

KIDS' FOOD BASKET, INC.
FINANCIAL STATEMENTS
FOR YEARS ENDED JUNE 30, 2016 AND 2015



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KIDS' FOOD BASKET, INC.
TABLE OF CONTENTS

| | PAGE |
|--|-------------|
| INDEPENDENT AUDITOR'S 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 |

INDEPENDENT AUDITOR'S REPORT

March 9, 2017

To the Board of Directors of
Kids' Food Basket, Inc.
Grand Rapids, Michigan

We have audited the accompanying financial statements of Kids' Food Basket, Inc. (a Michigan nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kids' Food Basket, Inc. as of June 30, 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.

Respectfully submitted,

A handwritten signature in cursive script that reads "Echelbarger, Himebaugh, Tamm & Co., P.C.".

Echelbarger, Himebaugh, Tamm & Co., P.C.
Grand Rapids, MI

KIDS' FOOD BASKET, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

| | <u>2016</u> | <u>2015</u> |
|--|---------------------|---------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents: | | |
| Unrestricted | \$ 1,366,796 | \$ 1,164,386 |
| Purpose restricted | 76,750 | 100,293 |
| Accounts receivable | 1,740 | - |
| Prepaid expenses | 36,954 | 13,885 |
| Inventories | 23,250 | 22,035 |
| Promises to give | 249,726 | 216,561 |
| | <hr/> | <hr/> |
| Total Current Assets | 1,755,216 | 1,517,160 |
| | <hr/> | <hr/> |
| Noncurrent Assets: | | |
| Promises to give | 183,880 | 100,156 |
| Property and equipment, less accumulated depreciation of \$314,679, and \$260,013, respectively | 393,207 | 353,477 |
| Land deposit and accumulated land costs | 29,853 | - |
| Security deposit | 3,526 | 3,526 |
| | <hr/> | <hr/> |
| Total Noncurrent Assets | 610,466 | 457,159 |
| | <hr/> | <hr/> |
| TOTAL ASSETS | \$ 2,365,682 | \$ 1,974,319 |
| | <hr/> <hr/> | <hr/> <hr/> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable | \$ 74,937 | \$ 40,814 |
| Accrued payroll and withholdings | 47,796 | 37,230 |
| Current portion of deferred rent liability | 5,279 | 4,354 |
| Deferred revenue | - | 100,293 |
| | <hr/> | <hr/> |
| Total Current Liabilities | 128,012 | 182,691 |
| | <hr/> | <hr/> |
| Deferred rent liability, net of current portion | 21,648 | 26,928 |
| | <hr/> | <hr/> |
| Total Liabilities | 149,660 | 209,619 |
| | <hr/> | <hr/> |
| Net Assets: | | |
| Unrestricted: | | |
| Designated | 742,889 | 755,819 |
| Undesignated | 939,527 | 579,800 |
| Temporarily restricted | 533,606 | 429,081 |
| | <hr/> | <hr/> |
| Total Net Assets | 2,216,022 | 1,764,700 |
| | <hr/> | <hr/> |
| TOTAL LIABILITIES AND NET ASSETS | \$ 2,365,682 | \$ 1,974,319 |
| | <hr/> <hr/> | <hr/> <hr/> |

See accompanying notes to financial statements
See independent auditor's report

KIDS' FOOD BASKET, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

| | 2016 | | |
|---|---------------------|-----------------------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Total |
| Public support and other revenues: | | | |
| Grants | \$ 469,370 | \$ 381,250 | \$ 850,620 |
| Contribution income | 1,984,710 | 245,715 | 2,230,425 |
| In-kind contributions | 695,975 | - | 695,975 |
| Program service revenue | 41,740 | - | 41,740 |
| Special events, net of expenses of \$65,861 and \$59,489, respectively | 126,428 | 10,000 | 136,428 |
| Interest | 854 | - | 854 |
| Net assets released from restrictions: | | | |
| Expiration of purpose restrictions | 404,115 | (404,115) | - |
| Expiration of time restrictions | 128,325 | (128,325) | - |
| Total public support and other revenues | 3,851,517 | 104,525 | 3,956,042 |
| Expenses: | | | |
| Program services | 2,475,209 | - | 2,475,209 |
| Supporting services: | | | |
| Management and general | 551,659 | - | 551,659 |
| Fundraising | 477,852 | - | 477,852 |
| Total expenses | 3,504,720 | - | 3,504,720 |
| Change in net assets | 346,797 | 104,525 | 451,322 |
| Net assets - beginning of year | 1,335,619 | 429,081 | 1,764,700 |
| NET ASSETS - END OF YEAR | \$ 1,682,416 | \$ 533,606 | \$ 2,216,022 |

