,171
Deferred rent	18,067	12,146
Deferred revenue	<u>675</u>	<u>1,175</u>
	<u>250,950</u>	<u>198,491</u>
NET ASSETS		
Unrestricted	1,200,512	1,002,167
Temporarily restricted	6,142,529	6,126,215
Permanently restricted	<u>5,000</u>	<u>5,000</u>
	<u>7,348,041</u>	<u>7,133,382</u>
	<u>\$ 7,598,991</u>	<u>\$ 7,331,873</u>

KIDS IN NEED FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE				
Public Support:				
Donations	\$ 502,348	\$ 155,000	\$ -	\$ 657,348
In-kind - merchandise	93,404,068	4,307,475	-	97,711,543
In-kind - services	2,315	-	-	2,315
Twin Cities resource center	471,728	-	-	471,728
Second Responder Program	109,862	14,228	-	124,090
School Ready Supplies Program	693,533	5,000	-	698,533
Teacher grants	<u>170,048</u>	<u>-</u>	<u>-</u>	<u>170,048</u>
Total Public Support	<u>95,353,902</u>	<u>4,481,703</u>	<u>-</u>	<u>99,835,605</u>
Revenue:				
Affiliate network revenue	13,000	-	-	13,000
Investment loss	(32,914)	-	-	(32,914)
Gala recognition dinner	337,924	-	-	337,924
Summit	<u>30,700</u>	<u>-</u>	<u>-</u>	<u>30,700</u>
Total Revenue	<u>348,710</u>	<u>-</u>	<u>-</u>	<u>348,710</u>
Total Public Support and Revenue	<u>95,702,612</u>	<u>4,481,703</u>	<u>-</u>	<u>100,184,315</u>
NET ASSETS RELEASED FROM RESTRICTIONS				
Restriction satisfied by payments	<u>4,465,389</u>	<u>(4,465,389)</u>	<u>-</u>	<u>-</u>
	<u>100,168,001</u>	<u>16,314</u>	<u>-</u>	<u>100,184,315</u>
EXPENSES				
Program services	98,715,998	-	-	98,715,998
Fundraising	170,824	-	-	170,824
Supporting services:				
Wages and benefits	940,274	-	-	940,274
General and administrative	116,514	-	-	116,514
Board and committee meetings	<u>26,046</u>	<u>-</u>	<u>-</u>	<u>26,046</u>
Total Expenses	<u>99,969,656</u>	<u>-</u>	<u>-</u>	<u>99,969,656</u>
CHANGE IN NET ASSETS	198,345	16,314	-	214,659
NET ASSETS				
Beginning of year	<u>1,002,167</u>	<u>6,126,215</u>	<u>5,000</u>	<u>7,133,382</u>
End of year	<u>\$ 1,200,512</u>	<u>\$ 6,142,529</u>	<u>\$ 5,000</u>	<u>\$ 7,348,041</u>

See notes to financial statements.

KIDS IN NEED FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE				
Public Support:				
Donations	\$ 593,600	\$ 100,000	\$ -	\$ 693,600
In-kind - merchandise	116,264,820	3,427,429	-	119,692,249
In-kind - services	66,811	-	-	66,811
Twin Cities resource center	357,939	-	-	357,939
Second Responder Program	85,641	124,268	-	209,909
School Ready Supplies Program	309,632	50,220	-	359,852
Teacher grants	<u>269,682</u>	<u>-</u>	<u>-</u>	<u>269,682</u>
Total Public Support	<u>117,948,125</u>	<u>3,701,917</u>	<u>-</u>	<u>121,650,042</u>
Revenue:				
Affiliate network revenue	12,000	-	-	12,000
Investment income	4,076	-	-	4,076
Gala recognition dinner	323,575	-	-	323,575
Summit	<u>24,525</u>	<u>-</u>	<u>-</u>	<u>24,525</u>
Total Revenue	<u>364,176</u>	<u>-</u>	<u>-</u>	<u>364,176</u>
Total Public Support and Revenue	<u>118,312,301</u>	<u>3,701,917</u>	<u>-</u>	<u>122,014,218</u>
NET ASSETS RELEASED FROM RESTRICTIONS				
Restriction satisfied by payments	<u>2,483,883</u>	<u>(2,483,883)</u>	<u>-</u>	<u>-</u>
	<u>120,796,184</u>	<u>1,218,034</u>	<u>-</u>	<u>122,014,218</u>
EXPENSES				
Program services	119,533,351	-	-	119,533,351
Fundraising	201,639	-	-	201,639
Supporting services:				
Wages and benefits	878,127	-	-	878,127
General and administrative	128,277	-	-	128,277
Board and committee meetings	<u>31,058</u>	<u>-</u>	<u>-</u>	<u>31,058</u>
Total Expenses	<u>120,772,452</u>	<u>-</u>	<u>-</u>	<u>120,772,452</u>
CHANGE IN NET ASSETS	23,732	1,218,034	-	1,241,766
NET ASSETS				
Beginning of year	<u>978,435</u>	<u>4,908,181</u>	<u>5,000</u>	<u>5,891,616</u>
End of year	<u>\$ 1,002,167</u>	<u>\$ 6,126,215</u>	<u>\$ 5,000</u>	<u>\$ 7,133,382</u>

