SOLES4SOULS, INC.

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2018 AND 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Soles4Souls, Inc.
Nashville, Tennessee

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Soles4Souls, Inc., which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

KraftCPAs PLLC • Certified Public Accountants and Consultants
555 Great Circle Road • Nashville, TN 37228 • phone: 615-242-7351 • fax: 615-782-4271 • kraftcpas.com

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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Soles4Souls, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kraft CPAs PLLC

Nashville, Tennessee
October 22, 2018

SOLES4SOULS, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
Cash		
Operating	$ 496,722	$ 43,137
Holding account	193,540	338,000
Board designated operating reserve	628,000	375,000
Board designated board fund	-	50,000
Accounts receivable		
Microenterprise, net	457,434	510,034
Partner freight and other	23,811	4,000
Travel	17,350	-
Contributions and grants receivable	85,265	-
Prepaid expenses		
Travel costs	137,896	19,116
Operations	74,232	18,762
Employee travel advances	3,425	14,800
Deposits	34,539	21,718
Inventories	12,485,308	9,200,295
Trademarks, net	28,061	23,327
Property and equipment, net	2,792,507	2,816,310
Beneficial interest in agency endowment fund	5,937	5,554
TOTAL ASSETS	$ 17,464,027	$ 13,440,053
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 125,875	$ 209,083
Accrued expenses		
Compensated absences	147,655	119,614
Employee deductions and taxes	83,147	7,740
Employee bonuses	280,494	252,374
Other	5,570	-
Deferred revenue		
Travel	286,021	62,510
Microenterprise	16,966	-
Notes payable	2,049,663	2,096,162
TOTAL LIABILITIES	2,995,391	2,747,483
NET ASSETS		
Unrestricted net assets		
Board designated net assets		
Operating reserve	628,000	375,000
Board fund	-	50,000
Invested in property and equipment, less related debt	742,844	720,148
Unrestricted donated inventory	2,307,833	4,563,885
Undesignated	606,547	347,855
Total unrestricted net assets	4,285,224	6,056,888
Temporarily restricted net assets	10,177,475	4,630,128
Permanently restricted net assets	5,937	5,554
TOTAL NET ASSETS	14,468,636	10,692,570
TOTAL LIABILITIES AND NET ASSETS	$ 17,464,027	$ 13,440,053

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
GIFTS IN KIND (GIK) CONTRIBUTIONS				
Shoes:				
Corporate shoe donations	$ 30,079,773	$ 2,794,805	$ -	$ 32,874,578
Retail store shoe drives	3,190,300	-	-	3,190,300
Community shoe drives	5,005,331	-	-	5,005,331
Clothing and other relief item donations	33,718,350	5,438,337	-	39,156,687
Net assets released from restriction	2,685,795	(2,685,795)	-	-
Total GIK contributions	74,679,549	5,547,347	-	80,226,896
PROGRAM SERVICE EXPENSE - GIK distributions	(76,935,601)	-	-	(76,935,601)
NET CHANGE IN GIK INVENTORY	(2,256,052)	5,547,347	-	3,291,295
SUPPORT AND REVENUE				
Microenterprise program fees	4,524,639	-	-	4,524,639
Contributions	1,317,070	-	-	1,317,070
International volunteer travel fees	538,934	-	-	538,934
Investment income	-	-	383	383
Net proceeds from sale of donated property	252,623	-	-	252,623
Other income	21,596	-	-	21,596
TOTAL SUPPORT AND REVENUE	6,654,862	-	383	6,655,245
EXPENSES				
Program services, excluding GIK distributions above	4,039,092	-	-	4,039,092
Supporting services				
Management and general	1,049,035	-	-	1,049,035
Fundraising	1,082,347	-	-	1,082,347
Total supporting services	2,131,382	-	-	2,131,382
TOTAL EXPENSES	6,170,474	-	-	6,170,474
CHANGE IN NET ASSETS	(1,771,664)	5,547,347	383	3,776,066
NET ASSETS, BEGINNING OF YEAR	6,056,888	4,630,128	5,554	10,692,570
NET ASSETS, END OF YEAR	$ 4,285,224	$ 10,177,475	$ 5,937	$ 14,468,636

