

KIDS IN NEED FOUNDATION
FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2018 AND 2017

KIDS IN NEED FOUNDATION

TABLE OF CONTENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

| | Page |
|---|-------------|
| INDEPENDENT AUDITORS' REPORT | 1 - 2 |
| FINANCIAL STATEMENTS | |
| Statements of Financial Position | 3 |
| Statements of Activities | 4 - 5 |
| Statements of Functional Expenses | 6 - 7 |
| Statements of Cash Flows | 8 |
| Notes to Financial Statements | 9 - 17 |
| SUPPLEMENTARY INFORMATION | |
| Schedules of Support and Program Expenses - Twin Cities Resource Center | 18 |



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, 2018 and 2017, and the related statements of activities, functional expenses, 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.

3601 Rigby Road • Suite 400 • Dayton, Ohio • 45342-4981
1 Woodside Drive • Richmond, Indiana • 47374-2630
4249 Easton Way • Suite 100 • Columbus, Ohio • 43219-6170
11175 Cicero Drive • Suite 300 • Alpharetta, Georgia • 30022-1166

www.bradyware.com

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, 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.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of support and program expenses - Twin Cities Resource Center on page 18 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 audits 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.

Effect of Adopting New Accounting Standards

As discussed in Note 1, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-profit Entities*, during 2018. The requirements of the ASU have been applied retrospectively to all periods presented. Our opinion is not modified with respect to this matter.



Dayton, Ohio
October 24, 2019

KIDS IN NEED FOUNDATION
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017

| | <u>2018</u> | <u>2017</u> |
|-----------------------------------|----------------------------|---------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 214,819 | \$ 1,329,328 |
| Pledges receivable | 169,724 | 320,316 |
| Inventory | 3,986,059 | 6,269,567 |
| Prepaid expenses | <u>37,717</u> | <u>50,920</u> |
| | 4,408,319 | 7,970,131 |
| EQUIPMENT AND IMPROVEMENTS, NET | 134,955 | 62,342 |
| OTHER ASSETS | | |
| Investments | 1,034,563 | 1,038,029 |
| Deposits | <u>13,242</u> | <u>13,242</u> |
| | <u>1,047,805</u> | <u>1,051,271</u> |
| | <u>\$ 5,591,079</u> | <u>\$ 9,083,744</u> |
| LIABILITIES AND NET ASSETS | | |
| CURRENT LIABILITIES | | |
| Accounts payable - trade | \$ 106,375 | \$ 843,814 |
| Accrued expenses | 218,534 | 157,732 |
| Deferred rent | 4,344 | 26,143 |
| Deferred revenue | <u>375</u> | <u>263,559</u> |
| | 329,628 | 1,291,248 |
| NET ASSETS | | |
| Without donor restrictions | 1,110,202 | 1,442,930 |
| With donor restrictions | <u>4,151,249</u> | <u>6,349,566</u> |
| | <u>5,261,451</u> | <u>7,792,496</u> |
| | <u>\$ 5,591,079</u> | <u>\$ 9,083,744</u> |

