SOLES4SOULS, INC.

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2021 AND 2020

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INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of Soles4Souls, Inc., which comprise the consolidated statements of financial position as of June 30, 2021 and 2020, and the related consolidated statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Soles4Souls, Inc. as of June 30, 2021 and 2020, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kraft CPAs PLLC

Nashville, Tennessee
December 13, 2021

SOLES4SOULS, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2021 AND 2020

	2021	2020
ASSETS		
Cash		
Operating	$ 1,666,069	$ 1,103,554
Holding account	97,026	88,446
Operating reserve - board-designated	864,365	576,689
Investments - operating reserve	496,385	456,608
Accounts receivable		
Microenterprise	420,517	617,461
Partner freight and other	30,686	27,971
Contributions and grants receivable	226,092	190,276
Prepaid expenses		
Travel costs	26,970	87,141
Operations	114,577	144,970
Employee advances	5,000	-
Deposits	33,116	30,306
Inventories	25,743,224	29,224,821
Trademarks	42,223	44,529
Property and equipment, net	2,539,463	2,696,468
Beneficial interest in agency endowment fund	8,027	6,514
TOTAL ASSETS	$ 32,313,740	$ 35,295,754
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 333,030	$ 90,218
Accrued expenses		
Compensated absences	204,059	197,192
Employee deductions and taxes	154,112	142,911
Employee bonuses	474,609	314,894
Other	-	115,207
VAT collected	7,140	-
Deferred revenue		
Travel	100,552	156,593
Microenterprise	269,985	222,077
Notes payable	1,834,853	2,638,789
TOTAL LIABILITIES	3,378,340	3,877,881
NET ASSETS		
Without donor restrictions	9,029,252	19,943,689
With donor restrictions	19,906,148	11,474,184
TOTAL NET ASSETS	28,935,400	31,417,873
TOTAL LIABILITIES AND NET ASSETS	$ 32,313,740	$ 35,295,754

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2021

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
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
GIK net assets released from restriction	822,319	(822,319)	-
Total GIK contributions	64,035,170	8,501,561	72,536,731
PROGRAM SERVICE EXPENSE - GIK distributions	(76,018,328)	-	(76,018,328)
NET CHANGE IN GIK INVENTORY	(11,983,158)	8,501,561	(3,481,597)
SUPPORT AND REVENUE			
Microenterprise program fees	6,318,783	-	6,318,783
Other earned revenue	115,409	-	115,409
Contributions	2,009,369	-	2,009,369
Investment income	43,897	1,513	45,410
Forgiveness of Paycheck Protection Program loan	764,900	-	764,900
Other income	24,143	-	24,143
Other donor-restricted net assets released from restriction	71,110	(71,110)	-
TOTAL SUPPORT AND REVENUE	9,347,611	(69,597)	9,278,014
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	1,290,594	-	1,290,594
Total supporting services	2,635,851	-	2,635,851
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	19,943,689	11,474,184	31,417,873
NET ASSETS, END OF YEAR	$ 9,029,252	$ 19,906,148	$ 28,935,400