See notes to financial statements.

KIDS IN NEED FOUNDATION**STATEMENTS OF CASH FLOWS****YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 214,659	\$ 1,241,766
Adjustments to reconcile change in net assets to net cash and cash equivalents provided (used) by operating activities:		
Depreciation	12,393	15,431
Unrealized depreciation in fair market value of investments	42,141	36,154
Realized (gain) loss on sales of investments	2,110	(9,361)
Donated inventory	(4,305,475)	(3,404,930)
Donated inventory distributed	4,174,673	2,223,884
	<u>140,501</u>	<u>102,944</u>
Changes in operating assets and liabilities:		
Pledges receivable	4,952	5,481
Prepaid expenses	(2,354)	(15,931)
Accounts payable - trade	1,298	(143,556)
Deferred rent	5,921	12,146
Accrued expenses	45,740	9,344
Deferred revenue	(500)	500
Deposits	318	-
	<u>195,876</u>	<u>(29,072)</u>
Net Cash and Cash Equivalents Provided (Used) by Operating Activities		
	<u>195,876</u>	<u>(29,072)</u>
INVESTING ACTIVITIES		
Purchases of equipment	(14,163)	(1,204)
Gross proceeds from sales of investments	713,256	98,465
Purchases of investments	(1,124,523)	(329,252)
	<u>(425,430)</u>	<u>(231,991)</u>
Net Cash and Cash Equivalents Used by Investing Activities		
	<u>(425,430)</u>	<u>(231,991)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(229,554)	(261,063)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>621,839</u>	<u>900,262</u>
End of year	<u>\$ 392,285</u>	<u>\$ 621,839</u>

See notes to financial statements.

KIDS IN NEED FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business - Kids In Need Foundation (the "Foundation") is a nonprofit organization. Their mission is to ensure that every child is prepared to learn and succeed by providing free school supplies nationally to students most in need.

To avoid the closing of the Twin Cities Resource Center, the Foundation took over the operations of the center in May 2012. The Center provides school supplies for use in the classrooms of low-income students in the Minneapolis and St. Paul school districts. Kids In Need Foundation donates to the Twin Cities Resource Center using the same process as the other network resource centers.

The Foundation's normal operations is to secure in-kind donations and distribute them to resource centers typically within the same accounting period. The resource centers are independently operated by nonprofit organizations that meet the Foundation's requirements.

Net Asset Classification - Accounting standards provide guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The accounting standards requires disclosures about an organization's endowment funds, both donor restricted endowment funds and board designated endowment funds, whether or not the organization is subject to UPMIFA. Management has determined that the majority of the Foundation's net assets do not meet the definition of endowment under UPMIFA.

Temporarily restricted net assets consist of the remaining portion of donor-restricted endowment funds that are not classified as permanently restricted net assets. When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets represent the fair value of the original gift as of the gift date and the original value of subsequent gifts to donor-restricted endowment funds.

During the years 2015 and 2014, the Foundation has reviewed the endowment funds that are subject to UPMIFA and determined that its net assets are properly classified in accordance with UPMIFA and accounting standards.

