

Two Ten Footwear Foundation, Inc.

Financial Statements
and
Independent Auditors' Report

June 30, 2017 and 2016

Two Ten Footwear Foundation, Inc.

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DANIEL DENNIS & Co
Certified Public Accountants

Independent Auditors' Report

The Board of Directors of
Two Ten Footwear Foundation, Inc.

We have audited the accompanying financial statements of Two Ten Footwear Foundation, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, 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 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Two Ten Footwear Foundation, Inc. as of June 30, 2017 and 2016, 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.

Daniel Dennis & Company LLP

November 27, 2017

Two Ten Footwear Foundation, Inc.
Statements of Financial Position
June 30, 2017 and 2016

Assets	<i>2017</i>	<i>2016</i>
<i>Current Assets</i>		
Cash and cash equivalents	\$ 235,518	\$ 191,389
Prepaid expenses and deposits	53,197	33,226
Deferred expenses	337,938	283,307
Contributions receivable (less allowance for doubtful accounts of \$75,057 and \$97,863 in 2017 and 2016, respectively)	<u>823,641</u>	<u>1,005,257</u>
Total current assets	<u>1,450,294</u>	<u>1,513,179</u>
<i>Fixed Assets</i>		
Property and equipment, net	<u>2,114,000</u>	<u>2,132,878</u>
<i>Other Assets</i>		
Investments	35,660,695	33,208,830
Contributions receivable	<u>2,877,918</u>	<u>1,282,200</u>
Total other assets	<u>38,538,613</u>	<u>34,491,030</u>
Total assets	<u><u>\$42,102,907</u></u>	<u><u>\$38,137,087</u></u>
 Liabilities and Net Assets		
<i>Current Liabilities</i>		
Accounts payable, trade	\$ 18,519	\$ 33,174
Accrued liabilities	74,423	55,461
Deferred income	<u>164,029</u>	<u>326,620</u>
Total current liabilities	<u>256,971</u>	<u>415,255</u>
<i>Other Liabilities</i>		
Annuities payable	<u>94,938</u>	<u>98,530</u>
Total liabilities	<u>351,909</u>	<u>513,785</u>
<i>Net Assets</i>		
Unrestricted:		
Board designated	830,184	830,184
Undesignated	5,002,507	5,450,058
Temporarily restricted	7,615,620	4,093,884
Permanently restricted	<u>28,302,687</u>	<u>27,249,176</u>
Total net assets	<u>41,750,998</u>	<u>37,623,302</u>
Total liabilities and net assets	<u><u>\$42,102,907</u></u>	<u><u>\$38,137,087</u></u>

See accompanying notes to financial statements.

Two Ten Footwear Foundation, Inc.
Statements of Activities
For the Years Ended June 30, 2017 and 2016

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>2017 Total</i>	<i>2016 Total</i>
Revenue and Support:					
Annual giving	\$ 691,125	\$ 1,925,205	\$ -	\$ 2,616,330	\$ 1,606,379
Gross revenues from special events	3,691,674	-	-	3,691,674	3,465,893
less: direct event expenses	<u>(1,236,593)</u>	<u>-</u>	<u>-</u>	<u>(1,236,593)</u>	<u>(1,081,436)</u>
Net revenues from special events	2,455,081	-	-	2,455,081	2,384,457
Interest and dividends	131,928	599,596	-	731,524	1,514,054
Allocated investment income	595,573	-	-	595,573	(23,951)
Net assets released from restrictions	848,239	(848,239)	-	-	-
Other	<u>3,850</u>	<u>-</u>	<u>-</u>	<u>3,850</u>	<u>5,277</u>
Total revenue and support	<u>4,725,796</u>	<u>1,676,562</u>	<u>-</u>	<u>6,402,358</u>	<u>5,486,216</u>
Expenses:					
Human services	3,564,322	-	-	3,564,322	3,241,014
Membership and education	256,936	-	-	256,936	172,329
Leadership development/public awareness	<u>552,496</u>	<u>-</u>	<u>-</u>	<u>552,496</u>	<u>496,164</u>
Total program expenses	<u>4,373,754</u>	<u>-</u>	<u>-</u>	<u>4,373,754</u>	<u>3,909,507</u>
Management and administration	544,693	-	-	544,693	702,798
Fundraising	<u>675,796</u>	<u>-</u>	<u>-</u>	<u>675,796</u>	<u>614,668</u>
Total expenses	<u>5,594,243</u>	<u>-</u>	<u>-</u>	<u>5,594,243</u>	<u>5,226,973</u>
Change in net assets before other changes	(868,447)	1,676,562	-	808,115	259,243
Other changes:					
Contributions	-	-	1,053,511	1,053,511	877,148
Net unrealized gain/(loss) on investments	422,659	2,363,774	-	2,786,433	(2,197,968)
Net realized gain on investments	16,936	76,973	-	93,909	30,823
Investment income allocation	-	(595,573)	-	(595,573)	23,951
Change in value of split interest agreements	<u>(18,699)</u>	<u>-</u>	<u>-</u>	<u>(18,699)</u>	<u>(19,440)</u>
Total other changes	<u>420,896</u>	<u>1,845,174</u>	<u>1,053,511</u>	<u>3,319,581</u>	<u>(1,285,486)</u>
Change in net assets	(447,551)	3,521,736	1,053,511	4,127,696	(1,026,243)
Net assets, beginning of year	<u>6,280,242</u>	<u>4,093,884</u>	<u>27,249,176</u>	<u>37,623,302</u>	<u>38,649,545</u>
Net assets, end of year	<u>\$ 5,832,691</u>	<u>\$ 7,615,620</u>	<u>\$28,302,687</u>	<u>\$41,750,998</u>	<u>\$37,623,302</u>