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2020

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

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2021 AND 2020

	2021	2020
OPERATING ACTIVITIES		
Change in net assets	$ (2,482,473)	$ 11,468,989
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	181,450	202,470
Amortization	5,324	4,585
Bad debt expense	-	1,426
Forgiveness of Paycheck Protection Program loan	(764,900)	-
Net realized and unrealized gains on investments	(35,520)	(6,608)
(Increase) decrease in:		
Accounts receivable - microenterprise	196,944	(116,574)
Accounts receivable - partner freight and other	(2,715)	37,878
Contributions and grants receivable	(35,816)	(46,264)
Prepaid expenses - travel costs	60,171	10,721
Prepaid expenses - operations	30,393	(56,144)
Employee advances	(5,000)	7,055
Deposits	(2,810)	(12,555)
Inventories	3,481,597	(11,372,510)
Increase (decrease) in:		
Accounts payable	242,812	(94,576)
Accrued expenses - compensated absences	6,867	16,679
Accrued expenses - employee deductions and taxes	11,201	30,071
Accrued expenses - employee bonuses	159,715	(17,716)
Accrued expenses - other	(115,207)	115,207
VAT collected	7,140	-
Deferred revenue - travel	(56,041)	5,095
Deferred revenue - microenterprise	47,908	150,041
TOTAL ADJUSTMENTS	3,413,513	(11,141,719)
NET CASH PROVIDED BY OPERATING ACTIVITIES	931,040	327,270
INVESTING ACTIVITIES		
Change in beneficial interest in agency endowment fund	(1,513)	(950)
Payment of trademark costs	(3,018)	(10,477)
Proceeds from sale of investments	64,551	-
Purchase of investments	(68,808)	(450,000)
Purchase of property and equipment	(24,445)	(156,138)
NET CASH USED IN INVESTING ACTIVITIES	(33,233)	(617,565)
FINANCING ACTIVITIES		
Repayments of notes payable	(39,036)	(65,930)
Proceeds from Paycheck Protection Program loan	-	764,900
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(39,036)	698,970
NET INCREASE IN CASH	858,771	408,675
CASH - BEGINNING OF YEAR	1,768,689	1,360,014
CASH - ENDING OF YEAR	$ 2,627,460	$ 1,768,689
CASH CONSISTS OF:		
Operating	$ 1,666,069	$ 1,103,554
Holding account	97,026	88,446
Operating reserve - board-designated	864,365	576,689
	$ 2,627,460	$ 1,768,689
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Cash paid during the year for interest	$ 121,901	$ 74,670

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		
	Programs	Gifts in Kind (GIK)	Management and General	Fundraising	Total
Salaries	$ 2,951,184	$ -	$ 859,929	$ 696,858	$ 4,507,971
Employee benefits and payroll taxes	479,085	-	124,609	111,345	715,039
Total personnel costs	3,430,269	-	984,538	808,203	5,223,010
In-kind distributions:					
Free distributions of shoes and clothing	258,197	13,169,064	-	-	13,427,261
Items to the microenterprise programs	-	62,849,264	-	-	62,849,264
Total in-kind distributions	258,197	76,018,328	-	-	76,276,525
Cost of goods sold	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	60,436	-	8,444	12,280	81,160
TOTAL EXPENSES	$ 5,643,039	$ 76,018,328	$ 1,345,257	$ 1,290,594	$ 84,297,218

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2020

	Program Services		Supporting Services		
	Programs	Gifts in Kind (GIK)	Management and General	Fundraising	Total
Salaries	$ 2,822,799	$ -	$ 773,416	$ 704,390	$ 4,300,605
Employee benefits and payroll taxes	461,788	-	139,336	134,846	735,970
Total personnel costs	3,284,587	-	912,752	839,236	5,036,575
In-kind distributions:					
Free distributions of shoes and clothing	-	13,909,026	-	-	13,909,026
Items to the microenterprise programs	-	88,270,180	-	-	88,270,180
Total in-kind distributions	-	102,179,206	-	-	102,179,206
Cost of goods sold	399,142	-	-	-	399,142
Advertising and promotion	257,706	-	-	2,289	259,995
Auto expenses	18,066	-	-	-	18,066
Bank fees	-	-	62,530	-	62,530
Depreciation and amortization	124,233	-	41,411	41,411	207,055
Direct mail	-	-	-	60,734	60,734
Events	83,877	-	-	6,023	89,900
Insurance	84,184	-	16,778	16,778	117,740
Interest	58,380	-	19,459	19,459	97,298
Miscellaneous	83,187	-	63,229	9,388	155,804
Supplies and equipment	66,188	-	6,611	6,611	79,410
Postage, shipping and delivery	197,720	-	16,831	8,415	222,966
Professional fees	153,536	-	37,028	36,144	226,708
Regional donation centers	357,670	-	-	-	357,670
Rent	13,076	-	-	-	13,076
Repairs and maintenance	22,809	-	7,373	7,373	37,555
Software services	47,203	-	15,735	15,735	78,673
Telephone and utilities	58,301	-	19,433	19,433	97,167
Travel	286,064	-	5,558	142,140	433,762
TOTAL EXPENSES	$ 5,595,929	$ 102,179,206	$ 1,224,728	$ 1,231,169	$ 110,231,032

See accompanying notes to consolidated financial statements.

