

KIDS IN NEED FOUNDATION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2016 AND 2015

KIDS IN NEED FOUNDATION

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YEARS ENDED DECEMBER 31, 2016 AND 2015

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BRADY WARE
& SCHOENFELD

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, 2016 and 2015, 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.

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INDEPENDENT AUDITORS' REPORT

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, 2016 and 2015, 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
May 16, 2017

KIDS IN NEED FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 381,284	\$ 392,285
Pledges receivable	185,785	106,754
Inventory	6,638,709	5,982,529
Prepaid expenses	<u>36,752</u>	<u>31,886</u>
	7,242,530	6,513,454
EQUIPMENT, NET	35,112	24,375
OTHER ASSETS		
Investments	1,123,778	1,047,920
Deposits	<u>13,242</u>	<u>13,242</u>
	<u>1,137,020</u>	<u>1,061,162</u>
	<u>\$ 8,414,662</u>	<u>\$ 7,598,991</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable - trade	\$ 231,389	\$ 129,297
Accrued expenses	130,699	102,911
Deferred rent	22,732	18,067
Deferred revenue	<u>80,227</u>	<u>675</u>
	465,047	250,950
NET ASSETS		
Unrestricted	1,030,482	1,200,512
Temporarily restricted	6,914,133	6,142,529
Permanently restricted	<u>5,000</u>	<u>5,000</u>
	<u>7,949,615</u>	<u>7,348,041</u>
	<u>\$ 8,414,662</u>	<u>\$ 7,598,991</u>

KIDS IN NEED FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE				
Public Support:				
Donations	\$ 566,615	\$ 180,000	\$ -	\$ 746,615
In-kind - merchandise	118,713,464	3,478,577	-	122,192,041
In-kind - services	3,664	-	-	3,664
Twin Cities Resource Center	531,186	-	-	531,186
Second Responder® Program	121,049	-	-	121,049
School Ready Supplies Program	692,630	95,424	-	788,054
Teacher Grants	<u>201,840</u>	<u>-</u>	<u>-</u>	<u>201,840</u>
Total Public Support	<u>120,830,448</u>	<u>3,754,001</u>	<u>-</u>	<u>124,584,449</u>
Revenue:				
Affiliate network revenue	13,000	-	-	13,000
Investment income	75,898	-	-	75,898
Loss on disposal of equipment	(355)	-	-	(355)
Gala recognition dinner	268,206	-	-	268,206
Summit	<u>27,775</u>	<u>-</u>	<u>-</u>	<u>27,775</u>
Total Revenue	<u>384,524</u>	<u>-</u>	<u>-</u>	<u>384,524</u>
Total Public Support and Revenue	<u>121,214,972</u>	<u>3,754,001</u>	<u>-</u>	<u>124,968,973</u>
NET ASSETS RELEASED FROM RESTRICTIONS				
Restriction satisfied by payments	<u>2,982,397</u>	<u>(2,982,397)</u>	<u>-</u>	<u>-</u>
	<u>124,197,369</u>	<u>771,604</u>	<u>-</u>	<u>124,968,973</u>
EXPENSES				
Program services	123,026,831	-	-	123,026,831
Fundraising	220,997	-	-	220,997
Supporting services:				
Wages and benefits	959,988	-	-	959,988
General and administrative	126,448	-	-	126,448
Board and committee meetings	<u>33,135</u>	<u>-</u>	<u>-</u>	<u>33,135</u>
Total Expenses	<u>124,367,399</u>	<u>-</u>	<u>-</u>	<u>124,367,399</u>
CHANGE IN NET ASSETS	(170,030)	771,604	-	601,574
NET ASSETS				
Beginning of year	<u>1,200,512</u>	<u>6,142,529</u>	<u>5,000</u>	<u>7,348,041</u>
End of year	<u>\$ 1,030,482</u>	<u>\$ 6,914,133</u>	<u>\$ 5,000</u>	<u>\$ 7,949,615</u>

See notes to financial statements.