See accompanying notes to financial statements
See independent auditor's report

| 2015 | | |
|---------------------|-----------------------------------|--------------|
| Unrestricted | Temporarily Restricted | Total |
| \$ 724,182 | \$ 217,250 | \$ 941,432 |
| 1,325,058 | 324,150 | 1,649,208 |
| 639,317 | - | 639,317 |
| - | - | - |
| 120,331 | - | 120,331 |
| 979 | - | 979 |
| 364,409 | (364,409) | - |
| 12,170 | (12,170) | - |
| 3,186,446 | 164,821 | 3,351,267 |
| 2,102,223 | - | 2,102,223 |
| 497,476 | - | 497,476 |
| 335,372 | - | 335,372 |
| 2,935,071 | - | 2,935,071 |
| 251,375 | 164,821 | 416,196 |
| 1,084,244 | 264,260 | 1,348,504 |
| \$ 1,335,619 | \$ 429,081 | \$ 1,764,700 |

See accompanying notes to financial statements
See independent auditor's report

KIDS' FOOD BASKET, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

| | 2016 | | | Total Functional Expenses |
|-------------------------------|---------------------------|---------------------|-------------------|---------------------------------|
| | Program Services | Supporting Services | | |
| | Management and General | Fundraising | Total | |
| Sack suppers | 1,174,053 | - | - | 1,174,053 |
| Vehicle expense | 21,635 | - | 91 | 21,726 |
| Supplies | 10,422 | 2,213 | 5,962 | 18,597 |
| Small equipment | 5,314 | 1,316 | - | 6,630 |
| Travel | 6,264 | 6,210 | 2,587 | 15,061 |
| Licenses and fees | 740 | 15,266 | 457 | 16,463 |
| Volunteer/staff appreciation | 1,577 | 4,200 | - | 5,777 |
| Salaries and wages | 749,224 | 251,537 | 253,949 | 1,254,710 |
| Payroll taxes | 72,563 | 22,641 | 23,758 | 118,962 |
| Employee benefits | 69,773 | 20,852 | 21,106 | 111,731 |
| Pension | 12,762 | 5,897 | 3,931 | 22,590 |
| Temporary labor | 19,509 | 200 | 1,439 | 21,148 |
| Professional services | 33,891 | 134,304 | 25,492 | 193,687 |
| Occupancy | 85,192 | 7,029 | 5,910 | 98,131 |
| Utilities | 28,379 | 1,466 | 1,814 | 31,659 |
| Repairs and maintenance | 11,729 | 1,083 | 52 | 12,864 |
| Insurance | 8,771 | 4,550 | 923 | 14,244 |
| Dues and memberships | 603 | 3,191 | 133 | 3,927 |
| Marketing/community outreach | 10,457 | 125 | 5,254 | 15,836 |
| Miscellaneous | 651 | 2,848 | 123 | 3,622 |
| Postage | 1,891 | 3,517 | 8,427 | 13,835 |
| Printing and reproduction | 36,034 | 7,106 | 60,919 | 104,059 |
| Stewardship | 32,083 | 68 | 22,374 | 54,525 |
| Technology | 31,160 | 24,873 | 13,897 | 69,930 |
| Training and education | 7,280 | 20,408 | 8,837 | 36,525 |
| Bad debt expense | \$ 2,760 | \$ - | \$ 265 | \$ 3,025 |
| Depreciation and amortization | 40,492 | 10,759 | 10,152 | 61,403 |
| TOTAL | \$ 2,475,209 | \$ 551,659 | \$ 477,852 | \$ 3,504,720 |