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.

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

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

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

Microenterprise Program Fees - Recipient organizations that receive used footwear for redistribution are charged a microenterprise product fee. 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. 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.

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 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, 2021 or 2020.

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, 2021, 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, 2021 and 2020.

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

Trademarks

During 2021 and 2020, the Organization trademarked certain information relating to its name and brand. Total costs associated with these trademarks in the amount of $59,423 on June 30, 2021 ($56,405 at June 30, 2020) were capitalized and are being amortized over ten to fifteen years, depending on the type of item. Accumulated amortization amounted to $17,200 at June 30, 2021 ($11,876 at June 30, 2020). Amortization expense for 2021 amounted to $5,324 ($4,585 in 2020) 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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

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

Program and Supporting Services

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

Program Services - Facilitates the donation and collection of new and used shoes, new and used clothing and other relief items from footwear, clothing and other manufacturers, retailers and individuals. These items are distributed to people in need locally, nationally and internationally through a network of volunteer organizations and in cooperation with other charitable organizations, referred to as distribution partners, who work on Soles4Souls' behalf to distribute these items providing relief to individuals living in poverty or affected by natural disasters. Through this extensive network, Soles4Souls has distributed shoes, clothing and other relief supplies to people in more than 129 countries. 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 microenterprise program providing opportunities for job and income creation around the world. During the 2020 fiscal year, Soles4Souls distributed 518,642 pairs of shoes, 423,588 pieces of clothing and 60,415 pieces of other essentials to those in need around the world. Additionally, Soles4Souls used 4,203,364 pairs of shoes, 4,760,073 pieces of clothing and 674,686 pieces of other essential items in the microenterprise program.

Soles4Souls partners with non-governmental organizations ("NGOs") in Haiti, Honduras, Guatemala and Moldova (in 2020 this also included Malawi and Zambia) who run microenterprise operations, as well as contracts with established microenterprise partners to distribute shoes and clothing in Central America, South America, Africa and Asia. The microenterprise program is designed to provide impoverished people in developing nations with the resources to start and maintain their own businesses.

During 2021, Soles4Souls partnered with Street Business School to certify trainers in each of its microenterprise partners in Haiti and Guatemala. These trainers will be providing essential business skills to a multitude of entrepreneurs in their countries helping them create and manage their own business and sustain incomes for themselves and their families.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

More than 1.5 million children in the United States are experiencing homelessness. And with the lasting economic effects of the COVID-19 pandemic, this number is expected to grow exponentially. That's why Soles4Souls launched 4EveryKid, an initiative to provide a pair of new athletic shoes to every K-12 student in the United States that is 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 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 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). On average, product was distributed within 6 weeks post disaster. During 2020, Soles4Souls provided shoes and clothing in three Tennessee counties impacted by an EF4 tornado, and in communities in the Bahamas devastated by Hurricane Dorian, and in response to COVID-19 provided shoes to frontline healthcare professionals in Alabama, California, Massachusetts, New York, Tennessee, Virginia and West Virginia.

Through its many distribution programs described above, Soles4Souls kept 8,449,288 pairs/pieces out of landfills totaling approximately 7,488,005 pounds of product in 2021 (10,640,768 pairs/pieces out of landfills totaling approximately 8,861,889 pounds of product in 2020). Since inception, Soles4Souls has kept 73,310,172 pairs/pieces out of landfills totaling approximately 71,887,551 pounds.

