

SOLES4SOULS, INC.

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2022 AND 2021

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INDEPENDENT AUDITOR’S REPORT

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

OPINION

We have audited the accompanying consolidated financial statements of Soles4Souls, Inc. (the “Organization”), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, 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.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Soles4Souls, Inc. of June 30, 2022 and 2021, and the changes in its consolidated net assets and consolidated cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

BASIS FOR OPINION

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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.

AUDITOR'S 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 auditor's 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 audits.



Nashville, Tennessee
January 19, 2023

SOLES4SOULS, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
Cash		
Operating	\$ 2,174,792	\$ 1,666,069
Holding account	-	97,026
Operating reserve - board-designated	536,666	864,365
Investments - operating reserve	562,904	496,385
Accounts receivable		
Microenterprise	646,914	420,517
Partner freight and other	39,904	30,686
Contributions and grants receivable	149,397	226,092
Prepaid expenses		
Travel costs	10,669	26,970
Operations	71,525	114,577
Employee advances	3,975	5,000
Deposits	27,116	33,116
Inventories	25,853,024	25,743,224
Trademarks	40,155	42,223
Property and equipment, net	2,553,722	2,539,463
Beneficial interest in agency endowment fund	7,072	8,027
	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 32,677,835</u>	<u>\$ 32,313,740</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts payable	\$ 547,426	\$ 333,030
Accrued expenses		
Compensated absences	194,822	204,059
Employee deductions and taxes	189,793	154,112
Employee bonuses	477,957	474,609
VAT collected	-	7,140
Other	23,781	-
Deferred revenue		
Travel	82,725	100,552
Microenterprise	151,763	269,985
Other	100,000	-
Notes payable	1,729,246	1,834,853
	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>3,497,513</u>	<u>3,378,340</u>
<u>NET ASSETS</u>		
Without donor restrictions	8,810,955	9,029,252
With donor restrictions	20,369,367	19,906,148
	<u> </u>	<u> </u>
TOTAL NET ASSETS	<u>29,180,322</u>	<u>28,935,400</u>
	<u> </u>	<u> </u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 32,677,835</u>	<u>\$ 32,313,740</u>

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2022

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
GIFTS IN KIND (GIK) CONTRIBUTIONS			
Shoes:			
Corporate shoe donations	\$ 38,140,382	\$ 5,368,407	\$ 43,508,789
Community shoe drives	13,110,299	-	13,110,299
Clothing and other relief item donations	18,116,230	7,001,664	25,117,894
GIK net assets released from restriction	<u>11,901,810</u>	<u>(11,901,810)</u>	<u>-</u>
Total GIK contributions	81,268,721	468,261	81,736,982
PROGRAM SERVICE EXPENSE - GIK distributions	<u>(82,439,008)</u>	<u>-</u>	<u>(82,439,008)</u>
NET CHANGE IN GIK INVENTORY	<u>(1,170,287)</u>	<u>468,261</u>	<u>(702,026)</u>
SUPPORT AND REVENUE			
Microenterprise program fees	7,893,979	-	7,893,979
Other earned revenue	138,950	-	138,950
Contributions	2,898,712	-	2,898,712
Investment income (loss)	(57,492)	(955)	(58,447)
International volunteer travel fees	50,537	-	50,537
Other income	25,493	-	25,493
Other donor-restricted net assets released from restriction	<u>4,087</u>	<u>(4,087)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>10,954,266</u>	<u>(5,042)</u>	<u>10,949,224</u>
EXPENSES			
Program services, excluding GIK distributions above	5,498,571	-	5,498,571
Supporting services:			
Management and general	2,260,295	-	2,260,295
Fundraising	<u>2,243,410</u>	<u>-</u>	<u>2,243,410</u>
Total supporting services	<u>4,503,705</u>	<u>-</u>	<u>4,503,705</u>
TOTAL EXPENSES	<u>10,002,276</u>	<u>-</u>	<u>10,002,276</u>
CHANGE IN NET ASSETS	(218,297)	463,219	244,922
NET ASSETS, BEGINNING OF YEAR	<u>9,029,252</u>	<u>19,906,148</u>	<u>28,935,400</u>
NET ASSETS, END OF YEAR	<u>\$ 8,810,955</u>	<u>\$ 20,369,367</u>	<u>\$ 29,180,322</u>