KIDS IN NEED FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2018

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|---------------------------------------|------------------------------------|---------------------|
| PUBLIC SUPPORT AND REVENUE | | | |
| Public Support: | | | |
| Donations | \$ 775,650 | \$ 160,190 | \$ 935,840 |
| In-kind - merchandise | 100,392,422 | 3,059,477 | 103,451,899 |
| In-kind - services | 13,841 | - | 13,841 |
| Twin Cities Resource Center | 570,457 | - | 570,457 |
| Second Responder® Program | 222,071 | - | 222,071 |
| School Ready Supplies Program | 793,181 | 528,927 | 1,322,108 |
| Teacher Supply Box / Grants | 109,396 | - | 109,396 |
| | <u>102,877,018</u> | <u>3,748,594</u> | <u>106,625,612</u> |
| Total Public Support | | | |
| Revenue: | | | |
| Affiliate network revenue | 15,500 | - | 15,500 |
| Net investment return | (63,824) | - | (63,824) |
| Gain on sale of equipment | 471 | - | 471 |
| Gala recognition dinner | 358,693 | - | 358,693 |
| Summit | 8,413 | - | 8,413 |
| | <u>319,253</u> | <u>-</u> | <u>319,253</u> |
| Total Revenue | | | |
| Total Public Support and Revenue | <u>103,196,271</u> | <u>3,748,594</u> | <u>106,944,865</u> |
| NET ASSETS RELEASED FROM RESTRICTIONS | <u>5,946,911</u> | <u>(5,946,911)</u> | <u>-</u> |
| | <u>109,143,182</u> | <u>(2,198,317)</u> | <u>106,944,865</u> |
| EXPENSES | | | |
| Program services | 108,194,556 | - | 108,194,556 |
| Management and general | 909,232 | - | 909,232 |
| Fundraising | 372,122 | - | 372,122 |
| | <u>109,475,910</u> | <u>-</u> | <u>109,475,910</u> |
| Total Expenses | | | |
| CHANGE IN NET ASSETS | (332,728) | (2,198,317) | (2,531,045) |
| NET ASSETS | | | |
| Beginning of year | <u>1,442,930</u> | <u>6,349,566</u> | <u>7,792,496</u> |
| End of year | <u>\$ 1,110,202</u> | <u>\$ 4,151,249</u> | <u>\$ 5,261,451</u> |

See notes to financial statements.

KIDS IN NEED FOUNDATION

STATEMENT OF ACTIVITIES

YEAR ENDED DECEMBER 31, 2017

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|---------------------------------------|------------------------------------|---------------------|
| PUBLIC SUPPORT AND REVENUE | | | |
| Public Support: | | | |
| Donations | \$ 832,243 | \$ 75,000 | \$ 907,243 |
| In-kind - merchandise | 125,093,777 | 2,759,215 | 127,852,992 |
| In-kind - services | 7,076 | - | 7,076 |
| Twin Cities Resource Center | 403,204 | - | 403,204 |
| Second Responder® Program | 325,891 | - | 325,891 |
| School Ready Supplies Program | 2,150,807 | 1,418,265 | 3,569,072 |
| Teacher Supply Box / Grants | 140,000 | - | 140,000 |
| | <u>128,952,998</u> | <u>4,252,480</u> | <u>133,205,478</u> |
| Total Public Support | | | |
| Revenue: | | | |
| Affiliate network revenue | 14,750 | - | 14,750 |
| Net investment return | 117,185 | - | 117,185 |
| Gain on sale of equipment | 155 | - | 155 |
| Gala recognition dinner | 386,032 | - | 386,032 |
| Summit | 7,201 | - | 7,201 |
| | <u>525,323</u> | <u>-</u> | <u>525,323</u> |
| Total Revenue | | | |
| Total Public Support and Revenue | <u>129,478,321</u> | <u>4,252,480</u> | <u>133,730,801</u> |
| NET ASSETS RELEASED FROM RESTRICTIONS | <u>4,822,047</u> | <u>(4,822,047)</u> | <u>-</u> |
| | <u>134,300,368</u> | <u>(569,567)</u> | <u>133,730,801</u> |
| EXPENSES | | | |
| Program services | 132,848,027 | - | 132,848,027 |
| Management and general | 703,345 | - | 703,345 |
| Fundraising | 336,548 | - | 336,548 |
| | <u>133,887,920</u> | <u>-</u> | <u>133,887,920</u> |
| Total Expenses | | | |
| CHANGE IN NET ASSETS | 412,448 | (569,567) | (157,119) |
| NET ASSETS | | | |
| Beginning of year | <u>1,030,482</u> | <u>6,919,133</u> | <u>7,949,615</u> |
| End of year | <u>\$ 1,442,930</u> | <u>\$ 6,349,566</u> | <u>\$ 7,792,496</u> |

