SOLES4SOULS, INC.

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2025 AND 2024

# SOLES4SOULS, INC.

## CONSOLIDATED FINANCIAL STATEMENTS
## AND
## INDEPENDENT AUDITORS' REPORT

## JUNE 30, 2025 AND 2024

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# Independent Auditors' Report

To the Board of Directors
Soles4Souls, Inc.

**Opinion**

We have audited the accompanying consolidated financial statements of Soles4Souls, Inc. (the Organization), which comprise the consolidated statement of financial position as of June 30, 2025, and the related consolidated statements of activities, cash flow and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Soles4Souls, Inc. as of June 30, 2025, and the changes in its consolidated net assets and consolidated cash flow for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audits of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Other Matter - 2024 Consolidated Financial Statements**

The consolidated financial statements of the Organization as of and for the year ended June 30, 2024, were audited by other auditors whose report thereon dated January 31, 2025, expressed an unmodified opinion on those consolidated financial statements.

**Responsibility of Management 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.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

**Auditors' Responsibilities for the Audits of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Baker Tilly US, LLP

Nashville, Tennessee
February 25, 2026

SOLES4SOULS, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2025 AND 2024

| | 2025 | 2024 |
|---|---|---|
| **ASSETS** | | |
| Cash | | |
| Operating | $ 4,300,386 | $ 3,477,982 |
| 4EK reserve - board-designated | 2,122,174 | 1,274,019 |
| Operating reserve - board-designated | 702,851 | 1,068,271 |
| Investments - operating reserve | 1,274,508 | 1,156,645 |
| Accounts receivable | | |
| Microenterprise | 450,439 | 1,116,770 |
| Partner freight and other | 38,377 | 63,013 |
| Contributions and grants receivable | 934,051 | 784,005 |
| Prepaid expenses | | |
| Travel costs | 3,241 | 6,353 |
| Operations | 131,198 | 68,945 |
| Employee advances | - | 4,144 |
| Deposits | 77,848 | 77,848 |
| Inventories | 30,830,668 | 31,419,333 |
| Trademarks, net | 80,482 | 51,166 |
| Property and equipment, net | 2,726,090 | 2,799,934 |
| Assets held for deferred compensation | 214,484 | 214,484 |
| Operating leases, right-of-use assets | 913,518 | 1,291,174 |
| Beneficial interest in agency endowment fund | 9,648 | 8,778 |
| TOTAL ASSETS | $ 44,809,963 | $ 44,882,864 |
| **LIABILITIES AND NET ASSETS** | | |
| LIABILITIES | | |
| Accounts payable | $ 317,959 | $ 929,210 |
| Accrued expenses | | |
| Compensated absences | 170,341 | 162,973 |
| Employee deductions and taxes | 234,925 | 235,365 |
| Employee bonuses | 933,563 | 654,894 |
| VAT collected | - | 3,605 |
| Other | 97,949 | 104,842 |
| Deferred revenue | | |
| Travel | 32,868 | 50,375 |
| Microenterprise | - | 337,699 |
| Notes payable | 1,382,132 | 1,502,359 |
| Operating lease liabilities | 961,566 | 1,328,612 |
| Deferred compensation | 214,484 | 214,484 |
| TOTAL LIABILITIES | 4,345,787 | 5,524,418 |
| NET ASSETS | | |
| Without donor restrictions | 13,800,164 | 14,005,559 |
| With donor restrictions | 26,664,012 | 25,352,887 |
| TOTAL NET ASSETS | 40,464,176 | 39,358,446 |
| TOTAL LIABILITIES AND NET ASSETS | $ 44,809,963 | $ 44,882,864 |