See accompanying notes to financial statements
See independent auditor's report

2015

| Program Services | Supporting Services | | | Total Functional Expenses |
|-------------------------|-------------------------------|--------------------|-------------------|----------------------------------|
| | Management and General | Fundraising | Total | |
| 1,029,323 | - | 2,637 | 2,637 | 1,031,960 |
| 16,178 | - | - | - | 16,178 |
| 8,880 | 11,445 | 5,563 | 17,008 | 25,888 |
| 10,512 | 332 | - | 332 | 10,844 |
| 4,501 | 5,064 | 2,351 | 7,415 | 11,916 |
| 990 | 13,273 | 30 | 13,303 | 14,293 |
| 3,260 | 6,741 | 48 | 6,789 | 10,049 |
| 614,393 | 168,623 | 179,164 | 347,787 | 962,180 |
| 60,638 | 15,630 | 18,502 | 34,132 | 94,770 |
| 65,760 | 18,186 | 14,873 | 33,059 | 98,819 |
| 8,625 | 4,416 | 3,113 | 7,529 | 16,154 |
| 41,488 | 180 | 2,159 | 2,339 | 43,827 |
| 26,054 | 117,178 | 11,171 | 128,349 | 154,403 |
| 68,246 | - | 4,928 | 4,928 | 73,174 |
| 21,939 | 1,225 | 1,467 | 2,692 | 24,631 |
| 2,587 | 10,410 | - | 10,410 | 12,997 |
| 6,284 | 5,054 | 868 | 5,922 | 12,206 |
| 45 | 2,631 | 545 | 3,176 | 3,221 |
| 10,801 | 14,928 | 2,505 | 17,433 | 28,234 |
| - | 4,389 | 406 | 4,795 | 4,795 |
| 1,541 | 6,396 | 10,511 | 16,907 | 18,448 |
| 14,557 | 29,795 | 41,716 | 71,511 | 86,068 |
| 38,290 | 291 | 7,352 | 7,643 | 45,933 |
| 10,673 | 28,061 | 7,254 | 35,315 | 45,988 |
| 8,558 | 19,903 | 4,529 | 24,432 | 32,990 |
| \$ - | \$ - | \$ - | \$ - | \$ - |
| 28,100 | 13,325 | 13,680 | 27,005 | 55,105 |
| \$ 2,102,223 | \$ 497,476 | \$ 335,372 | \$ 832,848 | \$ 2,935,071 |

See accompanying notes to financial statements
See independent auditor's report

KIDS' FOOD BASKET, INC.
STATEMENTS OF CASH FLOWS
JUNE 30, 2016 AND 2015

| | 2016 | 2015 |
|--|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 451,322 | \$ 416,196 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 61,403 | 55,105 |
| Loss on disposal of equipment | 1,014 | - |
| Increase in: | | |
| Accounts receivable | (1,740) | - |
| Prepaid expenses | (23,069) | (5,090) |
| Inventories | (1,215) | (4,092) |
| Promises to give | (116,889) | (92,457) |
| Increase (decrease) in: | | |
| Accounts payable | 34,123 | 13,631 |
| Accrued liabilities | 10,566 | 18,115 |
| Deferred revenue | (100,293) | (49,450) |
| Deferred rent liability | (4,355) | 4,550 |
| Total Adjustments | (140,455) | (59,688) |
| Net cash provided by operating activities | 310,867 | 356,508 |
| Cash flows from investing activities: | | |
| Purchase of equipment | (102,147) | (12,604) |
| Land deposit and accumulated land costs | (29,853) | - |
| Net cash used in investing activities | (132,000) | (12,604) |
| Net increase in cash and cash equivalents | 178,867 | 343,904 |
| Cash and cash equivalents - beginning of year | 1,264,679 | 920,775 |
| Cash and cash equivalents - end of year | \$ 1,443,546 | \$ 1,264,679 |