KIDS IN NEED FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

| | <u>Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
|------------------------------|-----------------------------|-----------------------------------|--------------------|----------------------|
| Salaries, wages and benefits | \$ 947,165 | \$ 307,137 | \$ 219,466 | \$ 1,473,768 |
| Severance | - | 88,846 | - | 88,846 |
| Professional fees | 3,345 | 98,813 | 221 | 102,379 |
| Utilities | 32,208 | 4,966 | 1,847 | 39,021 |
| Supplies and postage | 1,403 | 7,820 | - | 9,223 |
| Dues and fees | 22,731 | 523 | - | 23,254 |
| Depreciation | 3,135 | 18,555 | - | 21,690 |
| Travel | 2,667 | 185,877 | - | 188,544 |
| Gift-in-kind distribution | 105,512,408 | - | - | 105,512,408 |
| Insurance | 350 | 12,006 | - | 12,356 |
| Advertising | - | 124,953 | - | 124,953 |
| Board meetings | - | 32,344 | - | 32,344 |
| Development | 583 | - | - | 583 |
| Freight | 168,497 | - | - | 168,497 |
| Product purchases | 429,514 | - | - | 429,514 |
| Special projects | 901,143 | - | - | 901,143 |
| Sponsorships | - | - | 9,100 | 9,100 |
| Equipment and lease expense | 153,781 | 17,365 | 13,694 | 184,840 |
| Gala recognition dinner | - | - | 120,845 | 120,845 |
| Other expenses | <u>15,626</u> | <u>10,027</u> | <u>6,949</u> | <u>32,602</u> |
| | <u>\$108,194,556</u> | <u>\$ 909,232</u> | <u>\$ 372,122</u> | <u>\$109,475,910</u> |

KIDS IN NEED FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2017

| | <u>Program Services</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>Total</u> |
|------------------------------|-----------------------------|-----------------------------------|--------------------|-----------------------|
| Salaries, wages and benefits | \$ 832,865 | \$ 268,877 | \$ 191,447 | \$ 1,293,189 |
| Professional fees | 3,351 | 84,105 | 210 | 87,666 |
| Utilities | 30,833 | 4,820 | 1,813 | 37,466 |
| Supplies and postage | 2,515 | 4,848 | - | 7,363 |
| Dues and fees | 30,024 | 635 | - | 30,659 |
| Depreciation | 3,153 | 15,496 | - | 18,649 |
| Travel | 2,627 | 152,358 | - | 154,985 |
| Gift-in-kind distribution | 127,131,436 | - | - | 127,131,436 |
| Insurance | - | 5,106 | - | 5,106 |
| Advertising | - | 116,142 | - | 116,142 |
| Board meetings | - | 30,523 | - | 30,523 |
| Development | 32,801 | - | - | 32,801 |
| Freight | 122,551 | - | - | 122,551 |
| Product purchases | 3,286,737 | - | - | 3,286,737 |
| Special projects | 1,148,706 | - | - | 1,148,706 |
| Sponsorships | - | - | 9,050 | 9,050 |
| Equipment and lease expense | 162,181 | 9,680 | 7,373 | 179,234 |
| Bad debt expense | - | 2,500 | - | 2,500 |
| Teacher grants | 43,567 | - | - | 43,567 |
| Gala recognition dinner | - | - | 126,515 | 126,515 |
| Other expenses | 14,680 | 8,255 | 140 | 23,075 |
| | <u>\$ 132,848,027</u> | <u>\$ 703,345</u> | <u>\$ 336,548</u> | <u>\$ 133,887,920</u> |

