SOLES4SOULS, INC.

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR’S REPORT

JUNE 30, 2020 AND 2019

SOLES4SOULS, INC.

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2020 AND 2019

TABLE OF CONTENTS

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, 2020 and 2019, 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, 2020 and 2019, and the changes in their 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
November 24, 2020

SOLES4SOULS, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	2020	2019
ASSETS		
Cash		
Operating	$ 1,103,554	$ 689,570
Holding account	88,446	42,444
Operating reserve - board-designated	576,689	628,000
Investments - operating reserve	456,608	-
Accounts receivable		
Microenterprise, net	617,461	502,313
Partner freight and other	27,971	65,849
Contributions and grants receivable	190,276	144,012
Prepaid expenses		
Travel costs	87,141	97,862
Operations	144,970	88,826
Employee travel advances	-	7,055
Deposits	30,306	17,751
Inventories	29,224,821	17,852,311
Trademarks, net	44,529	38,637
Property and equipment, net	2,696,468	2,742,800
Beneficial interest in agency endowment fund	6,514	5,564
TOTAL ASSETS	$ 35,295,754	$ 22,922,994
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 90,218	$ 184,794
Accrued expenses		
Compensated absences	197,192	180,513
Employee deductions and taxes	142,911	112,840
Employee bonuses	314,894	332,610
Other	115,207	-
Deferred revenue		
Travel	156,593	151,498
Microenterprise	222,077	72,036
Notes payable	2,638,789	1,939,819
TOTAL LIABILITIES	3,877,881	2,974,110
NET ASSETS		
Without donor restrictions	19,943,689	7,546,140
With donor restrictions	11,474,184	12,402,744
TOTAL NET ASSETS	31,417,873	19,948,884
TOTAL LIABILITIES AND NET ASSETS	$ 35,295,754	$ 22,922,994

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2020

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
GIFTS IN KIND (GIK) CONTRIBUTIONS			
Shoes:			
Corporate shoe donations	$ 48,181,444	$ 158,520	$ 48,339,964
Community shoe drives	12,134,958	-	12,134,958
Clothing and other relief item donations	45,896,268	7,180,526	53,076,794
GIK net assets released from restriction	8,223,753	(8,223,753)	-
Total GIK contributions	114,436,423	(884,707)	113,551,716
PROGRAM SERVICE EXPENSE - GIK distributions	(102,179,206)	-	(102,179,206)
NET CHANGE IN GIK INVENTORY	12,257,217	(884,707)	11,372,510
SUPPORT AND REVENUE			
Microenterprise program fees	6,483,124	-	6,483,124
Contributions	1,408,412	-	1,408,412
International volunteer travel fees	221,479	-	221,479
Investment income	15,676	950	16,626
Other income	18,664	-	18,664
Other donor-restricted net assets released from restriction	44,803	(44,803)	-
TOTAL SUPPORT AND REVENUE	8,192,158	(43,853)	8,148,305
EXPENSES			
Program services, excluding GIK distributions above	5,595,929	-	5,595,929
Supporting services:			
Management and general	1,224,728	-	1,224,728
Fundraising	1,231,169	-	1,231,169
Total supporting services	2,455,897	-	2,455,897
TOTAL EXPENSES	8,051,826	-	8,051,826
CHANGE IN NET ASSETS	12,397,549	(928,560)	11,468,989
NET ASSETS, BEGINNING OF YEAR	7,546,140	12,402,744	19,948,884
NET ASSETS, END OF YEAR	$ 19,943,689	$ 11,474,184	$ 31,417,873