See accompanying notes to financial statements.

Two Ten Footwear Foundation, Inc.
Statement of Activities
For the Year Ended June 30, 2016

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Revenue and Support:				
Annual giving	\$ 1,173,379	\$ 433,000	\$ -	\$ 1,606,379
Gross revenues from special events	3,465,893	-	-	3,465,893
less: direct event expenses	<u>(1,081,436)</u>	<u>-</u>	<u>-</u>	<u>(1,081,436)</u>
Net revenues from special events	2,384,457	-	-	2,384,457
Interest and dividends	176,552	1,337,502	-	1,514,054
Allocated investment income	(23,951)	-	-	(23,951)
Net assets released from restrictions	837,750	(837,750)	-	-
Other	<u>5,277</u>	<u>-</u>	<u>-</u>	<u>5,277</u>
Total revenue and support	<u>4,553,464</u>	<u>932,752</u>	<u>-</u>	<u>5,486,216</u>
Expenses:				
Human services	3,241,014	-	-	3,241,014
Membership and education	172,329	-	-	172,329
Leadership development/public awareness	<u>496,164</u>	<u>-</u>	<u>-</u>	<u>496,164</u>
Total program expenses	<u>3,909,507</u>	<u>-</u>	<u>-</u>	<u>3,909,507</u>
Management and administration	702,798	-	-	702,798
Fundraising	<u>614,668</u>	<u>-</u>	<u>-</u>	<u>614,668</u>
Total expenses	<u>5,226,973</u>	<u>-</u>	<u>-</u>	<u>5,226,973</u>
Change in net assets before other changes	(673,509)	932,752	-	259,243
Other changes:				
Contributions	-	-	877,148	877,148
Net unrealized loss on investments	(1,059,521)	(1,138,447)	-	(2,197,968)
Net realized gain on investments	87,773	(56,950)	-	30,823
Investment income allocation	-	23,951	-	23,951
Change in value of split interest agreements	<u>(19,440)</u>	<u>-</u>	<u>-</u>	<u>(19,440)</u>
Total other changes	<u>(991,188)</u>	<u>(1,171,446)</u>	<u>877,148</u>	<u>(1,285,486)</u>
Change in net assets	(1,664,697)	(238,694)	877,148	(1,026,243)
Net assets, beginning of year	<u>7,944,939</u>	<u>4,332,578</u>	<u>26,372,028</u>	<u>38,649,545</u>
Net assets, end of year	<u>\$ 6,280,242</u>	<u>\$ 4,093,884</u>	<u>\$27,249,176</u>	<u>\$37,623,302</u>

See accompanying notes to financial statements.