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2025

| | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | TOTAL |
|---|---|---|---|
| GIFTS IN KIND (GIK) CONTRIBUTIONS | | | |
| Shoes: | | | |
| Corporate shoe donations | $ 34,152,799 | $ 15,058,718 | $ 49,211,517 |
| Community shoe drives | 12,415,752 | - | 12,415,752 |
| Clothing and other relief item donations | 12,583,141 | 11,595,646 | 24,178,787 |
| GIK net assets released from restriction | 25,344,110 | (25,344,110) | - |
| Total GIK contributions | 84,495,802 | 1,310,254 | 85,806,056 |
| PROGRAM SERVICE EXPENSE - GIK distributions | (86,202,770) | - | (86,202,770) |
| NET CHANGE IN GIK INVENTORY | (1,706,968) | 1,310,254 | (396,714) |
| SUPPORT AND REVENUE | | | |
| Microenterprise program fees | 12,581,113 | - | 12,581,113 |
| Other earned revenue | 203,005 | - | 203,005 |
| Contributions | 6,069,515 | - | 6,069,515 |
| Investment income | 342,097 | 871 | 342,968 |
| International volunteer travel fees | 110,648 | - | 110,648 |
| TOTAL SUPPORT AND REVENUE | 19,306,378 | 871 | 19,307,249 |
| EXPENSES | | | |
| Program services, excluding GIK distributions above | 11,888,843 | - | 11,888,843 |
| Supporting services: | | | |
| Management and general | 2,686,015 | - | 2,686,015 |
| Fundraising | 3,229,947 | - | 3,229,947 |
| Total supporting services | 5,915,962 | - | 5,915,962 |
| TOTAL EXPENSES | 17,804,805 | - | 17,804,805 |
| CHANGE IN NET ASSETS | (205,395) | 1,311,125 | 1,105,730 |
| NET ASSETS, BEGINNING OF YEAR | 14,005,559 | 25,352,887 | 39,358,446 |
| NET ASSETS, END OF YEAR | $ 13,800,164 | $ 26,664,012 | $ 40,464,176 |

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2024

| | WITHOUT DONOR RESTRICTIONS | WITH DONOR RESTRICTIONS | TOTAL |
|---|---|---|---|
| GIFTS IN KIND (GIK) CONTRIBUTIONS | | | |
| Shoes: | | | |
| Corporate shoe donations | $ 43,053,946 | $ 16,768,782 | $ 59,822,728 |
| Community shoe drives | 6,706,439 | - | 6,706,439 |
| Clothing and other relief item donations | 31,731,635 | 8,575,327 | 40,306,962 |
| Net assets released from restriction | 18,308,125 | (18,308,125) | - |
| Total GIK contributions | 99,800,145 | 7,035,984 | 106,836,129 |
| PROGRAM SERVICE EXPENSE - GIK distributions | (109,003,015) | - | (109,003,015) |
| NET CHANGE IN GIK INVENTORY | (9,202,870) | 7,035,984 | (2,166,886) |
| SUPPORT AND REVENUE | | | |
| Microenterprise program fees | 11,332,662 | - | 11,332,662 |
| Other earned income | 170,340 | - | 170,340 |
| Contributions | 6,623,136 | - | 6,623,136 |
| ERC tax credit | 906,227 | - | 906,227 |
| Investment income | 256,014 | 1,125 | 257,139 |
| International volunteer travel fees | 258,441 | - | 258,441 |
| TOTAL SUPPORT AND REVENUE | 19,546,820 | 1,125 | 19,547,945 |
| EXPENSES | | | |
| Program services, excluding GIK distributions above | 8,792,281 | - | 8,792,281 |
| Supporting services: | | | |
| Management and general | 3,528,563 | - | 3,528,563 |
| Fundraising | 2,970,680 | - | 2,970,680 |
| Total supporting services | 6,499,243 | - | 6,499,243 |
| TOTAL EXPENSES | 15,291,524 | - | 15,291,524 |
| CHANGE IN NET ASSETS | (4,947,574) | 7,037,109 | 2,089,535 |
| NET ASSETS, BEGINNING OF YEAR | 18,953,133 | 18,315,778 | 37,268,911 |
| NET ASSETS, END OF YEAR | $ 14,005,559 | $ 25,352,887 | $ 39,358,446 |