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
GIFTS IN KIND (GIK) CONTRIBUTIONS				
Shoes:				
Corporate shoe donations	$ 26,290,853	$ 1,000,329	$ -	$ 27,291,182
Retail store shoe drives	7,254,304	-	-	7,254,304
Community shoe drives	4,294,873	-	-	4,294,873
Clothing and other relief item donations	25,019,044	381,987	-	25,401,031
Net assets released from restriction	530,849	(530,849)	-	-
Total GIK contributions	63,389,923	851,467	-	64,241,390
PROGRAM SERVICE EXPENSE - GIK distributions	(61,761,739)	-	-	(61,761,739)
NET CHANGE IN GIK INVENTORY	1,628,184	851,467	-	2,479,651
SUPPORT AND REVENUE				
Microenterprise program fees	3,766,610	-	-	3,766,610
Contributions	1,342,622	-	5,000	1,347,622
International volunteer travel fees	626,082	-	-	626,082
Investment income	-	-	554	554
Other income	16,609	-	-	16,609
TOTAL SUPPORT AND REVENUE	5,751,923	-	5,554	5,757,477
EXPENSES				
Program services, excluding GIK distributions above	3,293,354	-	-	3,293,354
Supporting services				
Management and general	936,200	-	-	936,200
Fundraising	1,147,726	-	-	1,147,726
Total supporting services	2,083,926	-	-	2,083,926
TOTAL EXPENSES	5,377,280	-	-	5,377,280
CHANGE IN NET ASSETS	2,002,827	851,467	5,554	2,859,848
NET ASSETS, BEGINNING OF YEAR	4,054,061	3,778,661	-	7,832,722
NET ASSETS, END OF YEAR	$ 6,056,888	$ 4,630,128	$ 5,554	$ 10,692,570

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
OPERATING ACTIVITIES		
Change in net assets	$ 3,776,066	$ 2,859,848
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	152,329	149,436
Amortization	9,455	9,660
Bad debt expense	46,348	-
(Increase) decrease in:		
Accounts receivable - microenterprise	6,252	(25,942)
Accounts receivable - partner freight and other	(19,811)	(4,000)
Accounts receivable - travel	(17,350)	-
Contributions and grants receivable	(85,265)	-
Prepaid expenses - travel costs	(118,780)	(75,535)
Prepaid expenses - operations	(55,470)	(18,762)
Employee travel advances	11,375	(6,051)
Deposits	(12,821)	(9,997)
Inventories	(3,285,013)	(2,472,634)
Increase (decrease) in:		
Accounts payable	(83,208)	54,474
Accrued expenses - compensated absences	28,041	17,430
Accrued expenses - employee deductions and taxes	75,407	7,740
Accrued expenses - employee bonuses	28,120	103,895
Accrued expenses - other	5,570	3,468
Deferred revenue - travel	223,511	62,510
Deferred revenue - microenterprise	16,966	-
TOTAL ADJUSTMENTS	(3,074,344)	(2,204,308)
NET CASH PROVIDED BY OPERATING ACTIVITIES	701,722	655,540
INVESTING ACTIVITIES		
Interest added to investment balance	(383)	(554)
Establishment of agency endowment fund	-	(5,000)
Payment of trademark costs	(7,308)	(24,500)
Purchase of property and equipment	(128,526)	(54,980)
NET CASH USED IN INVESTING ACTIVITIES	(136,217)	(85,034)
FINANCING ACTIVITIES		
Repayments of notes payable	(53,380)	(62,816)
NET CASH USED IN FINANCING ACTIVITIES	(53,380)	(62,816)
NET INCREASE IN CASH	512,125	507,690
CASH - BEGINNING OF YEAR	806,137	298,447
CASH - ENDING OF YEAR	$ 1,318,262	$ 806,137
CASH CONSISTS OF:		
Operating	$ 496,722	43,137
Holding account	193,540	338,000
Board designated operating reserve	628,000	375,000
Board designated board fund	-	50,000
	$ 1,318,262	$ 806,137
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Cash paid during the year for interest	$ 114,582	$ 115,254
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Donated office building subsequently sold, at net realizable value	$ 252,623	$ -