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
GIFTS IN KIND (GIK) CONTRIBUTIONS			
Shoes:			
Corporate shoe donations	$ 25,860,545	$ 3,384,706	$ 29,245,251
Community shoe drives	14,308,788	-	14,308,788
Clothing and other relief item donations	34,775,370	7,339,304	42,114,674
Net assets released from restriction	8,624,305	(8,624,305)	-
Total GIK contributions	83,569,008	2,099,705	85,668,713
PROGRAM SERVICE EXPENSE - GIK distributions	(80,301,710)	-	(80,301,710)
NET CHANGE IN GIK INVENTORY	3,267,298	2,099,705	5,367,003
SUPPORT AND REVENUE			
Microenterprise program fees	5,410,132	-	5,410,132
Contributions	1,144,929	120,000	1,264,929
International volunteer travel fees	750,682	-	750,682
Change in beneficial interest in agency endowment	-	(373)	(373)
Other income	15,932	-	15,932
TOTAL SUPPORT AND REVENUE	7,321,675	119,627	7,441,302
EXPENSES			
Program services, excluding GIK distributions above	4,852,303	-	4,852,303
Supporting services:			
Management and general	1,211,849	-	1,211,849
Fundraising	1,263,905	-	1,263,905
Total supporting services	2,475,754	-	2,475,754
TOTAL EXPENSES	7,328,057	-	7,328,057
CHANGE IN NET ASSETS	3,260,916	2,219,332	5,480,248
NET ASSETS, BEGINNING OF YEAR	4,285,224	10,183,412	14,468,636
NET ASSETS, END OF YEAR	$ 7,546,140	$ 12,402,744	$ 19,948,884

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
OPERATING ACTIVITIES		
Change in net assets	$ 11,468,989	$ 5,480,248
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	202,470	204,868
Amortization	4,585	8,131
Bad debt expense	1,426	1,426
Net realized and unrealized gains on investments	(6,608)	-
(Increase) decrease in:		
Accounts receivable - microenterprise	(116,574)	(46,305)
Accounts receivable - partner freight and other	37,878	(42,038)
Accounts receivable - travel	-	17,350
Contributions and grants receivable	(46,264)	(58,747)
Prepaid expenses - travel costs	10,721	40,034
Prepaid expenses - operations	(56,144)	(14,594)
Employee travel advances	7,055	(3,630)
Deposits	(12,555)	16,788
Inventories	(11,372,510)	(5,367,003)
Increase (decrease) in:		
Accounts payable	(94,576)	58,919
Accrued expenses - compensated absences	16,679	32,858
Accrued expenses - employee deductions and taxes	30,071	29,693
Accrued expenses - employee bonuses	(17,716)	52,116
Accrued expenses - other	115,207	(5,570)
Deferred revenue - travel	5,095	(134,523)
Deferred revenue - microenterprise	150,041	55,070
TOTAL ADJUSTMENTS	(11,141,719)	(5,155,157)
NET CASH PROVIDED BY OPERATING ACTIVITIES	327,270	325,091
INVESTING ACTIVITIES		
Change in beneficial interest in agency endowment	(950)	373
Payment of trademark costs	(10,477)	(14,119)
Purchase of investments	(450,000)	-
Purchase of property and equipment	(156,138)	(155,161)
NET CASH USED IN INVESTING ACTIVITIES	(617,565)	(168,907)
FINANCING ACTIVITIES		
Repayments of notes payable	(65,930)	(114,432)
Proceeds from new loans	764,900	-
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	698,970	(114,432)
NET INCREASE IN CASH	408,675	41,752
CASH - BEGINNING OF YEAR	1,360,014	1,318,262
CASH - ENDING OF YEAR	$ 1,768,689	$ 1,360,014
CASH CONSISTS OF:		
Operating	$ 1,103,554	$ 689,570
Holding account	88,446	42,444
Operating reserve - board-designated	576,689	628,000
	$ 1,768,689	$ 1,360,014
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Cash paid during the year for interest	$ 74,670	$ 109,414