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**STATEMENTS OF CASH FLOWS****YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
OPERATING ACTIVITIES		
Change in net assets	\$ 601,574	\$ 214,659
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation	13,382	12,393
Loss on disposal of equipment	355	-
Unrealized (appreciation) depreciation in fair market value of investments	(91,792)	42,141
Realized loss on sales of investments	30,193	2,110
Donated inventory	(3,251,623)	(4,305,475)
Donated inventory distributed	<u>2,595,443</u>	<u>4,174,673</u>
	(102,468)	140,501
Changes in operating assets and liabilities:		
Pledges receivable	(79,031)	4,952
Prepaid expenses	(4,866)	(2,354)
Accounts payable - trade	102,092	1,298
Deferred rent	4,665	5,921
Accrued expenses	27,788	45,740
Deferred revenue	79,552	(500)
Deposits	<u>-</u>	<u>318</u>
Net cash and cash equivalents provided by operating activities	<u>27,732</u>	<u>195,876</u>
INVESTING ACTIVITIES		
Purchases of equipment	(24,674)	(14,163)
Gross proceeds from sales of investments	310,758	713,256
Gross proceeds from equipment	200	-
Purchases of investments	<u>(325,017)</u>	<u>(1,124,523)</u>
Net cash and cash equivalents used by investing activities	<u>(38,733)</u>	<u>(425,430)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(11,001)	(229,554)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>392,285</u>	<u>621,839</u>
End of year	<u>\$ 381,284</u>	<u>\$ 392,285</u>

See notes to financial statements.

KIDS IN NEED FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 - 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 by 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 require 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 2016 and 2015, 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 10% 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 2016 and 2015, one donor, respectively, contributed 52% and 49% of the in-kind donations received by the Foundation.

KIDS IN NEED FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 - 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 \$122,195,705 and \$97,713,858 for the years 2016 and 2015.

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 2016 and 2015 was \$13,382 and \$12,393.

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.

KIDS IN NEED FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

Advertising Expense - Advertising costs are expensed as incurred. Advertising and promotion expense was \$89,389 and \$49,706 for the years 2016 and 2015.

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, 2016.

Subsequent Events - In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through May 16, 2017, the date the financial statements were available to be issued.

NOTE 2 - PLEDGES RECEIVABLE

Pledges receivable at December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Less than one year	<u>\$ 185,785</u>	<u>\$ 106,754</u>

NOTE 3 - EQUIPMENT

	<u>2016</u>	<u>2015</u>
Furniture and equipment	\$ 21,216	\$ 23,610
Computer equipment	<u>77,360</u>	<u>80,347</u>
Total equipment	<u>98,576</u>	103,957
Less accumulated depreciation	<u>63,464</u>	<u>79,582</u>
Net equipment	<u>\$ 35,112</u>	<u>\$ 24,375</u>

KIDS IN NEED FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 4 - INVESTMENTS

The following tables reflect the cost and estimated fair values of debt and equity securities held at December 31, 2016 and 2015. In addition, gross unrealized appreciation and unrealized depreciation are disclosed as of December 31, 2016 and 2015.

	2016			
	<u>Cost</u>	<u>Gross Unrealized Appreciation</u>	<u>Gross Unrealized Depreciation</u>	<u>Estimated Fair Values</u>
Equity mutual funds	\$ 997,639	\$ 56,851	\$ (4,726)	\$ 1,049,764
Money market fund	<u>74,014</u>	<u>-</u>	<u>-</u>	<u>74,014</u>
	<u>\$ 1,071,653</u>	<u>\$ 56,851</u>	<u>\$ (4,726)</u>	<u>\$ 1,123,778</u>

	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>

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

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 25,110	\$ 20,319
Investment and administrative fees	(10,811)	(8,982)
Realized (loss)	(30,193)	(2,110)
Unrealized appreciation (depreciation)	<u>91,792</u>	<u>(42,141)</u>
	<u>\$ 75,898</u>	<u>\$ (32,914)</u>

NOTE 5 - 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, 2016 AND 2015

NOTE 5 - FAIR VALUE MEASUREMENTS - continued

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

	2016			
	<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	\$ 1,049,764	\$ 1,049,764	\$ -	\$ -
Money market fund	<u>74,014</u>	<u>74,014</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,123,778</u>	<u>\$ 1,123,778</u>	<u>\$ -</u>	<u>\$ -</u>
	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>

NOTE 6 - RESTRICTIONS ON ASSETS

Temporarily restricted assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Kids In Need - time restriction	\$ 180,000	\$ 105,000
Twin Cities Resource Center - inventory	6,478,220	5,887,459
Resource Center Marketing	-	50,000
School Ready Supplies and Second Responder® Programs - inventory	160,489	95,070
School Ready Supplies Program - operating and support	<u>95,424</u>	<u>5,000</u>
	<u>\$ 6,914,133</u>	<u>\$ 6,142,529</u>

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

	<u>2016</u>	<u>2015</u>
Purpose restriction accomplished	<u>\$ 2,982,397</u>	<u>\$ 4,465,389</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, 2016 AND 2015

NOTE 7 - ENDOWMENT FUNDS AND NET ASSETS

The Foundation's permanently restricted net assets as of December 31, 2016 and 2015, 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 and 2015, \$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 8 - 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 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 at December 31, and 2015 was \$22,732 and \$18,067. The Foundation is responsible for all interior maintenance and repairs, taxes, and insurance.