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

	Program Services		Supporting Services		
	Programs	Gifts in Kind (GIK)	Management and General	Fundraising	Total
Salaries	$ 1,707,219	$ -	$ 594,872	$ 596,543	$ 2,898,634
Employee benefits and payroll taxes	344,291	-	115,199	115,307	574,797
Total personnel costs	2,051,510	-	710,071	711,850	3,473,431
In-kind distributions:					
Free distributions of shoes and clothing	6,282	10,226,220	-	-	10,232,502
Items to the microenterprise programs	-	66,709,381	-	-	66,709,381
Total in-kind distributions	6,282	76,935,601	-	-	76,941,883
Cost of good sold	441,221	-	-	-	441,221
Advertising and promotion	74,811	-	-	-	74,811
Auto expenses	15,353	-	-	-	15,353
Bank fees	-	-	67,464	-	67,464
Depreciation and amortization	97,070	-	32,357	32,357	161,784
Direct mail	-	-	-	185,201	185,201
Events	35,421	-	-	23,352	58,773
Insurance	62,013	-	13,012	13,012	88,037
Interest	68,750	-	22,916	22,916	114,582
Miscellaneous	149,217	-	146,371	28,339	323,927
Supplies and equipment	41,191	-	2,863	2,863	46,917
Postage, shipping and delivery	145,025	-	10,400	401	155,826
Professional fees	74,936	-	16,969	16,969	108,874
Regional donation centers	160,153	-	-	-	160,153
Rent	10,130	-	-	-	10,130
Repairs and maintenance	12,700	-	3,021	3,020	18,741
Telephone and utilities	54,459	-	18,154	18,154	90,767
Travel	538,850	-	5,437	23,913	568,200
TOTAL EXPENSES	$ 4,039,092	$ 76,935,601	$ 1,049,035	$ 1,082,347	$ 83,106,075

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2017

	Program Services		Supporting Services		
	Programs	Gifts in Kind (GIK)	Management and General	Fundraising	Total
Salaries	$ 1,325,432	$ -	$ 528,453	$ 560,317	$ 2,414,202
Employee benefits and payroll taxes	200,518	-	79,947	84,767	365,232
Total personnel costs	1,525,950	-	608,400	645,084	2,779,434
In-kind distributions:					
Free distributions of shoes and clothing	7,017	2,870,247	-	-	2,877,264
Items to the microenterprise programs	-	58,891,492	-	-	58,891,492
Total in-kind distributions	7,017	61,761,739	-	-	61,768,756
Cost of good sold	371,997	-	-	-	371,997
Advertising and promotion	65,485	-	-	65,485	130,970
Auto expenses	11,065	-	-	-	11,065
Bank fees	-	-	52,097	-	52,097
Depreciation and amortization	119,322	-	23,864	15,910	159,096
Direct mail	-	-	-	162,087	162,087
Events	-	-	905	140,951	141,856
Insurance	94,336	-	18,868	12,578	125,782
Interest	86,441	-	17,288	11,525	115,254
Miscellaneous	72,165	-	104,062	10,891	187,118
Supplies and equipment	51,487	-	4,418	2,418	58,323
Postage, shipping and delivery	128,656	-	7,148	7,148	142,952
Professional fees	46,274	-	61,963	36,468	144,705
Rent	20,370	-	-	-	20,370
Repairs and maintenance	37,873	-	3,878	2,585	44,336
Telephone and utilities	54,335	-	10,867	7,245	72,447
Travel	600,581	-	22,442	27,351	650,374
TOTAL EXPENSES	$ 3,293,354	$ 61,761,739	$ 936,200	$ 1,147,726	$ 67,139,019

See accompanying notes to consolidated financial statements.

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

Soles4Souls, Inc. (the "Organization" or "Soles4Souls") was founded in 2006 as an Alabama not-for-profit corporation. Soles4Souls is a global not-for-profit institution dedicated to fighting the devastating impact and perpetuation of poverty. The Organization advances its anti-poverty mission by collecting new and used shoes and clothes from individuals, schools, faith-based institutions, civic organizations and corporate partners, then distributing those shoes and clothes both via direct donations to people in need and by provisioning qualified microenterprise programs designed to create jobs in poor and disadvantaged communities.