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2020

	Program Services		Supporting Services		
	Programs	Gifts in Kind (GIK)	Management and General	Fundraising	Total
Salaries	$ 2,822,799	$ -	$ 773,416	$ 704,390	$ 4,300,605
Employee benefits and payroll taxes	461,788	-	139,336	134,846	735,970
Total personnel costs	3,284,587	-	912,752	839,236	5,036,575
In-kind distributions:					
Free distributions of shoes and clothing	-	13,909,026	-	-	13,909,026
Items to the microenterprise programs	-	88,270,180	-	-	88,270,180
Total in-kind distributions	-	102,179,206	-	-	102,179,206
Cost of goods sold	399,142	-	-	-	399,142
Advertising and promotion	257,706	-	-	2,289	259,995
Auto expenses	18,066	-	-	-	18,066
Bank fees	-	-	62,530	-	62,530
Depreciation and amortization	124,233	-	41,411	41,411	207,055
Direct mail	-	-	-	60,734	60,734
Events	83,877	-	-	6,023	89,900
Insurance	84,184	-	16,778	16,778	117,740
Interest	58,380	-	19,459	19,459	97,298
Miscellaneous	130,390	-	78,964	25,123	234,477
Supplies and equipment	66,188	-	6,611	6,611	79,410
Postage, shipping and delivery	197,720	-	16,831	8,415	222,966
Professional fees	153,536	-	37,028	36,144	226,708
Regional donation centers	357,670	-	-	-	357,670
Rent	13,076	-	-	-	13,076
Repairs and maintenance	22,809	-	7,373	7,373	37,555
Telephone and utilities	58,301	-	19,433	19,433	97,167
Travel	286,064	-	5,558	142,140	433,762
TOTAL EXPENSES	$ 5,595,929	$ 102,179,206	$ 1,224,728	$ 1,231,169	$ 110,231,032

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2019

	Program Services		Supporting Services		
	Programs	Gifts in Kind (GIK)	Management and General	Fundraising	Total
Salaries	$ 2,150,704	$ -	$ 785,098	$ 739,652	$ 3,675,454
Employee benefits and payroll taxes	393,547	-	132,935	130,050	656,532
Total personnel costs	2,544,251	-	918,033	869,702	4,331,986
In-kind distributions:					
Free distributions of shoes and clothing	-	4,340,462	-	-	4,340,462
Items to the microenterprise programs	-	75,961,248	-	-	75,961,248
Total in-kind distributions	-	80,301,710	-	-	80,301,710
Cost of goods sold	457,390	-	-	-	457,390
Advertising and promotion	95,018	-	-	-	95,018
Auto expenses	14,948	-	-	-	14,948
Bank fees	-	-	64,314	-	64,314
Depreciation and amortization	127,854	-	42,527	42,618	212,999
Direct mail	-	-	-	123,969	123,969
Events	64,800	-	-	15,607	80,407
Insurance	84,260	-	17,555	17,555	119,370
Interest	65,648	-	21,883	21,883	109,414
Miscellaneous	58,843	-	84,387	19,469	162,699
Supplies and equipment	68,249	-	3,847	3,756	75,852
Postage, shipping and delivery	83,410	-	9,813	4,907	98,130
Professional fees	65,891	-	19,867	19,867	105,625
Regional donation centers	339,878	-	-	-	339,878
Rent	8,863	-	-	-	8,863
Repairs and maintenance	14,489	-	3,853	3,853	22,195
Telephone and utilities	53,934	-	17,978	17,978	89,890
Travel	704,577	-	7,792	102,741	815,110
TOTAL EXPENSES	$ 4,852,303	$ 80,301,710	$ 1,211,849	$ 1,263,905	$ 87,629,767

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.

During 2017, Soles4Souls, Inc. established Soles4Souls Canada, a Canadian not-for-profit company, with Soles4Souls, Inc. as the sole member. The Organization continued to expand during calendar year 2019, establishing Soles4Souls Europe in April 2019, a Netherlands not-for-profit company and Soles4Souls Asia during September 2019, each with Soles4Souls, Inc. as the sole member.

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 subsidiaries - Soles4Souls Canada, Soles4Souls Europe and Soles4Souls Asia. 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 net assets without donor restrictions and with donor restrictions based on the existence or absence of donor-imposed restrictions, as follows:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidation and Basis of Presentation (Continued)

Donor-restricted contributions are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized.

Revenue Recognition

Contributions - Contributions are recognized when cash, securities or other assets, an unconditional promise to give or notification of a beneficial interest is received. A contribution is conditional if an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor’s obligation to transfer assets exists. The presence of both a barrier and a right of return or right of release indicates that a recipient is not entitled to the contribution until it has overcome the barrier(s) in the agreement. Conditional promises to give are not recognized until the barrier(s) in the agreement are overcome.

Donated Goods and Services - Donated goods, including donated shoes, clothing 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, were 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.