KIDS IN NEED FOUNDATION**STATEMENTS OF CASH FLOWS****YEARS ENDED DECEMBER 31, 2018 AND 2017**

| | <u>2018</u> | <u>2017</u> |
|---|--------------------|---------------------|
| OPERATING ACTIVITIES | | |
| Change in net assets | \$ (2,531,045) | \$ (157,119) |
| Adjustments to reconcile change in net assets to net cash and cash equivalents provided (used) by operating activities: | | |
| Depreciation | 21,690 | 18,649 |
| Gain on sale of equipment | (471) | (155) |
| Unrealized (gain) loss on investments | 144,203 | (53,037) |
| Realized gain on sales of investments | (60,039) | (39,979) |
| Donated inventory | (1,713,682) | (3,414,210) |
| Donated inventory distributed | 3,997,190 | 3,783,352 |
| | <u>(142,154)</u> | <u>137,501</u> |
| Changes in operating assets and liabilities: | | |
| Pledges receivable | 150,592 | (134,531) |
| Prepaid expenses | 13,203 | (14,168) |
| Accounts payable - trade | (737,442) | 612,425 |
| Deferred rent | (21,799) | 3,411 |
| Accrued expenses | 60,802 | 27,033 |
| Deferred revenue | (263,184) | 183,332 |
| | <u>(939,982)</u> | <u>815,003</u> |
| Net cash and cash equivalents provided (used) by operating activities | <u>(939,982)</u> | <u>815,003</u> |
| INVESTING ACTIVITIES | | |
| Purchases of equipment | (94,303) | (45,924) |
| Gross proceeds from sales of investments | 579,393 | 359,138 |
| Gross proceeds from sale of equipment | 471 | 200 |
| Purchases of investments | (660,088) | (180,373) |
| | <u>(174,527)</u> | <u>133,041</u> |
| Net cash and cash equivalents provided (used) by investing activities | <u>(174,527)</u> | <u>133,041</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (1,114,509) | 948,044 |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of year | <u>1,329,328</u> | <u>381,284</u> |
| End of year | <u>\$ 214,819</u> | <u>\$ 1,329,328</u> |

See notes to financial statements.

KIDS IN NEED FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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.

On January 1, 2018 Kids In Need Foundation merged with Kids In Need Foundation MN merger Co., a Minnesota nonprofit corporation. The merged entity chose to keep Kids In Need Foundation as the name for the new combined entity. The mission and purpose of the combined nonprofit corporation has not changed.

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.

Net assets with donor restrictions of a temporary nature consist of the remaining portion of donor-restricted endowment funds that are not classified as net assets with donor restrictions in perpetuity. When donor restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Net assets with donor restrictions that are to be maintained in perpetuity 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 2018 and 2017, 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.

KIDS IN NEED FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Concentrations - The Foundation's support comes primarily from corporate and foundation contributions. 48% of the Foundation's cash support was provided by a major donor for the year 2017. This was a one-time restricted cash donation to purchase product. No such concentration existed in 2018. The Foundation also receives substantial support of in-kind donations. For the year 2018, one donor contributed 58% of the in-kind donations received by the Foundation. For the year 2017, two donors contributed 57% of the in-kind donations received by the Foundation.

Functional Allocation of Expenses - The costs of program and supporting services activities have been summarized on a functional basis in the statements of functional expenses. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The main expenses that are allocated include salaries and wages and related employee benefits and payroll taxes which are allocated on the basis of estimates of time and effort.

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 \$103,465,740 and \$127,860,068 for the years 2018 and 2017.

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 net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

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

Inventory - Inventory consists of in-kind school supplies and backpacks valued at fair market value on the date of the donation. The inventory is distributed through the Twin Cities Resource Center and the School Ready Supplies and Second Responder® Programs. The Center provides classroom supplies to low-income students in the Twin Cities area. Teachers shop free-of-charge at the Center. The backpacks are distributed to low-income students, too.

KIDS IN NEED FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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 2018 and 2017 was \$21,690 and \$18,649.

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 gains and losses 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.

Advertising Expense - Advertising costs are expensed as incurred. Advertising and promotion expense was \$124,953 and \$116,142 for the years 2018 and 2017.

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, 2018.

Reclassifications - Certain prior year amounts have been reclassified to conform with current year presentation.

Recently Issued Accounting Standards not Yet Adopted - In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Since the issuance of this standard, there have been several additional standards issued relative to this topic. These standards will be effective for the calendar year ending December 31, 2019. The Foundation is currently in the process of evaluating the impact of adoption of these standards on the financial statements.