In February 2009, Changing the World Foundation, Inc. ("CTWF") was formed as a supporting organization as a Tennessee not-for-profit corporation to support and further the charitable purposes of Soles4Souls. Soles4Souls has an economic interest in CTWF combined with control through a majority voting interest of the Board of CTWF. CTWF formally dissolved in 2017.

During 2017, Soles4Souls, Inc. established Soles4Souls Canada, a Canadian not-for-profit company with Soles4Souls, Inc. as the sole member.

On July 10, 2017, the Organization entered into a Memorandum of Understanding ("MOU") with Florida-based not-for-profit, Dignity U Wear Foundation, Inc. ("DUW"), who was in the process of dissolving. As part of this MOU, the Organization received inventory and real property of DUW, along with donor lists, and agreed to assume certain liabilities of DUW to wind down operations. The Organization has also agreed, to the extent possible, to carry on certain programs of DUW and to contribute to certain partner agencies at minimum levels of support for a period of at least three years. In connection with this MOU, the Organization has received approximately $3,900,000 in donated clothing inventory and real property valued at approximately $400,000.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of Soles4Souls, Inc. and its wholly owned subsidiary, Soles4Souls Canada. The accompanying consolidated financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("GAAP"). All significant intercompany accounts and transactions have been eliminated in consolidation.

Resources are classified as unrestricted, temporarily restricted or permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidation and Basis of Presentation (Continued)

- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose. Temporarily restricted net assets in 2018 and 2017 consisted entirely of donated inventory restricted for distribution outside the United States of America.

- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations.

Contributions 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.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the Consolidated Statement of Activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

The Organization reports any gifts of equipment or materials as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Board Designated Cash Reserves

The Organization’s board of directors has approved both an operating reserve policy and a board fund. The board fund was eliminated in 2018. The cash held as part of these policies is segregated in the Statement of Financial Position within the cash and unrestricted board designated net assets sections.

Accounts Receivable

Accounts receivable are predominantly from microenterprise partners. During fiscal year ended June 30, 2017, the Organization did not charge interest on past due accounts. Beginning in fiscal year 2018, the Organization has instituted a 2.5% late fee for past due accounts per credit terms established with microenterprise partners.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable (Continued)

An allowance for doubtful accounts has been provided on certain accounts receivable which, in management's opinion, may not be fully collectible based on the length of time an account is past due and the Organization's assessment of the customer's ability to pay. Accounts determined to be uncollectible are charged off against the allowance in the period of determination. Subsequent recoveries of previously charged off accounts are credited to the allowance in the period received.

Inventories

Inventories consist primarily of donated new and used footwear, purchased footwear, clothing and other relief items. Management assigns an estimated fair value at the time of donation based on previous experience in the shoe industry and the donor's product, which approximates a range between cost and wholesale. Most donations of new product consist of mixed styles and types, for which management assigns an average fair value as follows: $30 for men's shoes, $27 for women's shoes and $16 for children's shoes. Used shoes obtained through retail stores and community shoe drives are valued at $4 per pair, which is measured in poundage assuming an average weight of 1.25 lbs. per pair.

Donated clothing and other relief items are recorded at their estimated fair value as provided by the donor or, in the absence of donors' valuations, based on the Organization's estimate of wholesale values considering their condition and utility for use, at the time the goods are received from the donor. The Organization values donated new clothing at an average fair value of $12 per item and $5 per pound for used clothing.

Purchased inventory is valued at the lower of cost or net realizable value, determined by the first-in first-out (FIFO) method. Provision is made to reduce any excess, obsolete or slow moving inventory to net realizable value.

Trademarks

During 2018 and 2017, the Organization trademarked certain information relating to its name and brand. Costs associated with these trademarks in the amount of $31,809 ($24,500 at June 30, 2017) were capitalized and are being amortized over ten to fifteen years, depending on the type of item. Amortization expense for 2018 amounted to $2,574 ($1,173 in 2017), and is expected to be approximately $2,953 per year in each of the next five years.