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

| | 2025 | 2024 |
|---|---|---|
| OPERATING ACTIVITIES | | |
| Change in net assets | $ 1,105,730 | $ 2,089,535 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 288,031 | 289,536 |
| Amortization | 10,799 | 7,295 |
| Bad debt expense | 285,189 | - |
| Net realized and unrealized gains on investments | (96,774) | (104,016) |
| Loss (gain) on the sale of property and equipment | 7,759 | (2,248) |
| (Increase) decrease in: | | |
| Accounts receivable - microenterprise | 381,142 | (803,072) |
| Accounts receivable - partner freight and other | 24,636 | 15,653 |
| Contributions and grants receivable | (150,046) | (520,936) |
| Prepaid expenses - travel costs | 3,112 | 2,943 |
| Prepaid expenses - operations | (62,253) | (6,296) |
| Employee advances | 4,144 | (1,979) |
| Deposits | - | (7,429) |
| Inventories | 588,665 | 1,208,682 |
| Operating leases, right-of-use asset | 377,656 | 373,542 |
| Assets held for deferred compensation | - | (157,668) |
| Increase (decrease) in: | | |
| Accounts payable | (611,251) | 803,624 |
| Accrued expenses - compensated absences | 7,368 | (26,834) |
| Accrued expenses - employee deductions and taxes | (440) | 71,145 |
| Accrued expenses - employee bonuses | 278,669 | 81,966 |
| Accrued expenses - VAT collected | (3,605) | 3,605 |
| Accrued expenses - other | (6,893) | (206,495) |
| Deferred revenue - travel | (17,507) | (41,162) |
| Deferred revenue - microenterprise | (337,699) | (76,557) |
| Deferred revenue - other | - | (50,000) |
| Operating lease liabilities | (367,046) | (348,814) |
| Deferred compensation | - | 157,668 |
| TOTAL ADJUSTMENTS | 603,656 | 662,153 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 1,709,386 | 2,751,688 |
| INVESTING ACTIVITIES | | |
| Change in beneficial interest in agency endowment fund | 871 | 1,125 |
| Payment of trademark costs | (40,115) | (17,659) |
| Innovation fund | 543,619 | 73,367 |
| Purchase of investments | (564,708) | (93,899) |
| Purchase of property and equipment | (214,187) | (321,999) |
| Proceeds from sale of property and equipment | (9,500) | - |
| NET CASH USED IN INVESTING ACTIVITIES | (284,020) | (359,065) |
| FINANCING ACTIVITIES | | |
| Repayments of notes payable | (120,227) | (115,991) |
| NET CASH USED IN FINANCING ACTIVITIES | (120,227) | (115,991) |
| NET INCREASE IN CASH | 1,305,139 | 2,276,632 |
| CASH - BEGINNING OF YEAR | 5,820,272 | 3,543,640 |
| CASH - ENDING OF YEAR | $ 7,125,411 | $ 5,820,272 |
| CASH CONSISTS OF: | | |
| Operating | $ 4,300,386 | $ 3,477,982 |
| Reserve account | 2,122,174 | 1,274,019 |
| Operating reserve - board-designated | 702,851 | 1,068,271 |
| TOTAL CASH | $ 7,125,411 | $ 5,820,272 |
| SUPPLEMENTAL CASH FLOW DISCLOSURE | | |
| Cash paid during the year for interest | $ 79,765 | $ 77,128 |
| Cash paid for payments on operating leases | $ 726,819 | $ 718,164 |

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2025

| | Program Services | | Supporting Services | | |
|---|---|---|---|---|---|
| | Programs | Gifts in Kind (GIK) | Management and General | Fundraising | Total |
| Salaries | $ 6,102,736 | $ - | $ 737,247 | $ 873,066 | $ 7,713,049 |
| Employee benefits and payroll taxes | 1,204,786 | - | 233,218 | 204,193 | 1,642,197 |
| Total personnel costs | 7,307,522 | - | 970,465 | 1,077,259 | 9,355,246 |
| In-kind distributions: | | | | | |
| Free distributions of shoes and clothing | - | 21,070,081 | - | - | 21,070,081 |
| Items to the microenterprise programs | - | 65,132,689 | - | - | 65,132,689 |
| Total in-kind distributions | - | 86,202,770 | - | - | 86,202,770 |
| Other costs of goods distributed | 1,497,204 | - | - | - | 1,497,204 |
| Depreciation and amortization | 4,587 | - | 294,243 | - | 298,830 |
| Disaster relief and partner response | 33,600 | - | - | - | 33,600 |
| Insurance and professional fees: | | | | | |
| Insurance | - | - | 194,721 | - | 194,721 |
| Professional fees | 79,856 | - | 200,906 | 43,338 | 324,100 |
| Interest | 72,893 | - | 6,872 | - | 79,765 |
| Marketing and business development: | | | | | |
| Advertising and promotion | 105,683 | - | - | 1,857,640 | 1,963,323 |
| Contracts | - | - | 18,465 | 37,822 | 56,287 |
| Direct mail | - | - | - | 43,947 | 43,947 |
| Events | 1,059 | - | - | 58,468 | 59,527 |
| Fundraising software | 20,127 | - | - | 12,000 | 32,127 |
| Office expenses: | | | | | |
| Auto expenses | 16,260 | - | - | - | 16,260 |
| Rent | 67,067 | - | - | - | 67,067 |
| Repairs and maintenance | 8,943 | - | 9,370 | - | 18,313 |
| Supplies and equipment | 75,352 | - | 5,938 | 7,550 | 88,840 |
| Telephone and utilities | 42,883 | - | 71,727 | - | 114,610 |
| Other expenses: | | | | | |
| Bank fees | 10,039 | - | 128,991 | 3 | 139,033 |
| Bad debt | - | - | 285,189 | - | 285,189 |
| Miscellaneous | 92,036 | - | 276,297 | 3,191 | 371,524 |
| Software services | 318,413 | - | 53,701 | 4,600 | 376,714 |
| Outbound shipping and postage | 576,237 | - | 4,016 | 392 | 580,645 |
| Innovation fund | 7,994 | - | 10,000 | - | 17,994 |
| Regional donation centers | 906,996 | - | 12 | - | 907,008 |
| Travel and corporate relations | 644,092 | - | 155,102 | 83,737 | 882,931 |
| TOTAL EXPENSES | $ 11,888,843 | $ 86,202,770 | $ 2,686,015 | $ 3,229,947 | $ 104,007,575 |