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2021

	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>	<u>TOTAL</u>
GIFTS IN KIND (GIK) CONTRIBUTIONS			
Shoes:			
Corporate shoe donations	\$ 32,415,383	\$ 7,036,914	\$ 39,452,297
Community shoe drives	10,734,410	-	10,734,410
Clothing and other relief item donations	20,063,058	2,286,966	22,350,024
Net assets released from restriction	<u>822,319</u>	<u>(822,319)</u>	<u>-</u>
Total GIK contributions	64,035,170	8,501,561	72,536,731
PROGRAM SERVICE EXPENSE - GIK distributions	<u>(76,018,328)</u>	<u>-</u>	<u>(76,018,328)</u>
NET CHANGE IN GIK INVENTORY	<u>(11,983,158)</u>	<u>8,501,561</u>	<u>(3,481,597)</u>
SUPPORT AND REVENUE			
Microenterprise program fees	6,318,783	-	6,318,783
Other earned income	115,409	-	115,409
Contributions	2,009,369	-	2,009,369
International volunteer travel fees	43,897	-	43,897
Investment income	764,900	1,513	766,413
Other income	24,143	-	24,143
Other donor-restricted net assets released from restriction	<u>71,110</u>	<u>(71,110)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>9,347,611</u>	<u>(69,597)</u>	<u>9,278,014</u>
EXPENSES			
Program services, excluding GIK distributions above	5,643,039	-	5,643,039
Supporting services:			
Management and general	1,345,257	-	1,345,257
Fundraising	<u>1,290,594</u>	<u>-</u>	<u>1,290,594</u>
Total supporting services	<u>2,635,851</u>	<u>-</u>	<u>2,635,851</u>
TOTAL EXPENSES	8,278,890	-	8,278,890
CHANGE IN NET ASSETS	(10,914,437)	8,431,964	(2,482,473)
NET ASSETS, BEGINNING OF YEAR	<u>19,943,689</u>	<u>11,474,184</u>	<u>31,417,873</u>
NET ASSETS, END OF YEAR	<u>\$ 9,029,252</u>	<u>\$ 19,906,148</u>	<u>\$ 28,935,400</u>

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
OPERATING ACTIVITIES		
Change in net assets	\$ 244,922	\$ (2,482,473)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	190,579	181,450
Amortization	5,675	5,324
Forgiveness of Paycheck Protection Program loan	-	(764,900)
Net realized and unrealized gains on investments	62,473	(35,520)
(Increase) decrease in:		
Accounts receivable - microenterprise	(226,397)	196,944
Accounts receivable - partner freight and other	(9,218)	(2,715)
Contributions and grants receivable	76,695	(35,816)
Prepaid expenses - travel costs	16,301	60,171
Prepaid expenses - operations	43,052	30,393
Employee advances	1,025	(5,000)
Deposits	6,000	(2,810)
Inventories	(109,800)	3,481,597
Increase (decrease) in:		
Accounts payable	214,396	242,812
Accrued expenses - compensated absences	(9,237)	6,867
Accrued expenses - employee deductions and taxes	35,681	11,201
Accrued expenses - employee bonuses	3,348	159,715
Accrued expenses - other	23,781	(115,207)
VAT collected	(7,140)	7,140
Deferred revenue - travel	(17,827)	(56,041)
Deferred revenue - microenterprise	(118,222)	47,908
Deferred revenue - cause marketing	100,000	-
TOTAL ADJUSTMENTS	281,165	3,413,513
NET CASH PROVIDED BY OPERATING ACTIVITIES	526,087	931,040
INVESTING ACTIVITIES		
Change in beneficial interest in agency endowment fund	955	(1,513)
Payment of trademark costs	(3,607)	(3,018)
Proceeds from sale of investments	82,477	64,551
Purchase of investments	(211,469)	(68,808)
Purchase of property and equipment	(204,838)	(24,445)
NET CASH USED IN INVESTING ACTIVITIES	(336,482)	(33,233)
FINANCING ACTIVITIES		
Repayments of notes payable	(105,607)	(39,036)
NET CASH USED IN FINANCING ACTIVITIES	(105,607)	(39,036)
NET INCREASE IN CASH	83,998	858,771
CASH - BEGINNING OF YEAR	2,627,460	1,768,689
CASH - ENDING OF YEAR	\$ 2,711,458	\$ 2,627,460
CASH CONSISTS OF:		
Operating	\$ 2,174,792	\$ 1,666,069
Holding account	-	97,026
Operating reserve - board-designated	536,666	864,365
	\$ 2,711,458	\$ 2,627,460
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Cash paid during the year for interest	\$ 87,512	\$ 121,901