Property, Equipment and Depreciation

Property and equipment are reported at cost, net of accumulated depreciation, and include improvements that significantly add to productive capacity or extend useful lives. It is the Organization's policy to capitalize expenditures for assets with a cost of $3,000 or greater and an estimated useful life of at least one year. Costs of maintenance and repairs that don't meet the capitalization criteria are charged to expense. When depreciable assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain (except trade-ins) or loss is recognized. Gains on trade-ins are applied to reduce the cost of the new acquisition.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Equipment and Depreciation (Continued)

Depreciation is computed under the straight-line method over the estimated useful lives of depreciable assets, as follows:

Building and improvements	10 - 30 years
Vehicles	5 years
Equipment	3 - 5 years
Furniture and fixtures	7 years

Agency Endowment Fund

The Organization's beneficial interest in an agency endowment fund held by the Community Foundation of Middle Tennessee (the "Community Foundation") is recognized as an asset. Investment income and changes in the value of the fund are recognized in the consolidated Statements of Activities, and distributions received from the fund are recorded as increases (decreases) in the beneficial interest.

Debt Issuance Costs

Debt issuance costs related to a recognized debt liability are presented in the Consolidated Statements of Financial Position as a direct reduction of the carrying amount of the debt liability. Debt issuance costs are amortized on a straight-line basis over the life of the related debt liability. Amortization of the loan costs are expected to be $4,588 in 2019.

Donated Goods and Services

Donated goods, including donated shoes, clothing, DVDs, books and other relief items, are recorded as gifts in kind (GIK) in the period received at their estimated fair value, if there is an objective and measurable basis for determining such value.

Donated services are recognized if they create or enhance nonfinancial assets or the donated service requires specialized skills, was performed by a donor who possesses such skills, and would have been purchased by the Organization if not donated. Such services are recognized at fair value as support and expense in the period the services were performed.

A number of unpaid volunteers have made significant contributions of their time to assist the Organization in implementing various programs. The value of contributed time is not reflected in these financial statements since it is not susceptible to objective measurement or valuation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Microenterprise Program Fees

Recipient organizations that receive used footwear for redistribution are charged a microenterprise product fee. Such fees are recognized as revenue at the time the product is shipped to the recipient organization. Amounts collected in advance of shipment are classified initially as deposits in the Consolidated Statement of Financial Position and recognized as revenue in the period the product is shipped.

Advertising

The Organization uses advertising to promote its programs and raise awareness. All advertising costs are expensed when incurred.

Program and Supporting Services

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

Program Services - Facilitates the donation and collection of new and used shoes, new and used clothing and other relief items from footwear, clothing and other manufacturers, retailers and individuals. These items are distributed to people in need locally, nationally and internationally through a network of volunteer organizations and in cooperation with other charitable organizations, referred to as distribution partners, who work on the Soles4Souls' behalf to distribute these items providing relief to individuals living in poverty or affected by natural disasters. Through this extensive network, Soles4Souls has distributed shoes and clothing, and other relief supplies to people in more than 127 countries.

Soles4Souls partners with non-governmental organizations (NGOs) in Haiti, Honduras and Moldova who run microenterprise operations, as well as contracts with established microenterprise partners to distribute shoes and clothing in Central America, South America, Africa and Asia. This program is designed to provide impoverished people in developing nations with the resources to start and maintain their own business.

Through its Travel4Souls program, volunteers from across the United States join the Soles4Souls staff on distribution trips to various countries to experience first-hand providing shoes and clothing to people in desperate situations. Teams visited Ecuador, Bolivia, Haiti, Costa Rica, Jamaica, Dominican Republic, Guatemala, Honduras, Cuba and Tanzania on 25 trips in 2018 (27 trips in 2017). Shoes and clothing were distributed to children and families in orphanages, schools, villages and tent cities.