KIDS IN NEED FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, in June 2018. This standard will be effective for the calendar year ending December 31, 2019. The Foundation is currently in the process of evaluating the impact of adoption of this standard on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which will require the recognition of right-to-use assets and lease liabilities for leases previously classified as operating leases by lessees. Since the issuance of this standard, there have been several additional standards issued relative to this topic. These standards will be effective for the calendar year ending December 31, 2020. Early application will be permitted. The Foundation is currently in the process of evaluating the impact of adoption of these standards on the financial statements.

Adoption of New Accounting Standards - The Foundation adopted the provisions of the Financial Accounting Standards Board's Accounting Standards Update ("ASU") 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, during 2018. ASU 2016-14 addresses the complexity and understandability of net assets classifications, 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. ASU 2016-14 has been applied retrospectively to all periods presented.

Subsequent Events - In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 24, 2019, the date the financial statements were available to be issued.

NOTE 2 - LIQUIDITY AND AVAILABILITY

The following reflects the Foundation's financial assets as of the statement of financial position date, reduced by amounts not available for general use within one year of the statement of financial position date because of donor-imposed restrictions or internal designations. Financial assets are considered unavailable when not convertible to cash within one year such as endowments which include board designated endowments. These board designations could be drawn upon if the Board of Directors approves that action.

| | |
|--|---------------------|
| Cash and cash equivalents | \$ 214,819 |
| Pledges receivable | 169,724 |
| Investments | <u>1,034,563</u> |
| Total financial assets | 1,419,106 |
| Less those unavailable for general expenditure within one year due to: | |
| Donor restricted to be maintained in perpetuity | (5,000) |
| Board designated for endowment | (33,741) |
| Pledges receivable not to be received within the next year | <u>(45,000)</u> |
| Financial assets available to meet cash needs for general expenditures within one year | <u>\$ 1,335,365</u> |

KIDS IN NEED FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable at December 31, 2018 and 2017 were as follows:

| | <u>2018</u> | <u>2017</u> |
|--------------------------------------|-------------------|-------------------|
| Less than one year | \$ 124,724 | \$ 320,316 |
| One to five years | <u>45,000</u> | <u>-</u> |
| Total unconditional promises to give | <u>\$ 169,724</u> | <u>\$ 320,316</u> |

NOTE 4 - EQUIPMENT AND IMPROVEMENTS

| | <u>2018</u> | <u>2017</u> |
|----------------------------------|-------------------|------------------|
| Furniture and equipment | \$ 66,081 | \$ 51,850 |
| Computer equipment | 161,891 | 89,798 |
| Leasehold improvements | <u>4,523</u> | <u>-</u> |
| Total equipment and improvements | 232,495 | 141,648 |
| Less accumulated depreciation | <u>97,540</u> | <u>79,306</u> |
| Net equipment and improvements | <u>\$ 134,955</u> | <u>\$ 62,342</u> |

NOTE 5 - INVESTMENTS

The following tables reflect the cost and estimated fair values investments held at December 31, 2018 and 2017. In addition, gross unrealized gains and unrealized losses are disclosed as of December 31, 2018 and 2017.

| | <u>2018</u> | | | |
|---------------------|---------------------|---------------------------------------|--|----------------------------------|
| | <u>Cost</u> | <u>Gross Unrealized Gains</u> | <u>Gross Unrealized Losses</u> | <u>Estimated Fair Values</u> |
| Equity mutual funds | \$ 1,032,682 | \$ 15,973 | \$ (50,532) | \$ 998,123 |
| Money market fund | <u>36,440</u> | <u>-</u> | <u>-</u> | <u>36,440</u> |
| | <u>\$ 1,069,122</u> | <u>\$ 15,973</u> | <u>\$ (50,532)</u> | <u>\$ 1,034,563</u> |

| | <u>2017</u> | | | |
|---------------------|-------------------|---------------------------------------|--|----------------------------------|
| | <u>Cost</u> | <u>Gross Unrealized Gains</u> | <u>Gross Unrealized Losses</u> | <u>Estimated Fair Values</u> |
| Equity mutual funds | \$ 855,631 | \$ 105,781 | \$ (619) | \$ 960,793 |
| Money market fund | <u>77,236</u> | <u>-</u> | <u>-</u> | <u>77,236</u> |
| | <u>\$ 932,867</u> | <u>\$ 105,781</u> | <u>\$ (619)</u> | <u>\$ 1,038,029</u> |