Two Ten Footwear Foundation, Inc.
Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities:		
Change in net assets	\$ 4,127,696	\$(1,026,243)
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	132,000	124,942
Bad debt	30,000	30,000
Net realized gains on long-term investments	(93,909)	(30,823)
Net unrealized (gains)/losses on long-term investments	(2,786,433)	2,197,968
Dividend income	(731,524)	(1,514,054)
Change in net present value discount	890	62,715
Change in value of split-interest agreements	18,699	19,440
Changes in assets and liabilities		
Contributions receivable	(1,463,690)	(1,309,182)
Prepaid and deferred expenses	(74,602)	(19,158)
Accounts payable and accrued liabilities	4,307	17,258
Deferred income	<u>(162,591)</u>	<u>132,765</u>
Net cash used by operating activities	<u>(999,157)</u>	<u>(1,314,372)</u>
 Cash Flows From Investing Activities:		
Purchase of property and equipment	(113,122)	(16,383)
Purchase of investments	(600,000)	-
Proceeds from sale of investments	<u>1,760,000</u>	<u>1,370,000</u>
Net cash provided by investing activities	<u>1,046,878</u>	<u>1,353,617</u>
 Cash Flows From Financing Activities:		
Payment of annuities	<u>(3,592)</u>	<u>(3,587)</u>
Net cash used by financing activities	<u>(3,592)</u>	<u>(3,587)</u>
Net increase in cash and cash equivalents	44,129	35,658
Cash and cash equivalents, beginning of year	<u>191,389</u>	<u>155,731</u>
Cash and cash equivalents, at end of year	<u>\$ 235,518</u>	<u>\$ 191,389</u>

See accompanying notes to financial statements.

Two Ten Footwear Foundation, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

Note A – Summary of Significant Accounting Policies

Two Ten Footwear Foundation, Inc. (the “Foundation”) is a public charity incorporated under the laws of Massachusetts to provide financial assistance to worthy individuals or to aid them in furthering their education at any school, college, university, or other institute of higher learning or to make donations to domestic entities organized and operated exclusively for charitable, scientific or educational purposes. Additionally, the Foundation provides counseling and financial assistance to people in the shoe industry and the leather and allied trades. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Basis of Presentation

The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). Net assets, revenues, expenses, gains, and losses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted – Net assets that are not subject to donor-imposed restrictions or for which restrictions have expired in the current reporting period.

Temporarily restricted – Net assets subject to donor-imposed restrictions that permit the Foundation to use or expend the donated assets as specified and are satisfied by either the passage of time or by actions of the Foundation. Temporarily restricted net assets also include, under Massachusetts law, cumulative appreciation and reinvested gains on permanently restricted *endowment* funds, which are subject to prudent appropriation by the Board of Directors.

Permanently restricted – Net assets subject to donor-imposed stipulations that the principal be maintained in perpetuity by the Foundation, the income from which is available to support the general operations of the Foundation.

The Foundation reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Two Ten Footwear Foundation, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

Note A – Summary of Significant Accounting Policies – *Continued*

The restricted net assets of the Foundation consist of the following fund groups:

Permanently Restricted and Temporarily Restricted Funds

Scholarship Fund – represents donor restricted endowments (permanent) and investment income and gains (temporarily restricted). Income may only be expended for qualifying scholarship payments.

Building Fund – represents donor restricted funds solely for the purchase and maintenance of the building used to house the offices of the Foundation (temporarily restricted).

Leadership Fund – represents donor restricted endowments (permanent) and investment income and gains (temporarily restricted). Income may only be used for the purpose of developing new leadership within the Foundation.

Gerontology Fund – represents donor restricted endowments (permanent) and investment income and gains (temporarily restricted). Income may only be used to provide special resources for elderly people.

Children's Fund – represents donor restricted endowments (permanent) and investment income and gains (temporarily restricted). Income may only be used to provide special resources for children.

Relief Fund – represents donor restricted endowments (permanent) and investment gains (temporarily restricted) and unrestricted funds and resources from investment income available for support and promotion of Foundation activities.

Cash and Cash Equivalents

The Foundation considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The Foundation maintains its cash and cash equivalents in various bank deposit accounts that, at times, may exceed federally insured limits. The Foundation's cash is placed in high quality financial institutions. The Foundation has not experienced, nor does it anticipate, any losses in such accounts.

Two Ten Footwear Foundation, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

Note A – Summary of Significant Accounting Policies – *Continued*

Contributions Receivable

Contributions receivable are stated at unpaid balances, less an allowance for doubtful accounts. The Foundation provides for losses on accounts receivable using the allowance method. The allowance is based on experience and other circumstances, which may affect the ability of donors to meet their obligations. It is the Foundation's policy to charge off uncollectible contributions receivable when management determines the receivable will not be collected. Because of the inherent uncertainties in estimating the allowance for doubtful accounts, it is at least reasonably possible that the estimates used will change within the near term.