The Gifts in Kind category segregates Soles4Souls' valuation of donated/collected goods and distribution of those goods based on the fair value for those goods.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

Management and General - Includes the functions necessary to ensure an adequate working environment and costs not identifiable with a single program. Applicable costs include those associated with providing coordination and articulation of Soles4Souls' program strategy, business management, general record keeping, budgeting, and related purposes.

Fundraising - Includes costs of activities directed towards appeals for financial support, including special events. Other activities include the cost of solicitations and creation and distribution of fund raising materials.

Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and non-financial data or reasonable subjective methods determined by management.

Income Taxes

Soles4Souls qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income taxes are not provided.

Soles4Souls files a U.S. Federal Form 990 for organizations exempt from income tax. CTWF filed its final Federal Form 990 for the year ended June 30, 2017.

Soles4Souls Canada will be required to file a T2 tax return and a T1044 information return.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Organization's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying consolidated financial statements.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606) requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. The Organization has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, with certain practical expedients available. The Organization is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities* (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*, which simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. Among other changes, the ASU replaces the three current classes of net assets with two new classes, "net assets with donor restrictions" and "net assets without donor restrictions", and expands disclosures about the nature and amount of any donor restrictions. ASU 2016-14 is effective for annual periods beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018, with early adoption permitted. The Organization is currently evaluating the impact the adoption of this guidance will have on its consolidated financial statements.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2018 and October 22, 2018, the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

NOTE 3 - INVENTORIES

Inventories consisted of the following at June 30:

	2018	2017
Donated shoes:		
New shoes	$ 4,770,613	$ 4,507,007
Used shoes	1,199,028	928,282
Donated clothing items	6,220,282	3,702,145
Other donated items:		
Other relief supplies	295,385	56,579
Total donated inventory	12,485,308	9,194,013
Purchased shoes	-	6,282
	$ 12,485,308	$ 9,200,295

The following is a reconciliation of the beginning and ending balances of donated inventory for the year ended June 30:

	2018	2017
Beginning of year	$ 9,194,013	$ 6,714,362
Contributions received	80,226,896	64,241,390
Donated inventory distributed in programs	(76,935,601)	(61,761,739)
End of year	$ 12,485,308	$ 9,194,013

Temporarily restricted net assets consist entirely of donated shoe and clothing inventory restricted for distribution outside of the United States and amounts to $10,177,475 and $4,630,128, respectively at June 30, 2018 and 2017.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2018	2017
Land	$ 238,800	$ 238,800
Building and improvements	3,225,161	3,215,161
Vehicles	121,152	121,152
Equipment	363,054	244,528
Furniture and fixtures	140,147	140,147
	4,088,314	3,959,788
Less: accumulated depreciation	(1,295,807)	(1,143,478)
	$ 2,792,507	$ 2,816,310

During 2018, the Organization received a piece of property in conjunction with the DUW MOU. That property was originally appraised at approximately $400,000; however, the Organization sold it for $252,623, which is the net realizable value recorded in the Consolidated Statements of Activities.

NOTE 5 - BENEFICIAL INTEREST IN ENDOWMENT FUND

The Organization has a beneficial interest in the Soles4Souls Endowment Fund (the “Fund”), an agency endowment fund held by the Community Foundation. The Organization has granted variance power to the Community Foundation, and the Community Foundation has the ultimate authority and control over the Fund and the income derived therefrom. The Fund is charged a .4% administrative fee annually. Upon request by the Organization, income from the Fund representing a 5% annual return may be distributed to the Organization or to another suggested beneficiary.

A schedule of changes in the Fund are as follows for the years ended June 30:

	2018	2017
Balance - beginning of year	$ 5,554	$ -
Contributions	-	5,000
Investment income	383	554
Balance - end of year	$ 5,937	$ 5,554

NOTE 6 - LINE OF CREDIT

The Organization obtained a line of credit in September 2016 in the amount of $200,000 (later increased to $320,000 and subsequently increased to $650,000 on October 12, 2018). The line of credit is cross-collateralized by the deed of trust on the mortgage of the Nashville, Tennessee headquarters facility. The line of credit bears interest at a rate of prime plus 3.5%, with a minimum rate of 4.75% annually, and now matures October 2019. There was no balance on the line of credit at June 30, 2018 or 2017.