Financial Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations - The Foundation's support comes primarily from corporate and foundation contributions. During 2015 and 2014, 10% and 11% of the Foundation's cash support was provided by a major donor. The Foundation also receives substantial support of in-kind donations. For the years 2015 and 2014, two and three donors, respectively, contributed 49% and 37% of the in-kind donations received by the Foundation.

KIDS IN NEED FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Donated Materials and Services - Donated materials are recorded as contributions at their estimated fair values at the date of donation. Contributions of services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. The Foundation has recorded in-kind donations of product and services in the amount of \$97,713,858 and \$119,759,060 for the years 2015 and 2014.

Cash and Cash Equivalents - Interest-bearing deposits and short-term investments with original maturities of three months or less are classified as cash equivalents. Periodically during the year, the Foundation may have cash deposits in excess of federally insured limits. The Foundation has not experienced any losses in such accounts, and believes it is not exposed to any significant credit risk on cash.

Pledges Receivable - Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Unconditional pledges receivable to be collected in less than one year are recorded at net realizable value. Unconditional pledges receivable to be collected beyond one year are discounted to present value.

Inventory - Inventory consists of in-kind school supplies valued at fair market value on the date of the donation. The inventory is distributed through the Twin Cities Resource Center. The Center provides classroom supplies to low-income students in the Twin Cities area. Teachers shop free-of-charge at the Center.

Equipment - Equipment with a cost, which is the fair value of donated equipment on the date donated, greater than \$500 is capitalized. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, ranging from five to seven years. At retirement or sale, the costs of the assets, less related accumulated depreciation, are removed from the accounts and the resulting gains and losses are included in income.

Depreciation expense for the years 2015 and 2014 was \$12,393 and \$15,431.

Investments - In accordance with accounting standards, investments in equity securities with readily determinable fair values and all investment in debt securities shall be measured at fair market values in the statements of financial position.

Unrealized appreciation and depreciation on investments shall be reported in the statements of activities as increases or decreases in support and revenue unless their use is restricted by explicit donor stipulations or by law.

Affiliate Network Revenue - The Foundation recognizes affiliate network revenue as the funds are received for membership dues. These dues are from those affiliate member organizations joining the Foundation's National Network of Kids In Need Resource Centers.

KIDS IN NEED FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Advertising Expense - Advertising costs are expensed as incurred. Advertising and promotion expense was \$49,706 and \$83,982 for the years 2015 and 2014.

Tax-Exempt Status - The Foundation is operated as a nonprofit organization and is tax exempt under IRS Code Section 501(c)(3). Accordingly, no provision for income tax is presented in these financial statements.

Accounting for Uncertainty in Income Taxes - Accounting standards require the evaluation of tax positions taken, or expected to be taken, in the course of preparing the Foundation's tax returns, to determine whether the tax position may be recognized in the financial statements only when it is "more-likely-than-not" the position will be sustained upon examination, including resolution of any related appeals or litigation processes, based upon the technical merits and consideration of all available information. Once the recognition threshold is met, the portion of the tax benefit that is recorded represents the largest amount of tax benefit that is greater than 50 percent likely to be realized upon settlement with a taxing authority. Based on its review, management does not believe the Foundation has taken any material uncertain tax positions, including any position that would place the Foundation's exempt status in jeopardy as of December 31, 2015.

Subsequent Events - In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through June 30, 2016, the date the financial statements were available to be issued.

NOTE B - PLEDGES RECEIVABLE

Pledges receivable at December 31, 2015 and 2014 were as follows:

	<u>2015</u>	<u>2014</u>
Less than one year	<u>\$ 106,754</u>	<u>\$ 111,706</u>

NOTE C - EQUIPMENT

	<u>2015</u>	<u>2014</u>
Furniture and equipment	<u>\$ 23,610</u>	\$ 23,610
Computer equipment	<u>80,347</u>	<u>66,184</u>
Total equipment	<u>103,957</u>	89,794
Less accumulated depreciation	<u>79,582</u>	<u>67,190</u>
Net equipment	<u>\$ 24,375</u>	<u>\$ 22,604</u>

KIDS IN NEED FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE D - INVESTMENTS

The following tables reflect the cost and estimated fair values of debt and equity securities held at December 31, 2015 and 2014. In addition, gross unrealized appreciation and unrealized depreciation are disclosed as of December 31, 2015 and 2014.