See accompanying notes to financial statements
See independent auditor's report

KIDS' FOOD BASKET, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE A – NATURE OF ORGANIZATION

Kids' Food Basket, Inc. (KFB) is a Michigan nonprofit organization organized on October 9, 2003, whose mission is to empower communities to attack childhood hunger so that young people can learn and live well. The Sack Supper Program provides nutritious evening meals to kids affected by hunger, filling a critical daily need and providing lifelong benefits. Supporting programs focused on long-term impact include volunteerism, youth civic engagement, urban farming initiatives and expansion efforts. KFB has its corporate office in Grand Rapids, Michigan and is supported primarily through contributions from foundations, businesses and the general public. It is always considered reasonably possible that contributions may be lost in the near term.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements of KFB are prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables, and other liabilities. The Statements of Activities have been prepared for the organization as a whole.

BASIS OF PRESENTATION

KFB is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

USE OF ESTIMATES

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and reported revenues and expenses. Actual results could differ from those estimates.

FAIR VALUE MEASUREMENTS

KFB follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820-20 on "*Fair Value Measurements*", which provides a framework for measuring fair values under accounting policies generally accepted in the United States of America (U.S. GAAP). This standard applies to all financial instruments that are being measured and reported on a fair value basis.

The standard clarifies how organizations are required to use fair value measurements for recognition and disclosure by establishing a common definition of fair value, creating a framework for measuring fair value, and expanding disclosures about fair value measurements. The standard also establishes a three-tier fair value hierarchy, which prioritize the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an organization to develop its own assumptions.

KIDS' FOOD BASKET, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE MEASUREMENTS (CONTINUED)

When estimating the fair value of unconditional promises to give, management uses present value techniques that consider historical trends of collection, the type of donor (individual or corporation/foundation), general economic conditions in the geographic area in which the majority of KFB's donors live, KFB's policies concerning enforcement of promises to give, and market interest rate assumptions for individuals, corporations and foundations. The change in the fair value of the unconditional promises expected to be collected in more than one year is reported as contribution revenue. The total change in fair value of the unconditional promises reported as a contribution was \$1,025 and \$2,751 for the years ended June 30, 2016 and 2015, respectively.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are considered to be cash on hand, demand deposits, and money market accounts with original maturity of less than 1 year. Although such cash balances exceeded the federally insured limits at certain times during the year, they are in the opinion of management, subject to minimal risk. Money market funds are not federally insured. Cash equivalent amounts invested in the sweep investment accounts are not insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC), however, they are backed by the good faith of the financial institution in which the funds are held.

INVENTORIES

Inventories consist of purchased and donated food and are stated at fair market value determined by the first-in, first-out method. Donations of food are recorded as support at their estimated fair value at the date of donation determined by invoice or at \$2.59 per pound in accordance with research completed based on the types of in-kind donations given and fair market price.

PROMISES TO GIVE

Unconditional promises to give, or pledges, are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met and the promise becomes unconditional. Management writes down the pledges to their net present value to provide for any probable uncollectible amounts. Management has determined that the promises to give are fully collectible; therefore, no allowance for uncollectible accounts is considered necessary at June 30, 2016 and 2015.

PROPERTY AND EQUIPMENT

KFB capitalizes all expenditures for property and equipment in excess of \$1,500. Property and equipment are carried at cost or, if donated, at the estimated fair value at the date of donation.

Depreciation and amortization is computed on a straight line basis over the useful lives of the respective assets acquired as follows:

KIDS' FOOD BASKET, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY AND EQUIPMENT (CONTINUED)

| | |
|---------------------------------|--------------|
| Leasehold improvements | 15 years |
| Vehicles | 5 years |
| Computers and related equipment | 5 years |
| Software | 5 years |
| Furniture and equipment | 7 – 10 years |

Depreciation and amortization expense was \$61,403 and \$55,105 for the years ended June 30, 2016 and 2015, respectively.

DEFERRED RENT LIABILITY

Rent expense is being recognized on a straight-line basis over the life of the lease in accordance with ASC 840-20-25-1 even though payments are not made on a straight-line basis. The difference between rent expense recognized and rent payments, as stipulated in the lease, is reflected as deferred rent liability in the Statements of Financial Position.