NOTE 7 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

	2018	2017
Mortgage payable on warehouse facility located in Wadley, Alabama, refinanced in March 2018. Requires monthly payments of $6,995, with final payment in March 2033 of all remaining principal and accrued interest. Interest accrues at a rate of 4.83% per year, and the loan is secured by the underlying property.	$ 1,391,141	$ 1,427,301
Mortgage payable on headquarters facility located in Nashville, Tennessee, refinanced in March 2018. Requires monthly payments of $3,324, with final payment in March 2033 of all remaining principal and accrued interest. Interest accrues at a rate of 4.83% per year, and the loan is secured by the underlying property.	663,110	680,330
	2,054,251	2,107,631
Less: loan issuance cost	(4,588)	(11,469)
Total notes payable	$ 2,049,663	$ 2,096,162

The loan agreements in effect at year end contain certain financial covenants requiring the maintenance of certain debt service covenants.

NOTE 7 - NOTES PAYABLE (CONTINUED)

Annual principal maturities of notes payable under the terms of the agreements are as follows:

Year ending June 30,	
2019	$ 23,845
2020	24,766
2021	26,280
2022	27,596
2023	28,978
Thereafter	1,922,786
	$ 2,054,251

Total interest expense on all indebtedness for the year ended June 30, 2018 amounted to $114,582 ($115,254 in 2017).

NOTE 8 - LEASES

The Organization leases certain facilities and office equipment under operating leases expiring at various dates through September 2023. Rent expense totaled $100,753 and $20,370 for the fiscal year ended June 30, 2018 and 2017, respectively.

Future minimum lease payments required under noncancelable operating leases as of June 30, 2018:

Year ending June 30,	
2019	$ 170,134
2020	168,476
2021	93,129
2022	76,437
2023	49,031
Thereafter	416
	$ 557,623

NOTE 9 - EMPLOYEE BENEFIT PLAN

The Organization has a Section 401(k) Safe Harbor plan which covers substantially all employees upon completion of three months of service. The plan allows participants to contribute up to the lesser of 84% of compensation or the amount allowable by the Internal Revenue Code. The Organization makes matching contributions based on a percentage of the participant's contributions up to 6%. Participants are immediately 100% vested in their elective contributions, the Organization's contributions and investment earnings on those balances. Total contributions by the Organization amounted to $108,116 for the year ended June 30, 2018 ($82,173 in 2017) and are reported in employee benefits expense in the Consolidated Statements of Functional Expenses.

The plan also provides for the Organization to make discretionary non-elective contributions. The Organization has not made any discretionary contributions to the plan as of June 30, 2018 and 2017.

NOTE 10 - CONCENTRATIONS AND CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash and accounts receivable.

The Organization maintains cash at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. From time to time, the Organization's balances may exceed statutory limits. The Organization has not experienced any losses in such accounts and considers this to be a normal business risk.

Accounts receivable are subject to credit risk as they are from concentrated sources. At June 30, 2018, receivables from three microenterprise partners totaled approximately $324,000, or 64% of total accounts receivable ($384,000, or 75% of accounts receivable, at June 30, 2017).

Donated shoes, clothing and other relief items and microenterprise program fees are subject to concentration risk.

During 2018, the Organization:

- Received 12% of its shoe donations from one shoe manufacturer.
- Received 34% of its clothing donations from one manufacturer.
- Utilized four distribution partners to distribute 68% of its total shoe and clothing distributions.
- Utilized four microenterprise partners to distribute 78% of items sent to the microenterprise program.
- Received microenterprise program fees from six companies that represent 91% of total microenterprise program fees.

NOTE 10 - CONCENTRATIONS AND CREDIT RISK (CONTINUED)

During 2017, the Organization:

- Received 38% of its shoe donations from three shoe manufacturers.
- Received 53% of its clothing donations from two manufacturers.
- Utilized four distribution partners to distribute 78% of its total shoe and clothing distributions.
- Utilized four microenterprise partners to distribute 82% of items sent to the microenterprise program.
- Received microenterprise program fees from four companies that represent 82% of total microenterprise program fees.