Through the Soles4Souls Global Experiences program, volunteers from across the United States join Soles4Souls staff on distribution trips to various countries to experience first-hand providing shoes and clothing to people in developing countries. Teams visited Columbia, Dominican Republic, Ecuador, Guatemala, Honduras, Jamaica and Morocco, as well as Louisiana, North Carolina and Arizona on 17 trips in 2020. During 2020, the Global Experiences program restructured to focus on "earned travel" versus paid travel, giving our supporters the opportunity to experience the Soles4Souls mission first-hand. Soles4Souls primarily travels to countries where the Organization has microenterprise partners. The Organization will continue to distribute shoes to people in need. During 2021, Soles4Souls did not host any Earned Travel experiences due to the COVID pandemic. However, at the beginning of fiscal 2022, the team is re-engaged with travelers on a distribution trip to Honduras.

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, interest, 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.

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 Accounting Pronouncement

On July 1, 2020, the Organization adopted Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606),* and all subsequent amendments to the ASU (collectively, "ASC 606") which supersedes most existing revenue recognition guidance and outlines a single comprehensive standard for revenue recognition across all industries. ASC 606 requires revenue to be recognized in an amount that reflects the considerations to which the entity expects to be entitled in an exchange of goods or services. The Organization adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of July 1, 2020.

The Organization performed an analysis of revenue streams and transactions to determine in-scope applicability. The revenue streams considered in-scope for purposes of ASC 606 include microenterprise program fees, partner freight (included in Other earned revenue) and travel revenue when applicable. The Organization recognizes revenues that fall withing the scope of ASC 606 as it satisfies its obligation to the customer. The adoption of ASC 606 did not result in material change to the accounting for any of the in-scope revenue streams; as such, the Organization did not record a cumulative effect adjustment.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance (Continued)

A modified retrospective transition approach is required. An entity may adopt the guidance either (1) retrospectively to each prior reporting period presented in the consolidated financial statements with a cumulative-effect adjustment recognized at the beginning of the earliest comparative period presented or (2) retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The 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.

In September 2020, the FASB issued 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 is effective for the Organization beginning on July 1, 2021. The Organization is currently evaluating the impact of this new guidance on its consolidated financial statements, but does not anticipate significant changes as a result.

Reclassifications

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

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2021 and December 13, 2021, 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:

	2021	2020
Financial assets at year end:		
Cash		
Operating	$ 1,666,069	$ 1,103,554
Holding account	97,026	88,446
Operating reserve - board-designated	864,365	576,689
Investments - board-designated operating reserve	496,385	456,608
Accounts receivable		
Microenterprise, net	420,517	617,461
Partner freight and other	30,686	27,971
Contributions and grants receivable	226,092	190,276
Total financial assets	3,801,140	3,061,005
Less amounts not available to be used within one year:		
Holding account	(97,026)	(88,446)
Operating reserve - board-designated	(1,360,750)	1,033,297
Non-GIK donor-restricted amounts	(4,087)	(75,197)
Amounts not available to be used within one year	(1,461,863)	869,654
Financial assets available to meet cash needs for general expenditures within one year	$ 2,339,277	$ 3,930,659

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.

NOTE 4 - CONTRACT BALANCES

Accounts receivable and deferred revenue from contracts with customers (predominantly related to the microenterprise program) consisted of the following as of June 30, 2021 and 2020:

	Accounts receivable (microenterprise and freight)		Deferred revenue (microenterprise and travel)	
	2021	2020	2021	2020
Beginning of year	$ 645,432	$ 568,162	$ 378,670	$ 223,534
End of year	$ 451,203	$ 645,432	$ 370,537	$ 378,670

NOTE 5 - INVESTMENTS AND FAIR VALUE

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

	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	$ -

	2020			
	Total	Level 1	Level 2	Level 3
Cash and money market funds	$ 208,900	$ 208,900	$ -	$ -
Fixed income	197,233	-	197,233	-
Equities	50,475	50,475	-	-
	$ 456,608	$ 259,375	$ 197,233	$ -

NOTE 6 - INVENTORIES

Inventories consisted of the following at June 30:

	2021	2020
Donated shoes:		
New shoes	$ 13,869,494	$ 15,194,760
Used shoes	2,122,008	1,645,621
Donated clothing items	7,815,418	10,930,309
Other donated items:		
Other relief supplies	1,936,304	1,454,131
Total donated inventory	$ 25,743,224	$ 29,224,821