INCOME TAXES

KFB is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to KFB's tax-exempt purpose is subject to taxation as unrelated business income, if applicable. In addition, KFB qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). KFB is also exempt from Michigan corporate income tax.

PUBLIC SUPPORT AND OTHER REVENUES

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Donated Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment as restricted support.

KIDS' FOOD BASKET, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PUBLIC SUPPORT AND OTHER REVENUES (CONTINUED)

Donated Services, Materials and Supplies

KFB recognizes in-kind donated services in accordance with FASB ASC 958-605-25, which requires that only contributions which a) create or enhance non-financial assets or b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Contributions of tangible assets (materials and supplies) are recognized at fair value when received. The amounts reflected in the accompanying financial statements as in-kind contributions are offset by like amounts included in expenses or additions to property and equipment.

KFB received the following donated services, materials and supplies, with a fair value on the dates of donation, for the years ended June 30, 2016 and 2015, as follows:

| | <u>2016</u> | <u>2015</u> |
|--------------------------------|-------------------|-------------------|
| Sack suppers food | \$ 585,633 | \$ 526,775 |
| Professional services | 40,878 | 41,161 |
| Marketing / community outreach | 22,284 | 21,521 |
| Fundraising | 5,913 | 19,148 |
| Occupancy | 24,000 | 14,000 |
| Supplies | 10,499 | 11,054 |
| Printing and reproduction | 1,265 | 1,901 |
| Other | 5,503 | 3,757 |
| | <u>\$ 695,975</u> | <u>\$ 639,317</u> |

In addition, a number of volunteers have donated over 82,000 and 64,000 hours valued at \$1,902,009 and \$1,442,354 to KFB's program and support services for the years ended June 30, 2016 and 2015, respectively. These in-kind contributions are not reflected in the financial statements since these services do not meet the criteria for recognition.

COST ALLOCATION

Expenses identified as applying to a specific program or supporting service are recorded in the appropriate service as incurred. Joint costs, which are those costs incurred for the common benefit of all of KFB's programs which cannot be readily identified with a final cost objective, are allocated to benefiting programs based on the percentages formulated through ongoing time studies of professional staff.

NOTE C – CASH AND CONCENTRATION OF CREDIT RISK

Cash and cash equivalents as of June 30, 2016 and 2015, consists of deposit accounts at various commercial banks, with book balances totaling \$1,443,546 and \$1,264,679 and bank balances of \$1,476,062 and \$1,323,328, respectively. These deposit accounts, at times, may exceed the federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation up to \$250,000 at both June 30, 2016 and 2015. The uninsured deposits as of June 30, 2016 and 2015 amounted to \$470,410 and \$409,343, respectively.

KIDS' FOOD BASKET, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE D – PROMISES TO GIVE

Promises to give at June 30, 2016 and 2015, which have been measured at Level 3 in the fair market hierarchy, are as follows:

| | <u>2016</u> | <u>2015</u> |
|-------------------------------------|-------------------|-------------------|
| Receivable in less than one year | \$ 249,726 | \$ 216,561 |
| Receivable in one to five years | 189,396 | 104,647 |
| | <u>439,122</u> | <u>321,208</u> |
| Less discounts to net present value | (5,516) | (4,491) |
| | <u>\$ 433,606</u> | <u>\$ 316,717</u> |

Promises to give with due dates extending beyond one year are discounted using KFB's incremental borrowing rate, which approximates prime. The applicable rate at both June 30, 2016 and 2015, was 3.50%.