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 Statements of Financial Position and recognized as revenue in the period the product is shipped.

Operating Reserve - Board-Designated

The Organization’s Board of Directors has approved an operating reserve policy. The cash and investments held as part of this policy are segregated in the Consolidated Statements of Financial Position within the cash, investments and net assets without donor restriction sections.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Cash included as part of an investment portfolio is classified as investments. Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 4 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Changes in unrealized gains and losses are recognized currently in the Consolidated Statements of Activities.

Accounts Receivable

Accounts receivable are predominantly from microenterprise partners. The Organization charges a 2.5% late fee for past due accounts per credit terms established with microenterprise partners.

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.

Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at their estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discount on those amounts is computed using the risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is recognized on the interest method over the term of the gift and included in contribution revenue. For the years ended June 30, 2020 and 2019, the discount was insignificant and not recorded.

An allowance for uncollectible contributions is provided based on management's estimate of uncollectible pledges and historical trends. Contributions receivable are written off when deemed to be uncollectible. In management's opinion, no allowance for uncollectible pledges was necessary as of December 31, 2020 and 2019.

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 pounds per pair.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories (Continued)

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 used clothing at $5 per pound.

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 2020 and 2019, the Organization trademarked certain information relating to its name and brand. Costs associated with these trademarks in the amount of $45,928 at June 30, 2020 ($31,809 at June 30, 2019) were capitalized and are being amortized over ten to fifteen years, depending on the type of item. Amortization expense for 2020 amounted to $4,585 ($3,543 in 2019) and is expected to be approximately $4,600 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 do not 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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Paycheck Protection Program Loan

The Organization has elected to treat the Paycheck Protection Program (“PPP”) loan received as a debt liability until such time that the loan is explicitly forgiven.

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 was $4,588 in 2019, and resulted in full amortization.

Fair Value Measurements

The Organization classifies its investments based on a hierarchy consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available) and Level 3 (valued based on significant unobservable inputs). An 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. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

Money market funds and equities are valued at the closing price reported on the active market on which the individual securities are traded.

Fixed income investments for which quotations are readily available in active markets are valued at the most recent quote in the principal market in which such securities are normally traded. These investments also include securities valued on the basis of information provided by pricing services that employ valuation matrices that may incorporate both broker/dealer-supplied valuations as well as valuation models reflecting factors such as benchmark yields, reported trades, broker/dealer quotes, bid/offer data and other relevant elements.

No changes in the valuation methodologies have been made since inception.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation’s valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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, clothing and other relief supplies to people in more than 127 countries. During the 2020 fiscal year, Soles4Souls distributed 518,642 pairs of shoes, 423,588 pieces of clothing and 60,415 pieces of other essentials to those in need around the world. Additionally, Soles4Souls used 4,203,364 pairs of shoes, 4,760,073 pieces of clothing and 674,686 pieces of other essential items in our microenterprise program providing opportunities for job and income creation around the world.

Soles4Souls partners with non-governmental organizations ("NGOs") in Haiti, Honduras, Moldova, Malawi and Zambia 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. The microenterprise program is designed to provide impoverished people in developing nations with the resources to start and maintain their own businesses.

During 2020, Soles4Souls partnered with Street Business School to certify trainers in each of its microenterprise partners in Honduras, Haiti, Guatemala, Uganda, Malawi and Zambia. These trainers will be providing essential business skills to a multitude of entrepreneurs in their countries helping them create and manage their own business and sustain incomes for themselves and their families.

There are more than 1.5 million children in the U.S. who experience homelessness and lack basic necessities like a good pair of shoes. During 2020, Soles4Souls launched 4EveryKid, distributing 15,000 shoes donated by Footlocker to homeless students in 20 cities across the country. Soles4Souls partners directly with McKinney-Vento homeless liaisons in the public school systems to execute the program. Soles4Souls believes that every kid deserves to have their basic needs met, and that a child who has lost their home should not lose their ability to be a kid, so Soles4Souls is working to provide a new pair of athletic shoes to every kid experiencing homelessness.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

A core component of the Soles4Souls mission is providing relief to people impacted by natural disasters. During 2020, Soles4Souls provided shoes and clothing in three Tennessee counties impacted by an EF4 tornado, and in communities in the Bahamas devastated by Hurricane Dorian, and in response to COVID-19 provided shoes to frontline healthcare professionals in Alabama, California, Massachusetts, New York, Tennessee, Virginia and West Virginia.