	2015			
	<u>Cost</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Estimated Fair Values</u>
Equity mutual funds	\$ 1,043,923	\$ 2,349	\$ (42,016)	\$ 1,004,256
Money market fund	<u>43,664</u>	<u>-</u>	<u>-</u>	<u>43,664</u>
	<u>\$ 1,087,587</u>	<u>\$ 2,349</u>	<u>\$ (42,016)</u>	<u>\$ 1,047,920</u>

	2014			
	<u>Cost</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Estimated Fair Values</u>
Equity mutual funds	\$ 665,112	\$ 17,012	\$ (14,537)	\$ 667,587
Money market fund	<u>13,317</u>	<u>-</u>	<u>-</u>	<u>13,317</u>
	<u>\$ 678,429</u>	<u>\$ 17,012</u>	<u>\$ (14,537)</u>	<u>\$ 680,904</u>

The following is a summary of investment income for the years ended December 31:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 20,319	\$ 36,902
Investment and administrative fees	(8,982)	(6,033)
Realized (loss) gain	(2,110)	9,361
Unrealized depreciation	<u>(42,141)</u>	<u>(36,154)</u>
	<u>\$ (32,914)</u>	<u>\$ 4,076</u>

NOTE E - FAIR VALUE MEASUREMENTS

All assets have been valued using a market approach based on quoted market prices. The Foundation uses valuation techniques in a consistent manner from year-to-year.

KIDS IN NEED FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE E - FAIR VALUE MEASUREMENTS - continued

Fair values of the Foundation's financial assets measured on a recurring basis are as follows:

	2015			
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets				
Investments				
Equity mutual funds	\$ 1,004,256	\$ 1,004,256	\$ -	\$ -
Money market fund	<u>43,664</u>	<u>43,664</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,047,920</u>	<u>\$ 1,047,920</u>	<u>\$ -</u>	<u>\$ -</u>
	2014			
	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets				
Investments				
Equity mutual funds	\$ 667,587	\$ 667,587	\$ -	\$ -
Money market fund	<u>13,317</u>	<u>13,317</u>	<u>-</u>	<u>-</u>
	<u>\$ 680,904</u>	<u>\$ 680,904</u>	<u>\$ -</u>	<u>\$ -</u>

NOTE F - RESTRICTIONS ON ASSETS

Temporarily restricted assets are available for the following purposes:

	<u>2015</u>	<u>2014</u>
Kids in Need - time restriction	\$ 105,000	\$ 100,000
Twin Cities Resource Center - inventory	5,887,459	5,680,397
Resource center Marketing	50,000	-
School Ready Supplies and Second Responder Programs - inventory	95,070	171,330
School Ready Supplies Program - operating and support	5,000	50,220
Second Responder Program - operating and support	<u>-</u>	<u>124,268</u>
	<u>\$ 6,142,529</u>	<u>\$ 6,126,215</u>

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes.

	<u>2015</u>	<u>2014</u>
Purpose restriction accomplished	<u>\$ 4,465,389</u>	<u>\$ 2,483,883</u>

A permanently restricted endowment account was established during 2004 to provide operating support to the Foundation.

KIDS IN NEED FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE G - ENDOWMENT FUNDS AND NET ASSETS

The Foundation's permanently restricted net assets as of December 31, 2015 and 2014, are not held in a separate endowment fund, but are part of the Foundation's total cash and investment portfolio. At the end of each year, an allocation is made to an unrestricted net asset account for gains or losses from the permanently restricted fund. For the years 2015 and 2014, \$10 and \$6 in net gains were allocated to the fund's unrestricted balance. Upon approval of expenditures, amounts are considered to be appropriated for expenditure.

The Foundation's investment policy states that its investments are intended to function as a long-term investment portfolio. The primary investment objectives of the Foundation are to outperform inflation over the long term, to maximize the return within reasonable and prudent levels of risk, to maintain adequate liquidity for spending purposes, to produce a level of investment return that will produce real principal growth after inflation and spending, to minimize volatility, recognizing the asset allocation strategy being employed, and to broadly diversify holdings, thus minimizing the risk of large losses in the individual investments.