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2024

| | Program Services | | Supporting Services | | |
|---|---|---|---|---|---|
| | Programs | Gifts in Kind (GIK) | Management and General | Fundraising | Total |
| Salaries | $ 4,192,723 | $ - | $ 1,323,889 | $ 1,070,848 | $ 6,587,460 |
| Employee benefits and payroll taxes | 863,609 | - | 378,266 | 260,346 | 1,502,221 |
| Total personnel costs | 5,056,332 | - | 1,702,155 | 1,331,194 | 8,089,681 |
| In-kind distributions: | | | | | |
| Free distributions of shoes and clothing | - | 25,724,025 | - | - | 25,724,025 |
| Items to the microenterprise programs | - | 83,278,990 | - | - | 83,278,990 |
| Total in-kind distributions | - | 109,003,015 | - | - | 109,003,015 |
| Other costs of goods distributed | 1,259,533 | - | - | - | 1,259,533 |
| Depreciation and amortization | 6,092 | - | 290,739 | - | 296,831 |
| Disaster relief and partner response | 41,352 | - | 11,000 | - | 52,352 |
| Insurance and professional fees: | | | | | |
| Insurance | - | - | 194,180 | - | 194,180 |
| Professional fees | 76,892 | - | 402,107 | - | 478,999 |
| Interest | 66,184 | - | 10,944 | - | 77,128 |
| Marketing and business development: | | | | | |
| Advertising and promotion | 6,135 | - | - | 1,302,630 | 1,308,765 |
| Contracts | 3,250 | - | 36,683 | - | 39,933 |
| Direct mail | - | - | - | 32,764 | 32,764 |
| Events | - | - | - | 98,135 | 98,135 |
| Fundraising software | - | - | - | 40,000 | 40,000 |
| Office expenses: | | | | | |
| Auto expenses | 13,805 | - | - | - | 13,805 |
| Rent | 47,335 | - | 2,415 | 174 | 49,924 |
| Repairs and maintenance | 8,503 | - | 10,201 | - | 18,704 |
| Supplies and equipment | 58,026 | - | 7,719 | 6,572 | 72,317 |
| Telephone and utilities | 44,526 | - | 53,593 | - | 98,119 |
| Other expenses: | | | | | |
| Bank fees | 11,610 | - | 71,089 | - | 82,699 |
| Miscellaneous | 42,593 | - | 236,730 | 13,644 | 292,967 |
| Software services | 1,200 | - | 304,332 | 121 | 305,653 |
| Outbound shipping and postage | 545,609 | - | 5,683 | 877 | 552,169 |
| Innovation fund | 22,044 | - | 64,343 | - | 86,387 |
| Regional donation centers | 909,718 | - | 85 | - | 909,803 |
| Travel and corporate relations | 571,542 | - | 124,565 | 144,569 | 840,676 |
| TOTAL EXPENSES | $ 8,792,281 | $ 109,003,015 | $ 3,528,563 | $ 2,970,680 | $ 124,294,539 |

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, a Singapore public company limited by guarantee 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.