NOTE E – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at June 30, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|--|-------------------|-------------------|
| Leasehold improvements | \$ 384,867 | \$ 369,808 |
| Computers and related equipment | 65,912 | 59,195 |
| Software | 19,470 | 7,670 |
| Furniture and equipment | 124,623 | 83,178 |
| Vehicles | 109,814 | 89,814 |
| Construction in progress, estimated \$26,800 to complete | 3,200 | - |
| Equipment in progress, estimated \$2,300 to complete | - | 3,825 |
| | <u>707,886</u> | <u>613,490</u> |
| Less accumulated depreciation and amortization | 314,679 | 260,013 |
| | <u>\$ 393,207</u> | <u>\$ 353,477</u> |

NOTE F – LAND DEPOSIT AND ACCUMULATED LAND COST

During the year ended June 30, 2016 KFB made an offer to purchase adjacent parcels of land to be used for future expansion. The offer, accompanied by a deposit of \$15,000, was accepted, however an unrelated entity, KFB Holdings LLC, acquired this land and is leasing the property to KFB (see Note H – Leases). KFB Holdings LLC was formed by friends of KFB to purchase the property which allows KFB adequate time to raise the capital to purchase the property and construct a new facility (see Note N – Subsequent Events). The land deposit will be credited by KFB Holdings LLC against the future purchase price of the property when purchased by KFB. Cost incurred in the planning and pre-development of the land (site survey, environmental study, etc.) are accumulated in the Statement of Financial Position as accumulated land costs.

KIDS' FOOD BASKET, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE G – ADVERTISING

Advertising and promotional costs are expensed to operations as incurred and are included in the Marketing / Community Outreach financial statement line on the Statements of Functional Expenses. Advertising and promotional expense totaled \$15,836 and \$28,234 for the years ended June 30, 2016 and 2015, respectively.

NOTE H – LEASES

KFB leases its office facilities in Grand Rapids under a lease agreement expiring in June 2020. The lease required a base rent of \$2,448 to be paid monthly along with \$898 of monthly common area expenses. In December of 2014, KFB leased additional space in the Grand Rapids facility increasing the base monthly rent to \$2,568 and the monthly common area expenses to \$934. The lease provides for annual rent increases of 2.75%. In consideration of tenant improvements made to the facilities, the landlord provided monthly credits against the base rent for the first 60 months. The monthly credits expired as of August 31, 2015.

Total rental expense for this lease was \$44,953 and \$36,602 for the years ended June 30, 2016 and 2015, respectively. The base rent expense of \$33,750 and \$25,579 is included in occupancy expense and \$11,203 and \$11,023 of common area expenses are included in utilities expense for the years ended June 30, 2016 and 2015, respectively.

KFB entered into an agreement to lease adjacent parcels intended for future expansion in May 2016. The lease requires monthly rent payments equal to the landlord's monthly interest payment with Mercantile Bank on that loan from Mercantile Bank to landlord for the purchase of the leased premises, which approximates \$942. The lease expires July 1, 2018. Total rent expense for this lease amounted to \$1,884 for the year ended June 30, 2016.

Future minimum lease payments under all operating leases are as follows:

| | | Rent | Common Area Expenses |
|------------------------------|------|------------|----------------------|
| For the year ending June 30: | 2017 | \$ 48,792 | \$ 11,203 |
| | 2018 | 51,263 | 11,203 |
| | 2019 | 42,498 | 11,203 |
| | 2020 | 45,107 | 11,203 |
| | | \$ 187,660 | \$ 44,812 |

KFB operates its Sack Supper program in Muskegon, Michigan from a local church. The space is provided to KFB with no financial obligation. Management estimates the fair value of space provided to be \$12,000 for each of the years ended June 30, 2016 and 2015, which is included in program service occupancy expense.

KFB operates its Sack Supper program in Holland, Michigan from a local church. The space is provided to KFB with no financial obligation. Management estimates the fair value of space provided to be \$12,000 and \$2,000 for the years ended June 30, 2016 and 2015, respectively, which is included in program service occupancy expense.

KIDS' FOOD BASKET, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE I – COMMITMENTS

In February 2016, KFB entered into a three year contract with BIS Global for the use of contribution management software. The contract stipulates an installation fee of \$11,800 which has been capitalized as software (See Note E – Property and Equipment) plus a monthly service fee of \$1,555. Services fees of \$6,220 have been included in technology expense for the year ended June 30, 2016.