Unconditional promises to give (contribution receivable) are reported at fair value on the date the promise is verifiably committed. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. The discounts on those amounts are computed using a risk free interest rate applicable to the years in which the promises are received. Amortization of discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Fair Value Measurements

GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

- Level 1- Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 - Inputs to the valuation methodology include:
 - Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Two Ten Footwear Foundation, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

Note A – Summary of Significant Accounting Policies – *Continued*

Fair Value Measurements - continued

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Investments

Investments have been valued using a market approach. There have been no changes in valuation techniques and related inputs. All investment securities owned by the Foundation are held by independent custodians. The investments of the Foundation are carried on a pooled basis. Investment income, interest income and unrealized and realized gains or losses from investment transactions are allocated among the participating funds based on the market values of the investments allocated to each fund. Investment income consists of dividends and interest and is included in revenues and support. Unrealized and realized gains and losses are determined using average cost basis and include capital gains from mutual funds reinvested and are reported under *other changes* in net assets.

The financial statements include investments in alternative funds valued at \$16,331,169 and \$14,932,132 at June 30, 2017 and 2016, with cost basis' of \$12,000,000 and \$12,000,000, respectively, whose values have been estimated by the investment managers of the underlying alternative funds in the absence of readily determinable fair values. Those estimated fair values may differ significantly from values that would have been used had a ready market for these investments existed at June 30, 2017 and 2016, and the differences could be material.

Income Tax Status

The Foundation is a not-for-profit organization that is exempt from Federal and Commonwealth income taxes under Section 501(c)(3) of the Internal Revenue Code and Chapter 180 of the Massachusetts General Laws. Unrelated business income, of which the Foundation had none for the years ended June 30, 2017 and 2016, would be subject to Federal and Commonwealth income taxes. Consequently, the accompanying financial statements do not reflect any provision for income taxes.

GAAP requires the evaluation of tax positions taken or expected to be taken in the Foundation's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold, along with accrued interest and penalties thereon, would be recorded as an expense in the current year financial statements. The Foundation has evaluated the tax positions taken in its previously filed returns and those expected to be taken in its 2017 returns and believes they are more-likely-than-not of being sustained if examined by Federal or Commonwealth tax authorities. The Foundation's 2014 through 2016 tax years remain subject to tax examination by Federal and Commonwealth tax authorities.

Two Ten Footwear Foundation, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

Note A – Summary of Significant Accounting Policies – *Continued*

Charitable Gift Annuities

Assets received under gift annuity agreements are recorded at the fair market value of the assets when the assets are received by the Foundation as trustee. In conjunction with these gifts, the Foundation has recorded a liability equal to the present value of future cash flows expected to be paid to the beneficiaries based on actuarial expected lives of the beneficiaries.

Special Events Income

The Foundation records income and expenses from special event activities when the event has been completed. Expenditures incurred and income received for events that are to be held at future dates have been recorded as deferred expenses and deferred income, respectively.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services based on relative effort exerted for the related function.

Use of Estimates

In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property and Equipment

Property and equipment are recorded at cost. The Foundation capitalizes property and equipment with a cost of greater than \$1,000 and a useful life longer than one year. Depreciation is provided for in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives, principally on the straight-line basis. The Foundation uses the direct expensing method to account for planned major maintenance activities.

Two Ten Footwear Foundation, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

Note A – Summary of Significant Accounting Policies – *Continued*

Reclassifications

Certain amounts have been reclassified in the 2016 financial statements to conform to the current year presentation.

Note B – Investments

Investments consisted of the following at June 30:

	<i>2017</i>	<i>2016</i>
Domestic equity funds	\$ 9,064,187	\$ 8,273,419
Fixed income funds	6,427,524	6,612,841
International equity funds	3,837,815	3,390,438
Alternative investment funds	<u>16,331,169</u>	<u>14,932,132</u>
Total investments	<u>\$ 35,660,695</u>	<u>\$ 33,208,830</u>

The Foundation classifies its investments into: Level 1, which relate to securities traded on an active market, Level 2, which relate to securities not traded on an active market but for which observable market inputs are readily available and Level 3 which relate to securities not actively traded and for which no significant observable inputs are readily available. At June 30, 2017 and 2016, all of the Foundations investments except for the alternative investment funds were Level 1 investments. The alternative investment funds are Level 3 investments. Although the alternative investment funds are considered Level 3 investments their underlying assets are well diversified across multiple asset classes with the goal of generating risk adjusted returns over a long-term horizon.