KIDS IN NEED FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 5 - INVESTMENTS - continued

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

| | <u>2018</u> | <u>2017</u> |
|------------------------------------|--------------------|-------------------|
| Interest and dividends | \$ 31,904 | \$ 34,127 |
| Investment and administrative fees | (11,564) | (9,958) |
| Realized gain | 60,039 | 39,979 |
| Unrealized gain (loss) | <u>(144,203)</u> | <u>53,037</u> |
| | <u>\$ (63,824)</u> | <u>\$ 117,185</u> |

NOTE 6 - 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.

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

| | <u>2018</u> | | | |
|---------------------|---------------------|---|--|--|
| | <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 | \$ 998,123 | \$ 998,123 | \$ - | \$ - |
| Money market fund | <u>36,440</u> | <u>36,440</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 1,034,563</u> | <u>\$ 1,034,563</u> | <u>\$ -</u> | <u>\$ -</u> |
| | | | | |
| | <u>2017</u> | | | |
| | <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 | \$ 960,793 | \$ 960,793 | \$ - | \$ - |
| Money market fund | <u>77,236</u> | <u>77,236</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 1,038,029</u> | <u>\$ 1,038,029</u> | <u>\$ -</u> | <u>\$ -</u> |

KIDS IN NEED FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

Assets with donor restrictions are as follows:

| | <u>2018</u> | <u>2017</u> |
|---|---------------------|---------------------|
| Kids In Need - time restriction | \$ 160,190 | \$ 75,000 |
| Twin Cities Resource Center - inventory/purpose | 3,457,132 | 4,851,301 |
| School Ready Supplies and Second Responder® Programs - inventory/purpose | 528,927 | 1,418,265 |
| Endowment Fund - to be maintained in perpetuity | <u>5,000</u> | <u>5,000</u> |
| | <u>\$ 4,151,249</u> | <u>\$ 6,349,566</u> |

Net assets were released from donor restrictions as follows:

| | <u>2018</u> | <u>2017</u> |
|----------------------------------|---------------------|---------------------|
| Purpose restriction accomplished | \$ 5,871,911 | \$ 4,546,623 |
| Time restriction accomplished | <u>75,000</u> | <u>275,424</u> |
| | <u>\$ 5,946,911</u> | <u>\$ 4,822,047</u> |

NOTE 8 - ENDOWMENT FUNDS AND NET ASSETS

The Foundation's net assets held in perpetuity as of December 31, 2018 and 2017, 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 a net asset account that does not contain donor restrictions for gains or losses from this fund. For the years 2018 and 2017, \$10 in net gains were allocated to the fund's balance without restrictions. Upon approval of expenditures, amounts are considered to be appropriated for expenditure.

The Foundation's investment policy states that assets should be invested in accordance with sound investment practices that emphasize long-term investment fundamentals. The objectives of this Foundation are to maximize long-term returns consistent with the prudent levels of risk. Investment returns are expected to provide adequate funds to sufficiently support designated needs and preserve or enhance the real value of the Foundation. In establishing the investment objectives of the Foundation, the Committee has taken into account the time horizon available for investments, the nature of the Foundation's cash flows and liabilities, and other factors that affect the Foundation's risk tolerance. Accordingly, the investment balanced approach that emphasizes a stable and substantial source of current income and some capital appreciation over the long-term.

NOTE 9 - 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 2015. Monthly rent beginning March 2016 is \$750.

KIDS IN NEED FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 9 - OPERATING LEASES - continued

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. During 2018, the lease agreement was amended to increase the area rented by the Foundation effective January 1, 2018. As a result of the amendment the original base rent amounts were not increased, however an additional amount is being charged for the additional space.