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2022

	Program Services		Supporting Services		Total
	Programs	Gifts in Kind (GIK)	Management and General	Fundraising	
Salaries	\$ 2,955,957	\$ -	\$ 1,008,660	\$ 863,133	\$ 4,827,750
Employee benefits and payroll taxes	534,585	-	216,935	162,393	913,913
Total personnel costs	3,490,542	-	1,225,595	1,025,526	5,741,663
In-kind distributions:					
Free distributions of shoes and clothing	-	22,572,504	-	-	22,572,504
Items to the microenterprise programs	-	59,866,504	-	-	59,866,504
Total in-kind distributions	-	82,439,008	-	-	82,439,008
Other costs of goods distributed	410,795	-	-	-	410,795
Depreciation and amortization	127,383	-	39,152	29,719	196,254
Disaster relief and partner response	69,788	-	-	-	69,788
Insurance and professional fees:					
Insurance	-	-	130,241	-	130,241
Professional fees	117,762	-	152,020	-	269,782
Interest	-	-	87,512	-	87,512
Marketing and business development:					
Advertising and promotion	30,837	-	-	344,890	375,727
Contracts	-	-	-	455,691	455,691
Direct mail	-	-	-	201,002	201,002
Events	-	-	-	7,167	7,167
Fundraising software	-	-	-	77,099	77,099
Office expenses:					
Auto expenses	11,110	-	-	-	11,110
Rent	19,751	-	-	-	19,751
Repairs and maintenance	14,806	-	18,855	-	33,661
Supplies and equipment	43,965	-	5,903	8,860	58,728
Telephone and utilities	40,797	-	78,267	257	119,321
Other expenses:					
Bank fees	4,933	-	89,279	-	94,212
Miscellaneous	11,726	-	218,297	11,785	241,808
Program development	57,856	-	-	-	57,856
Software services	-	-	130,724	-	130,724
Outbound shipping and postage	274,065	-	15,793	127	289,985
Project 2025	37,069	-	-	-	37,069
Regional donation centers	548,110	-	-	-	548,110
Travel and corporate relations	187,276	-	68,657	81,287	337,220
TOTAL EXPENSES	\$ 5,498,571	\$ 82,439,008	\$ 2,260,295	\$ 2,243,410	\$ 92,441,284