The following presents a reconciliation of the Foundation's beginning and ending balances of the fair value measurements using significant unobservable inputs (Level 3):

<i>Fair Value</i>	<i>2017</i>	<i>2016</i>
Balance beginning of year	\$ 14,932,132	\$15,467,776
Unrealized gain/(loss) included in change in net assets	<u>1,399,037</u>	<u>(535,644)</u>
Balance end of year	<u>\$ 16,331,169</u>	<u>\$14,932,132</u>
Unrealized gain related to assets still held at end of year	<u>\$ 4,331,169</u>	<u>\$ 2,932,132</u>

All investments have been valued using a market approach. There have been no changes in valuation techniques and related inputs.

Two Ten Footwear Foundation, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

Note B – Investments – *Continued*

Endowment Investment and Spending Policies

The Foundation follows the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) and its own governing documents. The Foundation's endowment consists of several individual funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation's donors have not placed restrictions on the use of the investment income or net appreciation resulting from the donor-restricted endowment funds.

The Board of Directors has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. The Foundation's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current long-term return objective is to return 6.25%, net of investment fees. Actual returns in any given year may vary from this amount. To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk parameters.

Two Ten Footwear Foundation, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

Note B – Investments – Continued

Endowment Investment and Spending Policies - continued

The spending policy calculates the amount of money annually distributed from the Foundation's various endowed funds, for grant making and administration. The current spending policy is to distribute an amount at least equal to 5% of a moving thirteen quarter average of the fair value of the endowment funds. Accordingly, over the long term, the Foundation expects its current spending policy to allow its endowment assets to grow at an average rate of 1.25% annually. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through investment return.

Endowment net asset composition by type of fund as of June 30, 2017 and 2016 is as follows:

	<i>2017</i>	<i>2016</i>
Temporarily restricted	\$ 7,615,620	\$ 4,093,884
Permanently restricted	<u>28,302,687</u>	<u>27,249,176</u>
Total	<u>\$35,918,307</u>	<u>\$ 31,343,060</u>

Changes in endowment net assets for years ending June 30, 2016 and 2015 are as follows:

	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total Endowment</i>
2016			
Endowment net assets June 30, 2015	\$ 4,332,578	\$ 26,372,028	\$ 30,704,606
Contributions	433,000	877,148	1,310,148
Investment income	1,337,502	-	1,337,502
Net depreciation	(1,195,397)	-	(1,195,397)
Released from restriction	(837,750)	-	(837,750)
Amounts appropriated for expenditure	<u>23,951</u>	<u>-</u>	<u>23,951</u>
Endowment net assets June 30, 2016	<u>\$ 4,093,884</u>	<u>\$ 27,249,176</u>	<u>\$ 31,343,060</u>
2017			
Endowment net assets June 30, 2016	\$ 4,093,884	\$ 27,249,176	\$ 31,343,060
Contributions	1,925,205	1,053,511	2,978,716
Investment income	599,596	-	599,596
Net appreciation	2,440,747	-	2,440,747
Released from restriction	(848,239)	-	(848,239)
Amounts appropriated for expenditure	<u>(595,573)</u>	<u>-</u>	<u>(595,573)</u>
Endowment net assets June 30, 2017	<u>\$ 7,615,620</u>	<u>\$ 28,302,687</u>	<u>\$ 35,918,307</u>

Two Ten Footwear Foundation, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

Note B – Investments – Continued

The investments are subject to market fluctuations and due to the level of risk associated with investments, it is at least reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect the financial statements.