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, 2018 and 2017 was \$4,344 and \$26,143. The Foundation is responsible for "operating expenses" for all interior maintenance and repairs, taxes, and insurance. These expenses are added to the monthly lease payment.

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 \$75,988 and \$72,292 for the years 2018 and 2017.

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

| | | |
|------|----|--------|
| 2019 | \$ | 75,988 |
| 2020 | | 74,931 |
| 2021 | | 73,452 |
| 2022 | | 73,452 |
| 2023 | | 73,452 |
| | | 67,192 |

NOTE 10 - 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 2018 and 2017 were \$34,974 and \$30,389.

NOTE 11 - PROGRAM EXPENSE RATIO

For the years 2018 and 2017, 99% and 98% of the support and revenue received has been expended for the educational programs that the Foundation supports.

KIDS IN NEED FOUNDATION

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

NOTE 12 - 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 restricted donation from an outside donor in the amount of \$5,000. This amount is being shown on the statements of financial position in net assets with donor restrictions.

The value of the endowment account included in the investments amounted to \$38,741 and \$28,202 as of December 31, 2018 and 2017.

NOTE 13 - 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 Supply Box Program - Focuses on core mission of providing essential school supplies to the classrooms of children most in need. Successful applicants receive two large boxes containing a predetermined assortment of core items with a retail value of approximately \$500.

School Ready Supplies Program - The Foundation seeks sponsors to provide school supplies to children in need. Under this program, the Foundation provides backpacks containing 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.

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, 2018, the Twin Cities Resource Center served 135 schools with a total of 3,487 eligible teachers who were invited to shop for free supplies. Each teacher who shopped selected an average of \$440 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 SUPPORT AND PROGRAM EXPENSES - TWIN CITIES RESOURCE CENTER****YEARS ENDED DECEMBER 31, 2018 AND 2017**

| | <u>2018</u> | <u>2017</u> |
|--|-----------------------|-----------------------|
| PUBLIC SUPPORT | | |
| Donations | \$ 293,116 | \$ 226,149 |
| In-kind - merchandise | 2,563,900 | 2,759,215 |
| In-kind - services | <u>265,725</u> | <u>177,055</u> |
| Total Public Support | <u>3,122,741</u> | <u>3,162,419</u> |
| EXPENSES - PROGRAM | | |
| Materials-in-kind distributed | 1,766,591 | 2,074,435 |
| Materials-in-kind inventory valuation adjustment | 2,400,955 | 2,311,700 |
| Wages, taxes and benefits | 303,972 | 270,360 |
| Backpack giveaway | 39,463 | 37,081 |
| Special project | 43,843 | 7,056 |
| Rent | 95,428 | 118,920 |
| Equipment lease and maintenance | 12,009 | 6,756 |
| Freight | 30,846 | 25,789 |
| Utilities | 16,442 | 15,429 |
| Depreciation | 3,135 | 3,153 |
| Insurance | 350 | - |
| Telephone and Internet | 8,001 | 7,817 |
| Office supplies | 46,729 | 9,458 |
| Cleaning | 7,725 | 5,216 |
| Purchased goods | - | 16,182 |
| Dues and memberships | 1,870 | 1,778 |
| Printing/marketing | 804 | 4,282 |
| Committee meetings | 629 | 606 |
| Travel - staff | 2,667 | 2,627 |
| Volunteer expenses | 744 | 548 |
| Accounting | <u>793</u> | <u>868</u> |
| | 4,782,996 | 4,920,061 |
| EXPENSES - FUNDRAISING | | |
| General fundraising | <u>6,949</u> | <u>140</u> |
| Total Expenses | <u>4,789,945</u> | <u>4,920,201</u> |
| LOSS FROM OPERATIONS BEFORE GENERAL AND ADMINISTRATIVE EXPENSES - TWIN CITIES RESOURCE CENTER | <u>\$ (1,667,204)</u> | <u>\$ (1,757,782)</u> |