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2021

	Program Services		Supporting Services		Total
	Programs	Gifts in Kind (GIK)	Management and General	Fundraising	
	Salaries	\$ 2,951,184	\$ -	\$ 859,929	
Employee benefits and payroll taxes	<u>479,085</u>	<u>-</u>	<u>124,609</u>	<u>111,345</u>	<u>715,039</u>
Total personnel costs	<u>3,430,269</u>	<u>-</u>	<u>984,538</u>	<u>808,203</u>	<u>5,223,010</u>
In-kind distributions:					
Free distributions of shoes and clothing	258,197	13,169,064	-	-	13,427,261
Items to the microenterprise programs	<u>-</u>	<u>62,849,264</u>	<u>-</u>	<u>-</u>	<u>62,849,264</u>
Total in-kind distributions	258,197	76,018,328	-	-	76,276,525
Cost of goods distributed	414,444	-	-	-	414,444
Advertising and promotion	200,844	-	-	-	200,844
Auto expenses	15,840	-	-	-	15,840
Bank fees	-	-	82,802	-	82,802
Depreciation and amortization	112,064	-	37,355	37,355	186,774
Direct mail	-	-	-	111,884	111,884
Events	3,004	-	1,002	77,734	81,740
Insurance	99,396	-	15,514	15,514	130,424
Interest	59,565	-	19,854	19,854	99,273
Miscellaneous	80,830	-	60,362	9,596	150,788
Supplies and equipment	61,035	-	3,376	8,344	72,755
Postage, shipping and delivery	185,259	-	-	-	185,259
Professional fees	89,530	-	80,448	138,268	308,246
Regional donation centers	400,560	-	-	-	400,560
Rent	11,053	-	-	-	11,053
Repairs and maintenance	24,249	-	6,074	6,074	36,397
Software services	63,274	-	21,092	21,092	105,458
Telephone and utilities	73,190	-	24,396	24,396	121,982
Travel	<u>60,436</u>	<u>-</u>	<u>8,444</u>	<u>12,280</u>	<u>81,160</u>
TOTAL EXPENSES	<u>\$ 5,643,039</u>	<u>\$ 76,018,328</u>	<u>\$ 1,345,257</u>	<u>\$ 1,290,594</u>	<u>\$ 84,297,218</u>

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

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.

SOLES4SOULS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

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 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 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.

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.

SOLES4SOULS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 are 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 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. In management's opinion, no allowance for accounts receivable was necessary at June 30, 2022 or 2021.

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, 2022, all contributions and grants receivable are due within one year.

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 June 30, 2022 and 2021.

SOLES4SOULS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2022, purchase inventory consisted of items purchased for the Organization's program 4EveryKid ("4EK"). 4EK partners with schools across the US 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.

Trademarks

During 2022 and 2021, the Organization trademarked certain information relating to its name and brand. Total costs associated with these trademarks in the amount of \$63,030 on June 30, 2022 (\$59,423 at June 30, 2021) were capitalized and are being amortized over ten to fifteen years, depending on the type of item. Accumulated amortization amounted to \$22,875 at June 30, 2022 (\$17,200 at June 30, 2021). Amortization expense for 2022 amounted to \$5,675 (\$5,324 in 2021) 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.

SOLES4SOULS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Equipment and Depreciation (continued)

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

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

Agency Endowment Fund

The Organization's beneficial interest in an agency endowment fund held by the Community Foundation of Middle Tennessee 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.

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.

SOLES4SOULS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (continued)

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.

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 2022, in our 4Relief programs, Soles4Souls distributed 893,582 pairs of shoes, 484,678 pieces of clothing and 1,108,850 pieces of other essentials to those in need around the world. Additionally, Soles4Souls, in our 4Opportunity programs, distributed 4,228,660 pairs of shoes, 2,392,432 pieces of clothing and 524,032 pieces of other essential items providing opportunities for job and income creation around the world. During the 2021 fiscal year, Soles4Souls distributed 778,298 pairs of shoes, 224,055 pieces of clothing and 1,235,593 pieces of other essentials to those in need around the world. Additionally, Soles4Souls used 3,572,849 pairs of shoes, 2,451,039 pieces of clothing and 187,454 pieces of other essential items in the 4Opportunity program 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 4Opportunity operations, as well as contracts with established 4Opportunity partners to distribute shoes and clothing in Central America, South America, Africa and Asia. Our 4Opportunity program is designed to provide impoverished people in developing nations with the resources to start and maintain their own businesses

SOLES4SOULS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

During fiscal year 2022, Soles4Souls continued to partner with Street Business School to certify approximately 80 female trainers in our 4Opportunity partners in Haiti and Philippines. Once the trainers were certified, they trained 29 entrepreneurs in essential business skills helping them create and manage their own business and sustain incomes for themselves and their families. In 2021, Soles4Souls partnered with Street Business School to certify trainers in Haiti and Guatemala.