Note C – Contributions Receivable

Contributions receivable consisted of the following at June 30:

	2017	2016
Endowment pledges receivable	\$ 2,054,865	\$1,988,466
Relief pledges receivable	1,593,331	301,707
Other receivables	<u>297,860</u>	<u>262,947</u>
	3,946,056	2,553,120
Less: Net present value discount	(169,440)	(167,800)
Allowance for doubtful accounts	<u>(75,057)</u>	<u>(97,863)</u>
Contributions receivable, net	<u>\$ 3,701,559</u>	<u>\$2,287,457</u>

Contributions receivable are recorded at the net present value of their estimated future cash flows at a discount rate of 1.62% and 1.44% for 2017 and 2016, respectively. Contributions receivable expected to be realized are as follows at June 30:

	2017	2016
One year or less	\$ 898,698	\$1,103,120
Between one and five years	1,847,358	200,000
More than five years	<u>1,200,000</u>	<u>1,250,000</u>
	3,946,056	2,553,120
Less: Net present value	(169,440)	(167,800)
Allowance for doubtful accounts	<u>(75,057)</u>	<u>(97,863)</u>
Contributions receivable, net	<u>\$ 3,701,559</u>	<u>\$2,287,457</u>

Note D – Retirement Plan

The Foundation maintains a defined contribution retirement plan covering substantially all of its employees. Contributions to the plan are determined as a percentage of each covered employee's salary. The Foundation contributed \$35,450 and \$34,280 to the plan for the years ended June 30, 2017 and 2016, respectively.

Two Ten Footwear Foundation, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

Note E – Property and Equipment

Property, equipment and improvements are comprised of the following at June 30:

	<i>2017</i>	<i>2016</i>
Computer equipment	\$ 418,473	\$ 318,037
Office equipment	42,490	42,490
Furniture and fixtures	151,173	144,483
Building and building improvements	<u>2,906,541</u>	<u>2,900,545</u>
	3,518,677	3,405,555
Less accumulated depreciation	<u>(1,951,544)</u>	<u>(1,819,544)</u>
	1,567,133	1,586,011
Land	<u>546,867</u>	<u>546,867</u>
Total	<u>\$2,114,000</u>	<u>\$2,132,878</u>
Depreciation expense	<u>\$ 132,000</u>	<u>\$ 124,942</u>

Note F – Designated Net Assets

During prior fiscal years the Foundation received several substantial gifts from an individual's estate totaling \$830,184. The board of directors has designated these assets for the purpose of preserving the Foundation's endowment fund.

Note G – Temporarily Restricted Net Assets

Temporarily restricted net assets are comprised of contributions, gains on permanently restricted net assets and investment income with the following purpose restrictions:

	<i>2017</i>	<i>2016</i>
Scholarships	\$ 1,121,430	\$ 433,000
Building maintenance	223,978	209,119
Leadership development	92,256	69,551
Resources for the elderly	84,706	68,539
Resources for children	415,919	324,976
Support and promotion of Foundation activities	<u>5,677,331</u>	<u>2,988,699</u>
Total	<u>\$ 7,615,620</u>	<u>\$ 4,093,884</u>

Two Ten Footwear Foundation, Inc.

Notes to Financial Statements

June 30, 2017 and 2016

Note H – Permanently Restricted Net Assets

Permanently restricted net assets consist of endowment funds with income restricted for the following purposes:

	<i>2017</i>	<i>2016</i>
Scholarships	\$12,116,402	\$11,219,029
Leadership development	250,000	250,000
Resources for the elderly	159,000	159,000
Resources for children	954,955	954,955
Support and promotion of Foundation activities	<u>14,822,330</u>	<u>14,666,192</u>
Total	<u>\$28,302,687</u>	<u>\$27,249,176</u>

Note I – Fundraising

Total fund-raising expense for the year ended June 30, 2017 and 2016 was \$675,796 and \$614,668, respectively. For 2017 and 2016 fund-raising expenses were 9.2% and 10.2% of the total annual event and contribution revenue, respectively. The ratio of expenses to amounts raised is computed using actual expenses and related contributions on an accrual basis.

Note J – Concentration

Approximately \$2,930,000 of accounts receivable are due from four large corporate/foundation donors and a single contribution from an individual donor. The corporate/foundation pledges are primarily to be received over the next four fiscal years. The individual donor's pledge of \$1,000,000 is payable upon the death of the donor's surviving spouse from a trust created upon the death of the donor or from the surviving spouse's estate. The current age of the surviving spouse is seventy-two. Management believes that there will be sufficient assets to fulfill the donor's pledge at \$1,000,000. Management also believes the pledges from the four large corporate/foundation donors are fully collectable.

Note K – Subsequent Events

The Foundation has evaluated subsequent events through November 27, 2017, which is the date the financial statements were available to be issued.