Through its many distribution programs described above, Soles4Souls kept 10,640,768 pairs/pieces out of landfills totaling approximately 8,861,889 pounds of product. Since inception, Soles4Souls has kept 51,384,624 pairs/pieces out of landfills totaling approximately 63,706,519 pounds.

Through the Soles4Souls Global Experiences program, volunteers from across the United States join Soles4Souls staff on distribution trips to various countries to experience first-hand providing shoes and clothing to people in developing countries. Teams visited Columbia, Dominican Republic, Ecuador, Guatemala, Honduras, Jamaica and Morocco, as well as Louisiana, North Carolina and Arizona on 17 trips in 2020 (27 trips in 2019). During 2020, the Global Experiences program restructured to focus on “earned travel” versus paid travel, giving our supporters the opportunity to experience the Soles4Souls mission first-hand. Soles4Souls primarily travels to countries where the Organization has microenterprise partners. We will continue to distribute shoes to people in need.

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

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allocation of Functional Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the Consolidated Statements of Activities. The Consolidated Statements of Functional Expenses present the natural classification by function. 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 supporting services benefited. Such allocations are determined by management on a reasonable basis. The expenses that are allocated include salaries benefits, insurance, interest, supplies, postage, professional fees, repairs and maintenance and telephone and utilities, which are allocated on the basis of estimates of time and effort.

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. Soles4Souls Canada is required to file a T2 tax return and a T1044 information return. Soles4Souls Europe is not Corporate Tax Obligated, nor is it required to file a Transfer Pricing Report as it is incorporated as a Stichting (Foundation). Soles4Souls Asia is exempt from the Estimated Chargeable Income (ECI) filing because its revenue does not exceed the requisite amount.

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 consolidated 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 consolidated 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)

Adoption of New Accounting Pronouncement

On July 1, 2019, Soles4Souls adopted Accounting Standards Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 958)*, as amended, as management believes the standard improves the usefulness and understandability of the Organization's financial reporting. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions and improved guidance to better distinguish between conditional and unconditional contributions. Analysis of various provisions of this standard resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued consolidated audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

Recent Authoritative Accounting Guidance

In May 2014, the Financial Accounting Standards Board ("FASB") issued 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 deferred the effective date of ASU 2014-09 one year, making it effective for annual reporting periods beginning after December 15, 2018, and in June 2020, in response to the COVID-19 pandemic, the FASB issued ASU 2020-05, allowing certain entities to defer implementation of ASU 2014-09 for an additional year. As a result of the issuance of ASU 2020-05, the Organization will defer the implementation of ASU 2014-09 until July 1, 2020. The Organization 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. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases*, which makes narrow scope improvements to the standard for specific issues. In July 2018, the FASB also issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method allowing the standard to be applied at the adoption date.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance (Continued)

A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the consolidated financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The Organization expects to adopt the guidance retrospectively at the beginning of the period of adoption, July 1, 2021, through a cumulative-effect adjustment, and will not apply the new standard to comparative periods presented.

The new standard provides a number of practical expedients. Upon adoption, the Organization expects to elect all the practical expedients available.

Reclassifications

Certain prior year information has been reclassified to conform with current year presentation. This reclassification had no effect on the change in net assets as previously presented.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2020 and November 24, 2020, the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

NOTE 3 - LIQUIDITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the Consolidated Statements of Financial Position, comprise the following as of June 30:

	2020	2019
Financial assets at year end:		
Cash		
Operating	$ 1,103,554	$ 689,570
Holding account	88,446	42,444
Operating reserve - board-designated	576,689	628,000
Investments - board-designated operating reserve	456,608	-
Accounts receivable		
Microenterprise, net	617,461	502,313
Partner freight and other	27,971	65,849
Contributions and grants receivable	190,276	144,012
Total financial assets	3,061,005	2,072,188
Less amounts not available to be used within one year:		
Holding account	(88,446)	(42,444)
Operating reserve - board-designated	(1,033,297)	(628,000)
Non-GIK donor-restricted amounts	(75,197)	(120,000)
Amounts not available to be used within one year	(1,196,940)	(790,444)
Financial assets available to meet cash needs for general expenditures within one year	$ 1,864,065	$ 1,281,744

The Organization has a $975,000 line of credit available if financial assets are not available to meet cash needs. Additionally, the amount the Board has designated as an operating reserve could be made available for general expenditure, if necessary.