NOTE H - OPERATING LEASES

The Foundation leases office space under an operating lease agreement. In December 2013, the Foundation renegotiated this lease for less space for an annual rent of \$16,800 for the lease term of March 2014 through February 2015. The lease was converted to a month-to-month lease starting March 2016. Monthly rent was \$1,000 per month from March 2015 through February 2016. The monthly rent decreased to \$750 starting March 2016.

The Foundation leased store space for the Twin Cities resource center under an operating lease agreement. The lease started in April 2012 and expired June 2014. The monthly lease payment was \$6,000 for the first 11 months and \$8,000 for remaining lease period. There is no additional charges for any other expenses including the common area maintenance, taxes or insurance.

The Foundation moved locations for the Twin Cities resource center. The lease is an operating lease that started in October 2014 and expires November 2024. The lease has an option to renew for an additional five years. Terms of the lease include tenant inducements, which are abatements to the rental amounts due along with a graduated rent schedule. Tenant abatements of \$10,587 pertained to the first two months of rent. The Foundation is recognizing rent expense on a straight line basis so that the graduated rent and benefits of the abatement are spread evenly over the initial lease term. Deferred rent for the year 2015 was \$12,145. The Foundation is responsible for all interior maintenance and repairs, taxes, and insurance.

The Foundation leases office equipment under various operating lease agreements for total monthly payment of \$640, which expire at various times through July 2020.

Rent expense on these leases was \$84,288 and \$119,409 for the years 2015 and 2014.

KIDS IN NEED FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE H - OPERATING LEASES - continued

Future minimum lease payments over the next five years and beyond are as follows:

2016	\$	72,292
2017		72,292
2018		72,292
2019		72,292
2020		71,235
Beyond		261,583

NOTE I - PENSION AND EMPLOYEE SAVINGS PLAN

The Foundation adopted an individual retirement account plan in July 2008 that covers substantially all employees. The covered employees may contribute up to the annual allowable amount as set by the IRS. The Foundation is required to match 100% of its covered employees' elective contributions up to elective contributions of 3% of gross compensation. The expenses related to this plan for the years 2015 and 2014 were \$21,712 and \$19,756.

NOTE J - PROGRAM EXPENSE RATIO

For both years 2015 and 2014, 98% of the support and revenue received has been expended for the educational programs that the Foundation supports.

NOTE K - BOARD-DESIGNATED NET ASSETS

During 2004, the Foundation established an endowment fund. The fund was started with a transfer of \$10,000 from the Foundation. The intent of the fund is to obtain outside donations and further board designated amounts to obtain an initial amount of \$50,000 and to use the earnings on the endowment to aid in the general operations of the Foundation. During 2004, the endowment fund received a permanently restricted donation from an outside donor in the amount of \$5,000. This amount is being shown on the Statements of Financial Position as a permanently restricted item.

The value of the endowment account included in the investments amounted to \$22,942 and \$23,625 as of December 31, 2015 and 2014.

KIDS IN NEED FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

NOTE L - DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES

The following program and supporting services are included in the accompanying financial statements:

Kids in Need National Network of Resource Centers - The National Network includes affiliate free stores where teachers can obtain free school supplies for students whose families are unable to purchase what the students need to participate in classroom activities. The Foundation receives cash to support the procurement of product, as well as in-kind donations of excess inventory, unsellable, returned or slightly damaged merchandise, outdated product, etc. These items are then distributed from the various resource centers to teachers who give them to their students in need of the supplies.

Teacher Grants - At least 80% of contributions received are awarded annually to certified pre K-12 teachers for creative projects costing between \$100 and \$500.

School Ready Supplies Program - The Foundation seeks sponsors to provide school supplies to children in need. Under this program, the Foundation provides backpacks carrying school supplies for children in need. These school supplies are shipped to various schools and approved charities.

Second Responder® Program - The Foundation provides free school supplies to students who have been affected by a natural disaster, such as a tornado, hurricane, wildfire, or flood, to facilitate their recovery from the trauma of their experience and help them resume their normal routine.