In May 2016 KFB entered into a six month contract with a professional fundraiser and consultant to provide campaign implementation services. The contract stipulates monthly payments in the amount of \$5,500 to begin in July 2017. Total anticipated payments under this contract amount to \$33,000 for the year ended June 30, 2017.

In June 2016 KFB entered into a contract with a professional fundraising organization to provide telephone fundraising services. KFB expects to pay the organization \$10,669 for the year ended June 30, 2017.

Future minimum service fees under these contracts are as follows:

| | | <u>Service Fees</u> |
|------------------------------|------|---------------------|
| For the year ending June 30: | 2017 | \$ 62,329 |
| | 2018 | 18,660 |
| | 2019 | <u>12,440</u> |
| | | <u>\$ 93,429</u> |

NOTE J – RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets consist of cash, grants and pledges receivable for future and specific programs. Unrestricted board designated net assets consist of \$24,237 and \$24,232 for the years ended June 30, 2016 and 2015, respectively, in contributions to the Mary K. Hoodhood fund that will be used to support a specific purpose. Unrestricted board designated net assets amount to \$742,889 and \$755,819 for the years ended June 30, 2016 and 2015 respectively, for three months' worth of operating expenses as designated by the board.

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KIDS' FOOD BASKET, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE J – RESTRICTIONS ON NET ASSETS (CONTINUED)

Temporarily restricted net assets are available for the following purposes or periods at June 30, 2016 and 2015:

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| Purpose restricted: | | |
| Grand Rapids - Sack Supper | \$ 67,442 | \$ 42,472 |
| Grand Rapids - KHK | - | 30,000 |
| Muskegon - Sack Supper | 141,550 | 173,999 |
| Holland - Sack Supper | 25,000 | 83,000 |
| Grand Rapids - Building | 17,491 | 42,241 |
| Muskegon - Refrigeration and Equipment | - | 9,859 |
| Holland - Refrigeration and Equipment | 4,722 | - |
| Golf Outing | 10,000 | 12,900 |
| Donated Food Inventory | 23,250 | 22,035 |
| Total purpose restricted | <u>289,455</u> | <u>416,506</u> |
| Time restricted: | | |
| Grand Rapids - Future Operations | 203,088 | 12,575 |
| Holland - Future Operations | 41,063 | - |
| Total time restricted | <u>244,151</u> | <u>12,575</u> |
| Total temporarily restricted net assets | <u>\$ 533,606</u> | <u>\$ 429,081</u> |

NOTE K – RETIREMENT PLAN

KFB sponsors a retirement plan that qualifies under subsection 401(k) of the Internal Revenue Code. The plan covers substantially all eligible employees of KFB. Employees become eligible on either the January 1st or July 1st date following the date the employee completes 1,000 hours of service in a six month period. Employees may make voluntary contributions to the plan up to the maximum amount allowed by the Internal Revenue Code. KFB may make a discretionary matching contribution to the plan. KFB made a matching contribution of \$22,590 and \$16,154, respectively, for the years ended June 30, 2016 and 2015.

NOTE L – ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under the guidance, the organization may recognize a tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the organization and various positions related to the potential sources of unrelated business taxable income (UBIT).

KIDS' FOOD BASKET, INC.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

NOTE L – ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES (CONTINUED)

The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the fiscal years ended June 30, 2016 and 2015.

KFB files its form 990 in the appropriate U.S. federal jurisdiction office and the office of the state's attorney general for the State of Michigan. KFB is generally no longer subject to examination by the Internal Revenue Service for years before 2012.

NOTE M – RECLASSIFICATIONS

Certain reclassifications have been made to the 2015 financial statement presentation to correspond to the current year's format. Total net assets and change in net assets are unchanged due to these reclassifications.

NOTE N – SUBSEQUENT EVENT

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that effect the financial statements. Subsequent events have been evaluated through March 9, 2017, which is the date the financial statements were readily available to be issued.

In July 2016, KFB began a \$6.45 million capital campaign to raise funds for future expansion. These funds will be used for the purchase of adjacent parcels of land for farming and education purposes and the building of a new headquarters. As of December 31, 2016, KFB has received approximately \$1 million in cash and pledges related to this capital campaign.