The Foundation leases office equipment under an operating lease agreement for a monthly payment of \$211, which expires July 2020.

Rent expense on these leases was \$72,292 and \$84,288 for the years and 2015.

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

2017	\$	72,292
2018		72,292
2019		72,292
2020		71,235
2021		69,756
Beyond		191,827

KIDS IN NEED FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 9 - 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 and 2015 were \$22,690 and \$21,712.

NOTE 10 - PROGRAM EXPENSE RATIO

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

NOTE 11 - 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 \$24,515 and \$22,942 as of December 31, 2016 and 2015.

NOTE 12 - 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 experiences and help them resume their normal routines.

KIDS IN NEED FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

NOTE 12 - DESCRIPTION OF PROGRAM AND SUPPORTING SERVICES - continued

Twin Cities Resource Center - In 2012, the Foundation took over the operations of a resource center in Minneapolis, MN. The Resource Center provides school supplies for use in the classrooms by 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, 2016, the Twin Cities Resource Center served 107 schools with a total of 2,499 eligible teachers who were invited to shop for free supplies. Each teacher who shopped selected an average of \$444 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, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
PROGRAMS		
Materials-in-kind - Kids In Need	\$ 118,602,260	\$ 93,170,716
Resource Center - Kids In Need	200,469	68,408
Teacher Grants	164,727	124,732
Twin Cities Resource Center	651,530	390,672
Twin Cities Resource Center - materials-in-kind distributed	2,595,443	4,039,604
Other programs	142,653	124,166
Resource Center - Summit	24,155	26,901
School Ready Supplies Program	585,866	749,552
Second Responder® Program	<u>59,728</u>	<u>21,247</u>
	<u>\$ 123,026,831</u>	<u>\$ 98,715,998</u>
FUNDRAISING		
General fundraising	\$ 89,389	\$ 49,706
Gala recognition dinner	122,901	121,118
Grant writer	<u>8,707</u>	<u>-</u>
	<u>\$ 220,997</u>	<u>\$ 170,824</u>

KIDS IN NEED FOUNDATION

SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Rent	\$ 9,500	\$ 12,800
Office supplies/postage	9,667	8,401
Dues and subscriptions	402	383
Accounting and legal	31,589	26,698
Depreciation	11,392	10,479
Payroll service	3,359	2,148
Investment/credit card fees	9,211	6,640
Technology support	33,005	29,857
Equipment lease and maintenance	4,250	4,498
Telephone	8,781	10,145
Insurance	4,594	4,465
Relocation expenses	<u>698</u>	<u>-</u>
	<u>\$ 126,448</u>	<u>\$ 116,514</u>

KIDS IN NEED FOUNDATION**SCHEDULES OF SUPPORT AND PROGRAM EXPENSES - TWIN CITIES RESOURCE CENTER****YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
PUBLIC SUPPORT		
Donations	\$ 333,386	\$ 370,853
In-kind - merchandise	3,621,007	4,226,633
In-kind - services	<u>197,755</u>	<u>100,875</u>
Total Public Support	<u>4,152,148</u>	<u>4,698,361</u>
EXPENSES - PROGRAM		
Materials-in-kind distributed	2,595,443	2,223,884
Wages, taxes and benefits	208,214	128,734
Backpack giveaway	52,857	51,757
Special project	143,620	-
Teacher Grant	-	8,000
Rent	140,577	136,757
Equipment lease and maintenance	6,829	4,457
Freight	45,508	28,731
Utilities	13,483	14,827
Depreciation	1,990	1,914
Telephone and Internet	7,859	6,570
Office supplies	6,117	2,276
Cleaning	5,176	2,509
Relocation	-	755
Dues and memberships	540	715
Printing/marketing	14,130	7,309
Committee meetings	803	775
Travel - staff	1,726	1,266
Volunteer expenses	531	327
Accounting	<u>824</u>	<u>349</u>
	3,246,227	2,621,912
EXPENSES - FUNDRAISING		
General fundraising	<u>746</u>	<u>644</u>
Total Expenses	<u>3,246,973</u>	<u>2,622,556</u>
INCOME FROM OPERATIONS BEFORE GENERAL AND ADMINISTRATIVE EXPENSES - TWIN CITIES RESOURCE CENTER	<u>\$ 905,175</u>	<u>\$ 2,075,805</u>

See independent auditors' report.