More than 1.5 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 need met, they feel more confident, can participate in sports, and stay focused on their learning. During fiscal year 2022, Soles4Souls distributed 34,075 pairs of shoes to homeless students in 68 cities across the United States. During 2021, Soles4Souls distributed 29,361 pairs of shoes to homeless students in 74 cities across the United States and in Canada, Singapore, France and the United Kingdom.

A core component of the Soles4Souls mission is providing relief to people impacted by natural disasters. During fiscal year 2022, Soles4Souls provided apparel, footwear and additional accessories to respond to domestic and international relief efforts. Domestically, we served Afghans and Haitians who were recent arrivals to the U.S., provided donations in Kentucky to respond to Spring 2022 flooding, served families affected by wildfires in Redding, CA and delivered relief to victims of Hurricane Ida. We have continued to respond to the Ukrainian humanitarian crisis and in fiscal year 2022 alone, Soles4Souls supplied 308,227 pairs of shoes, 181,272 pieces of clothing and 170,936 units of accessories to those who fled Ukraine to seek safety. On average, items were distributed within 6-12 weeks post disaster. During 2021, Soles4Souls provided apparel, footwear and additional accessories to respond to domestic and international relief efforts. We served those affected by the wildfires that ravaged California and Oregon, the explosion in Beirut, Lebanon and victims of hurricanes in Louisiana (Laura and Delta) and Central America (Iota and Eta).

Through our many distribution programs described above, Soles4Souls kept 9,815,624 pairs/pieces out of landfills totaling approximately 8,805,410 pounds of product. Since inception, Soles4Souls has kept 83,125,796 pairs/pieces out of landfills totaling approximately 80,692,961 pounds.

Through the Soles4Souls Global Experiences program, volunteers from across the United States join Soles4Souls staff on distribution trips to countries where we have partner microenterprise operations to experience first-hand providing shoes to people in these developing countries. During fiscal year 2022, Soles4Souls conducted 8 trips with approximately 77 individuals traveling to Honduras, Guatemala, and the United States. During 2021, Soles4Souls did not host any Earned Travel experiences due to the COVID pandemic.

SOLES4SOULS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

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, postage, shipping and delivery 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.

SOLES4SOULS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

New Pronouncement

In September 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. ASU 2020-07 also requires additional qualitative and quantitative disclosures about contributed nonfinancial assets received, disaggregated by category. This ASU was effective for the Organization beginning on July 1, 2021 and did not result in a significant change to the financial statements.

Recent Authoritative Accounting Guidance

In February 2016, the Financial Accounting Standards Board (“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 Statement of Financial Position 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 Statement of Activities. 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. In March 2019, the FASB issued ASU 2019-01, *Leases (Topic 842) Codification Improvements*, which exempts entities from having to provide interim disclosures required by ASC 250-10-50-3 in the fiscal year in which an organization adopts the new leases standard.

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 new standard, which will be effective for the Organization July 1, 2022, provides a number of practical expedients. Upon adoption, the Organization expects to elect all the practical expedients available.