NOTE 4 - INVESTMENTS AND FAIR VALUE

During 2020, the Organization invested a portion of its operating reserve with a brokerage firm. At June 30, 2020, investments consisted of the following, along with their classification in the fair value hierarchy:

	Total	Level 1	Level 2	Level 3
Cash and money market funds	$ 208,900	$ 208,900	$ -	$ -
Fixed income	197,233	-	197,233	-
Equities	50,475	50,475	-	-
	$ 456,608	$ 259,375	$ 197,233	$ -

NOTE 5 - INVENTORIES

Inventories consisted of the following at June 30:

	2020	2019
Donated shoes:		
New shoes	$ 15,194,760	$ 7,198,905
Used shoes	1,645,621	1,603,390
Donated clothing items	10,930,309	8,186,419
Other donated items:		
Other relief supplies	1,454,131	863,597
Total donated inventory	$ 29,224,821	$ 17,852,311

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

	2020	2019
Beginning of year	$ 17,852,311	$ 12,485,308
Contributions received	113,551,716	85,668,713
Donated inventory distributed in programs	(102,179,206)	(80,301,710)
End of year	$ 29,224,821	$ 17,852,311

Some inventory donors require that the Organization distribute their product outside of the United States. The total value of such inventory is included in net assets with donor restrictions.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2020	2019
Land	$ 238,800	$ 238,800
Building and improvements	3,275,348	3,262,242
Vehicles	147,647	121,152
Equipment	597,671	481,134
Furniture and fixtures	140,147	140,147
	4,399,613	4,243,475
Less: accumulated depreciation	(1,703,145)	(1,500,675)
	$ 2,696,468	$ 2,742,800

NOTE 7 - 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 of Middle Tennessee, Inc. (the “Foundation”). The Organization has granted variance power to the Foundation, and the 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:

	2020	2019
Balance - beginning of year	$ 5,564	$ 5,937
Investment income (loss)	950	(373)
Balance - end of year	$ 6,514	$ 5,564

NOTE 8 - LINE OF CREDIT

The Organization obtained a line of credit in September 2016 in the amount of $200,000 (later increased to $975,000 and extended in October 2020). 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 matures October 2021. There was no balance on the line of credit at June 30, 2020 or 2019.

NOTE 9 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

	2020	2019
Mortgage payable on warehouse facility located in Wadley, Alabama, refinanced in March 2018. Requires monthly payments of $10,899, with final payment in March 2033 of all remaining principal and accrued interest. In March 2020, the bank approved hardship payment relief of principal and interest payments for April - June, and subsequently extended through September 2020, which extended the due date of the loan by the same number of months. Interest accrues at a rate of 4.83% per year, and the loan is secured by the underlying property with a carrying value of $1,574,072 at June 30, 2020.	$ 1,268,625	$ 1,313,286
Mortgage payable on headquarters facility located in Nashville, Tennessee, refinanced in March 2018. Requires monthly payments of $5,195, with final payment in March 2033 of all remaining principal and accrued interest. In March 2020, the bank approved hardship payment relief of principal and interest payments for April - June, and subsequently extended through September 2020, which extended the due date of the loan by the same number of months. Interest accrues at a rate of 4.83% per year, and the loan is secured by the underlying property with a carrying value of $776,104 at June 30, 2020.	605,264	626,533

NOTE 9 - NOTES PAYABLE (CONTINUED)

	2020	2019
Paycheck Protection Program loan disbursed in April 2020. Principal payments will begin after the 10-month forgiveness application deadline. Loan is forgiveable if certain conditions are met and is unsecured. Any unforgiven amount accrues interest at 1% and is due two years after the disbursement date.	$ 764,900	$ -
Total notes payable	$ 2,638,789	$ 1,939,819

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

Annual principal maturities of notes payable, excluding the PPP loan and fiscal year 2021 payments waived are as follows:

Year ending June 30,	
2021	$ 87,044
2022	109,175
2023	114,566
2024	120,224
2025	126,161
Thereafter	1,316,719
	$ 1,873,889

Total interest expense on all indebtedness for the year ended June 30, 2020 amounted to $97,047 ($109,414 in 2019).