*Contributed Non-Financial Assets* - 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. The Organization receives a substantial amount of contributed non-financial resources which are utilized in its programs, either as free distributions or monetized as part of the 4Opportunity (microbusiness enterprise) program (see below).

Donated services are recognized if they create or enhance non-financial 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 and clothes for redistribution in the 4Opportunity program are charged a microenterprise product fee. Revenues are recognized when control of products or services is transferred to the recipient organization (customer), in an amount that reflects the consideration the Organization expects to be entitled to in exchange for those products and services. At the same time the monetization is recorded, the related GIK is released from inventory and expensed as a programmatic cost of goods distributed.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue Recognition (Continued)

The Organization does not have any significant financing components as payment is received at or shortly after the point of sale. Costs incurred to obtain a microenterprise partner are expensed as incurred when the amortization period is less than a year. Amounts collected in advance of shipment are classified initially as deferred revenue 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.

### 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 5 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 is predominantly from 4Opportunity microenterprise partners. The Organization charges a 2.5% late fee for past due accounts per credit terms established with microenterprise partners.

An allowance for credit losses 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 credit loss in the period received. In management's opinion, no credit loss for accounts receivable was necessary at June 30, 2025 or 2024.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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. At June 30, 2025, all contributions and grants receivable are due within one year.

A credit loss 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 credit loss for uncollectible pledges was necessary as of June 30, 2025 and 2024.

### 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.

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. At June 30, 2025, purchased inventory consisted of items purchased for the Organization's program 4EveryKid ("4EK"). 4EK partners with schools across the U.S. to provide new athletic shoes to children experiencing homelessness.

Provision is made to reduce any excess, obsolete or slow-moving inventory to net realizable value.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Trademarks

During 2025 and 2024, the Organization trademarked certain information relating to its name and brand. Total costs associated with these trademarks in the amount of $127,760 on June 30, 2025 ($87,645 at June 30, 2024) were capitalized and are being amortized over ten to fifteen years, depending on the type of item. Accumulated amortization amounted to $47,278 at June 30, 2025 ($36,479 at June 30, 2024). Amortization expense for 2025 amounted to $10,799 ($7,295 in 2024) and is expected to be approximately $5,000 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 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)

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, mutual funds and equities 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 Organization'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.

Advertising

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services

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

Program Services - Soles4Souls 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 137 countries. During fiscal year 2025, in their 4Relief programs, Soles4Souls distributed 838,457 pairs of shoes, 687,598 pieces of clothing and 498,243 pieces of other essentials to those in need around the world. Additionally, Soles4Souls, in our 4Opportunity programs, distributed 5,618,326 pairs of shoes, 3,994,685 pieces of clothing and 321,628 pieces of other essential items providing opportunities for job and income creation around the world. During the 2024 fiscal year, in our 4Relief Programs, Soles4Souls distributed 767,355 pairs of shoes, 707,937 pieces of clothing and 478,183 pieces of other essentials to those in need around the world. Additionally, Soles4Souls, in our 4Opportunity Programs, distributed 4,715,543 pairs of shoes, 3,449,986 pieces of clothing and 259,787 pieces of other essential items providing opportunities for job and income creation around the world.

Soles4Souls partners with non-governmental organizations ("NGOs") in Haiti, Honduras, Guatemala and Moldova who run the 4Opportunity operations, as well as contracts with established 4Opportunity partners to distribute shoes and clothing in Central America, South America, Africa and Asia. The 4Opportunity program is designed to provide impoverished people in developing nations with the resources to start and maintain their own businesses.

During FY25, Soles4Souls continued its partnership with Street Business School. Through this collaboration, our partners trained 86 entrepreneurs in the Dominican Republic, 58 in Haiti, and 8 in the Philippines. Additionally, four Soles4Souls employees, three of whom are women, were certified as trainers.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

More than 1.25 million children in the United States are experiencing homelessness. Addressing this critical need, Soles4Souls continues to respond with our 4EveryKid program, an initiative that provides a pair of new athletic shoes to K-12 students in the United States that are experiencing homelessness. We know that when children have their basic needs met, they feel more confident, can participate in sports, and stay focused on their learning. During FY25, Soles4Souls distributed 112,648 pairs of shoes and 264,891 pairs of socks to students experiencing homelessness through 270 partners nationwide.