SOLES4SOULS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2022 and January 19, 2023, 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:

	<u>2022</u>	<u>2021</u>
<u>Financial assets at year end:</u>		
Cash		
Operating	\$ 2,174,792	\$ 1,666,069
Holding account	-	97,026
Operating reserve - board-designated	536,666	864,365
Investments - board-designated operating reserve	562,904	496,385
Accounts receivable		
Microenterprise, net	646,914	420,517
Partner freight and other	39,904	30,686
Contributions and grants receivable	<u>149,397</u>	<u>226,092</u>
Total financial assets	<u>4,110,577</u>	<u>3,801,140</u>
<u>Less amounts not available to be used within one year:</u>		
Holding account	-	(97,026)
Operating reserve - board-designated	(1,099,570)	(1,360,750)
Non-GIK donor-restricted amounts	<u>-</u>	<u>(4,087)</u>
Amounts not available to be used within one year	<u>(1,099,570)</u>	<u>(1,461,863)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,011,007</u>	<u>\$ 2,339,277</u>

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 of Directors has designated as an operating reserve could be made available for general expenditure, if necessary.

SOLES4SOULS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

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, 2022 and 2021:

	Accounts receivable		Deferred revenue	
	(microenterprise and freight)		(microenterprise and travel)	
	2022	2021	2022	2021
Beginning of year	\$ 451,203	\$ 645,432	\$ 370,537	\$ 378,670
End of year	\$ 686,818	\$ 451,203	\$ 234,488	\$ 370,537

NOTE 5 - INVESTMENTS AND FAIR VALUE

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

	2022			
	Total	Level 1	Level 2	Level 3
Cash and money market funds	\$ 158,767	\$ 158,767	\$ -	\$ -
Fixed income	186,091	-	186,091	-
Equities	233,500	233,500	-	-
	\$ 578,358	\$ 392,267	\$ 186,091	\$ -
	2021			
	Total	Level 1	Level 2	Level 3
Cash and money market funds	\$ 113,750	\$ 113,750	\$ -	\$ -
Fixed income	202,858	-	202,858	-
Equities	179,777	179,777	-	-
	\$ 496,385	\$ 293,527	\$ 202,858	\$ -

SOLES4SOULS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 6 - INVENTORIES

Inventories consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Donated shoes:		
New shoes	\$ 11,096,989	\$ 13,869,494
Used shoes	1,850,921	2,122,008
Donated clothing items	10,588,496	7,815,418
Other donated items:		
Other relief supplies	<u>1,504,791</u>	<u>1,936,304</u>
Total donated inventory	25,041,197	25,743,224
Purchased 4EK shoes	<u>811,827</u>	<u>-</u>
Total inventory	<u>\$ 25,853,024</u>	<u>\$ 25,743,224</u>

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

	<u>2022</u>	<u>2021</u>
Beginning of year	\$ 25,743,224	\$ 29,224,821
Contributions received	81,736,982	72,536,731
Donated inventory distributed in programs	<u>(82,439,009)</u>	<u>(76,018,328)</u>
End of year	<u>\$ 25,041,197</u>	<u>\$ 25,743,224</u>

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.

SOLES4SOULS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Land	\$ 238,800	\$ 238,800
Building and improvements	3,303,599	3,289,311
Vehicles	150,714	147,647
Equipment	795,639	608,156
Furniture and fixtures	<u>140,147</u>	<u>140,147</u>
	4,628,899	4,424,061
Less: accumulated depreciation	<u>(2,075,177)</u>	<u>(1,884,598)</u>
	<u>\$ 2,553,722</u>	<u>\$ 2,539,463</u>

NOTE 8 - 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:

	<u>2022</u>	<u>2021</u>
Balance - beginning of year	\$ 8,027	\$ 6,514
Investment income (loss)	<u>(955)</u>	<u>1,513</u>
Balance - end of year	<u>\$ 7,072</u>	<u>\$ 8,027</u>

SOLES4SOULS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 9 - LINE OF CREDIT

The Organization has a line of credit in the amount of \$975,000, which 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 December 2024. There was no balance on the line of credit at June 30, 2022 or 2021.