Twin Cities Resource Center - In 2012, the Foundation took over the operations of a resource center in Minneapolis, MN. The Center provides school supplies for use in the classrooms of low-income students in the Minneapolis and St. Paul school districts. Teachers shop free-of-charge at the Center from January 1, 2013 through December 31, 2015, the Twin Cities Resource Center served 107 schools with a total of 5,072 eligible teachers who were invited to shop for free supplies. Each teacher that shopped selected an average of \$533 worth of free school supplies per visit.

Summit - The Foundation has an annual conference which offers the staff and volunteers of the Resource Centers in the National Network and other free stores for teachers across the U.S. an opportunity to share best practices and participate in training sessions related to fundraising, merchandising, inventory management, store design, marketing, and other areas of operation.

KIDS IN NEED FOUNDATION

SCHEDULES OF PROGRAM AND FUNDRAISING EXPENSES

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
PROGRAMS		
Materials-in-kind - Kids in Need	\$ 93,170,716	\$ 116,177,297
Resource Center - Kids in Need	68,408	83,321
Teacher grants	124,732	202,381
Twin Cities Resource Center	390,672	397,004
Twin Cities Resource Center - materials-in-kind distributed	4,039,604	2,223,884
Other programs	124,166	107,701
Resource Center - Summit	26,901	22,874
School Ready Supplies Program	749,552	279,581
Second Responder Program	<u>21,247</u>	<u>39,308</u>
	<u>\$ 98,715,998</u>	<u>\$ 119,533,351</u>
FUNDRAISING		
General fundraising	\$ 49,706	\$ 83,982
Gala recognition dinner	<u>121,118</u>	<u>117,657</u>
	<u>\$ 170,824</u>	<u>\$ 201,639</u>

KIDS IN NEED FOUNDATION

SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES

YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Rent	\$ 12,800	\$ 17,640
Office supplies/postage	8,401	8,675
Dues and subscriptions	383	820
Accounting and legal	26,698	31,811
Depreciation	10,479	13,517
Payroll service	2,148	2,040
Investment/credit card fees	6,640	6,696
Technology support	29,857	29,130
Equipment lease and maintenance	4,498	4,333
Telephone	10,145	9,238
Insurance	4,465	3,891
Relocation expenses	<u>-</u>	<u>486</u>
	<u>\$ 116,514</u>	<u>\$ 128,277</u>

KIDS IN NEED FOUNDATION**SCHEDULES OF SUPPORT AND PROGRAM EXPENSES - TWIN CITIES RESOURCE CENTER****YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
PUBLIC SUPPORT		
Donations	\$ 370,853	\$ 245,049
In-kind - merchandise	4,226,633	3,256,099
In-kind - services	<u>100,875</u>	<u>112,890</u>
Total Public Support	<u>4,698,361</u>	<u>3,614,038</u>
EXPENSES - PROGRAM		
Materials-in-kind distributed	4,039,604	2,223,884
Wages, taxes and benefits	128,734	113,001
Backpack giveaway	51,757	102,538
Teacher grant	-	8,000
Rent	136,757	101,769
Equipment lease and maintenance	4,457	4,110
Freight	28,731	7,904
Utilities	14,827	16,896
Depreciation	1,914	1,914
Insurance	-	65
Telephone and Internet	6,570	5,655
Office supplies	2,276	612
Cleaning	2,509	4,384
Relocation	755	21,659
Dues and memberships	715	135
Printing/marketing	7,309	6,390
Committee meetings	775	716
Travel - staff	1,266	612
Volunteer expenses	327	502
Accounting	<u>349</u>	<u>142</u>
	4,429,632	2,620,888
EXPENSES - FUNDRAISING		
General fundraising	<u>644</u>	<u>-</u>
Total Expenses	<u>4,430,276</u>	<u>2,620,888</u>
INCOME FROM OPERATIONS BEFORE GENERAL AND ADMINISTRATIVE EXPENSES - TWIN CITIES RESOURCE CENTER	<u>\$ 268,085</u>	<u>\$ 993,150</u>

See independent auditors' report.