A core component of the Soles4Souls mission is providing relief to people impacted by natural and humanitarian disasters. During FY25, Soles4Souls provided apparel, footwear and additional accessories to respond to domestic and international relief efforts. Through its robust partner network, Soles4Souls continued to serve recent arrivals to the U.S., those displaced by natural disasters, and individuals experiencing humanitarian hardships through strong alliances with local, regional and global organizations. In response to Soles4Souls crises, Soles4Souls provided donations to trusted partners to distribute within their direct networks. Soles4Souls has also remained steadfast in its response efforts in Eastern Europe to support Ukrainian relief efforts. In FY25 alone, Soles4Souls directly supplied 526,457 pairs of shoes, 461,258 pieces of clothing and 402,516 units of accessories, socks and other items to organizations focused on disaster relief. On average, items were distributed within 6-12 weeks post disaster.

In FY24 alone, Soles4Souls supplied 427,891 pairs of shoes, 526,645 pieces of clothing and 334,152 units of accessories, socks and other items to those affected globally by natural disasters and/or humanitarian crises. On average, items were distributed within 6-12 weeks post disaster.

Through its many distribution programs described above, Soles4Souls diverted 10,764,538 pairs/pieces from landfills totaling approximately 9,608,465 pounds of product. Since inception, Soles4Souls has diverted 103,191,885 pairs/pieces from landfills totaling approximately 99,042,253 pounds.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

Through the Soles4Souls Global Experiences program, volunteers from across the United States join Soles4Souls staff on distribution trips to countries where it has partner microenterprise operations to experience first-hand providing shoes to people in these developing countries. During FY25, Soles4Souls conducted 23 trips with approximately 195 individuals traveling to Honduras, Guatemala, Dominican Republic and the United States.

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 recordkeeping, 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 fundraising materials.

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 personnel costs, insurance, supplies and equipment, outbound shipping and postage, delivery professional fees, repairs and maintenance and telephone and utilities, which are allocated on the basis of estimates of time and effort.

## NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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)

Leases

The Organization made an accounting policy election available under Topic 842 not to recognize right-of-use ("ROU") assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease or July 1, 2022, (for existing leases upon the adoption of Topic 842.) The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, the Organization used the discount rate implicit in the lease agreement, if readily determinable. For leases in which the rate implicit in the lease agreement is not readily determinable, the Organization made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date or (remaining term for leases existing upon the adoption of Topic 842.)

Future lease payments may include fixed rent escalation clauses or payments that depend on an index, which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2025 and February 25, 2026, 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:

| | 2025 | 2024 |
|---|---|---|
| Financial assets at year end: | | |
| Cash | | |
| Operating | $ 4,300,386 | $ 3,477,982 |
| 4EK Reserve - board-designated | 2,122,174 | 1,274,019 |
| Operating reserve - board-designated | 702,851 | 1,068,271 |
| Investments - board-designated operating reserve | 1,274,508 | 1,156,645 |
| Accounts receivable | | |
| Microenterprise | 450,439 | 1,116,770 |
| Partner freight and other | 38,377 | 63,013 |
| Contributions and grants receivable | 934,051 | 784,005 |
| Total financial assets | 9,822,786 | 8,940,705 |
| Less amounts not available to be used within one year: | | |
| 4EK Reserve - board-designated | (2,122,174) | (1,274,019) |
| Operating reserve - board-designated | (702,851) | (1,068,271) |
| Investments - board-designated operating reserve | (1,274,508) | (1,156,645) |
| Amounts not available to be used within one year | (4,099,533) | (3,498,935) |
| Financial assets available to meet cash needs for general expenditures within one year | $ 5,723,253 | $ 5,441,770 |

## NOTE 4 - CONTRACT BALANCES

Accounts receivable and deferred revenue from contracts with customers (predominantly related to the 4Opportunity microenterprise program) consisted of the following as of June 30, 2025 and 2024:

| | Accounts receivable (microenterprise and freight) | | Deferred revenue (microenterprise and travel) | |
|---|---|---|---|---|
| | 2025 | 2024 | 2025 | 2024 |
| Beginning of year | $ 1,179,783 | $ 392,364 | $ 388,074 | $ 505,793 |
| End of year | $ 488,816 | $ 1,179,783 | $ 32,868 | $ 388,074 |