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

	2021	2020
Beginning of year	$ 29,224,821	$ 17,852,311
Contributions received	72,536,731	113,551,716
Donated inventory distributed in programs	(76,018,328)	(102,179,206)
End of year	$ 25,743,224	$ 29,224,821

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

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2021	2020
Land	$ 238,800	$ 238,800
Building and improvements	3,289,311	3,275,348
Vehicles	147,647	147,647
Equipment	608,156	597,674
Furniture and fixtures	140,147	140,147
	4,424,061	4,399,616
Less: accumulated depreciation	(1,884,598)	(1,703,148)
	$ 2,539,463	$ 2,696,468

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:

	2021	2020
Balance - beginning of year	$ 6,514	$ 5,564
Investment income	1,513	950
Balance - end of year	$ 8,027	$ 6,514

NOTE 9 - LINE OF CREDIT

The Organization obtained a line of credit in September 2016 in the amount of $200,000 (later increased to $975,000 and extended in October 2020). The line of credit is cross-collateralized by the deed of trust on the mortgage of the Nashville, Tennessee headquarters facility. The line of credit bears interest at a rate of prime plus 3.5%, with a minimum rate of 4.75% annually, and matures January 2022. There was no balance on the line of credit at June 30, 2021 or 2020.

NOTE 10 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

	2021	2020
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 $1,406,910.	$ 1,242,164	$ 1,268,625
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 4.73% per year, and they loan is secured by the underlying property with a carrying value of $513,805	592,689	605,264
Paycheck Protection Program loan disbursed in April 2020. Principal and accrued interest was forgiven in full in November 2020.	-	764,900
Total notes payable	$ 1,834,853	$ 2,638,789

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

NOTE 10 - NOTES PAYABLE (CONTINUED)

Annual principal maturities of notes payable are as follows at June 30, 2021:

Year ending June 30,	
2022	$ 107,258
2023	112,555
2024	118,113
2025	123,946
2026	130,067
Thereafter	1,242,914
	$ 1,834,853

Total interest expense on all indebtedness for the year ended June 30, 2021 amounted to $99,273 ($97,298 in 2020).

NOTE 11 - LEASES

The Organization leases certain facilities and office equipment under operating leases expiring at various dates through December 2025. Rent expense totaled $344,795 and $251,241 for the fiscal year ended June 30, 2021 and 2020, 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, 2021, are as follows:

Year ending June 30,	
2022	$ 222,601
2023	136,608
2024	27,685
2025	4,209
2026	2,105
	$ 393,208

NOTE 12 - NET ASSETS

Net assets consisted of the following at June 30:

	2021	2020
Net assets without donor restrictions		
Operating reserve - board-designated	$ 1,360,750	$ 1,033,297
Invested in property and equipment, less related debt	704,610	822,579
Donated inventory without restriction	5,849,190	17,832,348
Undesignated	1,114,702	255,465
Total net assets without donor restrictions	$ 9,029,252	$ 19,943,689
Net assets with donor restrictions		
Purpose restrictions -		
Donated inventory for distribution internationally	$ 19,894,034	$ 11,392,473
Haiti expansion project	4,087	75,197
Maintained in perpetuity -		
Beneficial interest in agency endowment	8,027	6,514
Total net assets with donor restrictions	$ 19,906,148	$ 11,474,184

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. During 2021, the Organization suspended the employer match on July 1, 2020 and resumed the match on February 1, 2021. Total contributions by the Organization amounted to $73,930 for the year ended June 30, 2021 ($164,773 in 2020) 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, 2021 and 2020.

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, 2021 receivables from three microenterprise partners totaled approximately $303,000, or 72% of microenterprise accounts receivable (receivables from two microenterprise partners totaled $436,000, or 71% of microenterprise accounts receivable, at June 30, 2020).

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

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.

NOTE 14 - CONCENTRATIONS AND RISK (CONTINUED)

During 2020, the Organization:

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

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