NOTE 10 - LEASES

The Organization leases certain facilities and office equipment under operating leases expiring at various dates through April 2024. Rent expense totaled $251,241 and $220,194 for the fiscal year ended June 30, 2020 and 2019, respectively, and is included in both regional donation centers and rent expense line items on the Consolidated Statements of Functional Expenses.

NOTE 10 - LEASES (CONTINUED)

Future minimum lease payments required under noncancelable operating leases as of June 30, 2020, are as follows:

Year ending June 30,	
2021	$ 237,194
2022	235,907
2023	119,966
2024	18,958
	$ 612,025

NOTE 11 - NET ASSETS

Net assets consisted of the following at June 30:

	2020	2019
Net assets without donor restrictions		
Operating reserve - board-designated	$ 1,033,297	$ 628,000
Invested in property and equipment, less related debt	822,579	802,981
Donated inventory without restriction	17,832,348	5,575,131
Undesignated	255,465	540,028
Total net assets without donor restrictions	$ 19,943,689	$ 7,546,140
Net assets with donor restrictions		
Purpose restrictions -		
Donated inventory for distribution internationally	$ 11,392,473	$ 12,277,180
Haiti expansion project	75,197	120,000
Maintained in perpetuity -		
Beneficial interest in agency endowment	6,514	5,564
Total net assets with donor restrictions	$ 11,474,184	$ 12,402,744

NOTE 12 - 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 $163,773 for the year ended June 30, 2020 ($151,029 in 2019) 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, 2020 and 2019.

NOTE 13 - CONCENTRATIONS AND RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash, investments 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.

The Organization also maintains investment balances at a brokerage firm. These investments consist of various cash and money market funds, fixed income investments and equities. Generally, they are not insured by the FDIC or any other government agency and are subject to investment risk, including the risk of loss of principal. Investors are provided limited protection by the Securities Investor Protection Corporation ("SIPC"), which provides protection to investors in certain circumstances such as fraud or failure of the institution. Coverage is limited to $500,000, including up to $250,000 in cash. The SIPC does not insure against market risk.

Accounts receivable are subject to credit risk, as they are from concentrated sources. At June 30, 2020, receivables from two microenterprise partners totaled approximately $436,000, or 71% of microenterprise accounts receivable ($400,000, or 81% of microenterprise accounts receivable, at June 30, 2019).

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

NOTE 12 - CONCENTRATIONS AND RISK (CONTINUED)

During 2020, the Organization:

- Received 16% of its shoe donations from one shoe distributor.
- Received 63% of its clothing donations from three manufacturers.
- Utilized four distribution partners to distribute 78% of its total shoe and clothing distributions.
- Utilized five microenterprise partners to distribute 87% of items sent to the microenterprise program.
- Received microenterprise program fees from five companies that represent 86% of total microenterprise program fees.
- Utilized two distribution partners to distribute 72% of free distributions of shoes and clothing.

During 2019, the Organization:

- Received 27% of its shoe donations from one shoe manufacturer.
- Received 32% of its clothing donations from one manufacturer.
- Utilized four distribution partners to distribute 85% of its total shoe and clothing distributions.
- Utilized four microenterprise partners to distribute 90% of items sent to the microenterprise program.
- Received microenterprise program fees from six companies that represent 84% of total microenterprise program fees.
- Utilized two distribution partners to distribute 59% of free distributions of shoes and clothing.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Organization operates. While it is unknown how long these conditions will last and what the complete financial effect will be to the Organization, management is continuing to evaluate the evolving situation and will implement appropriate countermeasures as needed.