## NOTE 5 - INVESTMENTS AND FAIR VALUE

Investments consisted of the following, along with their classification in the fair value hierarchy at June 30:

| | 2025 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Cash and money market funds | $ 33,330 | $ 33,330 | $ - | $ - |
| Fixed income | 538,041 | - | 538,041 | - |
| Mutual funds | 83,045 | 83,045 | - | - |
| Equities | 620,092 | 620,092 | - | - |
| | $ 1,274,508 | $ 736,467 | $ 538,041 | $ - |

| | 2024 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Cash and money market funds | $ 40,830 | $ 40,830 | $ - | $ - |
| Fixed income | 513,240 | - | 513,240 | - |
| Mutual funds | 30,808 | 30,808 | | |
| Equitites | 571,767 | 571,767 | - | - |
| | $ 1,156,645 | $ 643,405 | $ 513,240 | $ - |

## NOTE 6 - INVENTORIES

Inventories consisted of the following at June 30:

| | 2025 | 2024 |
|---|---|---|
| Donated shoes: | | |
| New shoes | $ 14,547,490 | $ 13,660,715 |
| Used shoes | 2,316,841 | 2,175,142 |
| Donated clothing items | 12,246,129 | 12,942,176 |
| Other donated items: | | |
| Other relief supplies | 335,781 | 384,740 |
| Total donated inventory | 29,446,241 | 29,162,773 |
| Purchased 4EK shoes | 1,384,427 | 2,256,560 |
| Total inventory | $ 30,830,668 | $ 31,419,333 |

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

| | 2025 | 2024 |
|---|---|---|
| Beginning of year | $ 29,162,773 | $ 32,125,166 |
| Contributions received | 86,486,238 | 106,040,622 |
| Donated inventory distributed in programs | (86,202,770) | (109,003,015) |
| End of year | $ 29,446,241 | $ 29,162,773 |

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

## NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

| | 2025 | 2024 |
|---|---|---|
| Land | $ 238,800 | $ 238,800 |
| Building and improvements | 3,376,936 | 3,376,936 |
| Vehicles | 90,661 | 140,147 |
| Equipment | 1,704,761 | 1,489,657 |
| Furniture and fixtures | 140,147 | 140,147 |
| | 5,551,305 | 5,385,687 |
| Less: accumulated depreciation | (2,825,215) | (2,585,753) |
| | $ 2,726,090 | $ 2,799,934 |

## NOTE 8 - BENEFICIAL INTEREST IN AGENCY 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 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:

| | 2025 | 2024 |
|---|---|---|
| Balance - beginning of year | $ 8,778 | $ 7,654 |
| Investment income | 870 | 1,124 |
| Balance - end of year | $ 9,648 | $ 8,778 |

## NOTE 9 - LINE OF CREDIT

The Organization had a line of credit in the amount of $975,000, which was cross-collateralized by the deed of trust on the mortgage of the Nashville, Tennessee headquarters facility. The line of credit bore interest at a rate of prime plus 3.5%, with a minimum rate of 4.75% annually, and matured December 2024.

## NOTE 10 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

| | 2025 | 2024 |
|---|---|---|
| Mortgage payable on warehouse facility located in Wadley, Alabama, refinanced in March 2018. Requires monthly payments of $10,899, with final payment in September 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 with a carrying value of $1,134,985. | $ 936,230 | $ 1,016,931 |
| Mortgage payable on headquarters facility located in Nashville, Tennessee, refinanced in March 2018. Requires monthly payments of $5,195, with final payment in September 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 with a carrying value of $409,225. | 445,902 | 485,428 |
| Total notes payable | $ 1,382,132 | $ 1,502,359 |

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

## NOTE 10 - NOTES PAYABLE

Annual principal maturities of notes payable are as follows at June 30, 2025:

| Year ending June 30, | | |
|---|---|---|
| 2026 | $ | 130,067 |
| 2027 | | 136,490 |
| 2028 | | 143,231 |
| 2029 | | 150,304 |
| 2030 | | 157,726 |
| Thereafter | | 664,314 |
| | $ | 1,382,132 |

Total interest expense on all indebtedness for the year ended June 30, 2025 amounted to $79,765 ($77,128 in 2024).