NOTE 10 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
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 \$1,335,973.	\$ 1,170,625	\$ 1,242,164
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 they loan is secured by the underlying property with a carrying value of \$486,524.	<u>558,621</u>	<u>592,689</u>
Total notes payable	<u>\$ 1,729,246</u>	<u>\$ 1,834,853</u>

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

SOLES4SOULS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 10 - NOTES PAYABLE (CONTINUED)

Annual principal maturities of notes payable are as follows at June 30, 2022:

Year ending June 30,

2023	\$ 112,555
2024	118,113
2025	123,946
2026	130,067
2027	136,490
Thereafter	<u>1,108,075</u>
	<u>\$ 1,729,246</u>

Total interest expense on all indebtedness for the year ended June 30, 2022 amounted to \$87,512 (\$99,273 in 2021).

NOTE 11 - LEASES

The Organization leases certain facilities and office equipment under operating leases expiring at various dates through December 2025. Rent expense totaled \$399,475 and \$344,795 for the fiscal year ended June 30, 2022 and 2021, respectively, and is included in both regional donation centers and rent expense line items on the Consolidated Statements of Functional Expenses.

Future minimum lease payments required under noncancelable operating leases as of June 30, 2022, are as follows:

Year ending June 30,

2023	\$ 136,608
2024	27,685
2025	4,209
2026	<u>2,105</u>
	<u>\$ 170,607</u>

SOLES4SOULS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 12 - NET ASSETS

Net assets consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
<u>Net assets without donor restrictions</u>		
Operating reserve - board-designated	\$ 1,099,570	\$ 1,360,756
Invested in property and equipment, less related debt	824,476	704,610
Donated inventory without restriction	4,678,902	5,849,190
Purchased 4EK inventory not yet distributed	811,827	-
Undesignated	<u>1,396,180</u>	<u>1,114,696</u>
Total net assets without donor restrictions	<u>\$ 8,810,955</u>	<u>\$ 9,029,252</u>
<u>Net assets with donor restrictions</u>		
Purpose restrictions -		
Donated inventory for distribution internationally	\$ 20,362,295	\$ 19,894,034
Haiti expansion project	-	4,087
Maintained in perpetuity -		
Beneficial interest in agency endowment	<u>7,072</u>	<u>8,027</u>
Total net assets with donor restrictions	<u>\$ 20,369,367</u>	<u>\$ 19,906,148</u>

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 \$200,567 for the year ended June 30, 2022 (\$73,930 in 2021) and are reported in employee benefits expense in the Consolidated Statements of Functional Expenses. During 2021, the Organization did not match contributions from July 2020 through January 2021, and resumed matching in February 2021.

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, 2022 and 2021.

SOLES4SOULS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

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, 2022 receivables from three microenterprise partners totaled approximately \$554,315, or 86% of microenterprise accounts receivable (receivables from two microenterprise partners totaled \$303,000, or 72% of microenterprise accounts receivable, at June 30, 2021).

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

During 2022, the Organization:

- Received 37% of its shoe donations from three shoe distributors.
- Received 11% of its clothing donations from one retailer.
- Utilized four distribution partners to distribute 68% of its total shoe and clothing distributions.
- Utilized five microenterprise partners to distribute 88% of items sent to the 4Opportunity microenterprise program.
- Received microenterprise program fees from five companies and direct partners that represent 85% of total microenterprise program fees.
- Utilized two distribution partners to distribute 61% of free distributions of shoes and clothing.

SOLES4SOULS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2022 AND 2021

NOTE 14 - CONCENTRATIONS AND RISK (CONTINUED)

During 2021, the Organization:

- Received 24% of its shoe donations from two shoe distributors.
- Received 20% of its clothing donations from one retailer.
- Utilized four distribution partners to distribute 57% of its total shoe and clothing distributions.
- Utilized five microenterprise partners to distribute 79% of items sent to the microenterprise program.
- Received microenterprise program fees from three companies that represent 64% of total microenterprise program fees.
- Utilized two distribution partners to distribute 27% of free distributions of shoes and clothing.