## NOTE 11 - LEASES

The Organization leases buildings and equipment under operating lease agreements that have initial terms ranging from 1 to 5 years. Some leases include one or more options to renew, generally at the Organization's sole discretion, with renewal terms that can extend the lease term up to 5 years. In addition, the leases contain termination options, where the rights to terminate are held by either the Organization, the lessor or both parties. These options to terminate the leases are included in the lease terms when it is reasonably certain that the Organization will exercise that option.

The components of lease expense are as follows for the year ended June 30, 2025 and 2024:

| | 2025 | 2024 |
|---|---|---|
| Operating lease cost | $ 418,363 | $ 427,005 |
| Short-term lease cost | 308,456 | 291,159 |
| Total lease cost | $ 726,819 | $ 718,164 |

Total rent expense for the operating lease was $485,430 and $476,929 for the years ended June 30, 2025 and 2024, respectively.

## NOTE 11 - LEASES (CONTINUED)

Additional information related to leases is as follows as of June 30, 2025:

| | 2025 | 2024 |
|---|---|---|
| Operating leases: | | |
| Operating lease right-of-use assets | $ 913,518 | $ 1,291,174 |
| Weighted-average remaining lease term: | | |
| Operating leases | 2.68 years | 3.56 years |
| Weighted-average discount rate: | | |
| Operating leases | 3.5% | 3.5% |

Future undiscounted cash flows and a reconciliation to the lease liabilities recognized on the Consolidated Statements of Financial Position are as follows as of June 30, 2025:

| | Operating Leases |
|---|---|
| Years ending June 30: | |
| 2026 | $ 373,166 |
| 2027 | 358,029 |
| 2028 | 278,195 |
| Total lease payments | 1,009,390 |
| Less imputed interest | (47,824) |
| Total present value of lease liabilities | $ 961,566 |

## NOTE 12 - NET ASSETS

Net assets consisted of the following at June 30:

| | 2025 | 2024 |
|---|---|---|
| Net assets without donor restrictions | | |
| 4EK reserve - board-designated | $ 2,122,174 | $ 1,274,019 |
| Operating reserve - board-designated | 702,851 | 1,068,271 |
| Investments - board-designated operating reserve | 1,274,508 | 1,156,645 |
| Invested in property and equipment, less related debt | 1,343,958 | 1,297,575 |
| Donated inventory without restriction | 6,972,246 | 6,952,489 |
| Purchased 4EK inventory not yet distributed | 1,384,427 | 2,256,560 |
| Total net assets without donor restrictions | $ 13,800,164 | $ 14,005,559 |
| Net assets with donor restrictions | | |
| Purpose restrictions - | | |
| Donated inventory for distribution internationally | $ 26,654,364 | $ 25,344,109 |
| Maintained in perpetuity - | | |
| Beneficial interest in agency endowment | 9,648 | 8,778 |
| Total net assets with donor restrictions | $ 26,664,012 | $ 25,352,887 |

## NOTE 13 - 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 $292,944 for the year ended June 30, 2025 ($254,106 in 2024) 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, 2025 and 2024.

## NOTE 14 - 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, 2025, receivables from three and two microenterprise partners totaled approximately $400,605 or 89% of microenterprise accounts receivable (receivables from two microenterprise partners totaled $681,567, or 61% of microenterprise accounts receivable at June 30, 2024).

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

During 2025, the Organization:

- Received 36% of its shoe donations from two shoe distributors.
- Received 34% of its clothing donations from five retailers.
- Utilized three distribution partners to distribute 47% of its total shoe and clothing distributions.
- Received microenterprise program fees from three companies and direct partners that represent 65% of total microenterprise program fees.
- Utilized two distribution partners to distribute 43% of free distributions of shoes and clothing.

NOTE 14 - CONCENTRATIONS AND RISK (CONTINUED)

During 2024, the Organization:

- Received 55% of its shoe donations from three shoe distributors.
- Received 51% of its clothing donations from one retailer.
- Utilized four distribution partners to distribute 48% of its total shoe and clothing distributions.
- Received microenterprise program fees from four companies and direct partners that represent 75% of total microenterprise program fees.
- Utilized two distribution partners to distribute 62% of free distributions of shoes and clothing.