SOLES4SOULS, INC.

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2017 AND 2016

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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, 2017 and 2016, 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, 2017 and 2016, and the changes in its net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kraft CPAs PLLC

Nashville, Tennessee
October 10, 2017

SOLES4SOULS, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2017 AND 2016

	2017	2016
ASSETS		
Cash		
Operating	$ 43,137	$ 118,447
Holding account	338,000	-
Board designated operating reserve	375,000	180,000
Board designated board fund	50,000	-
Accounts receivable	510,034	484,092
Contribution receivable	4,000	-
Prepaid expenses and other assets	55,280	20,470
Inventories	9,200,295	6,727,661
Trademarks, net	23,327	-
Property and equipment, net	2,816,310	2,910,766
Beneficial interest in agency endowment fund	5,554	-
TOTAL ASSETS	$ 13,420,937	$ 10,441,436
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 588,811	$ 405,272
Deposits	43,394	52,951
Notes payable	2,096,162	2,150,491
TOTAL LIABILITIES	2,728,367	2,608,714
NET ASSETS		
Unrestricted net assets		
Board designated net assets		
Operating reserve	375,000	180,000
Board fund	50,000	-
Invested in property and equipment, less related debt	720,148	760,275
Unrestricted donated inventory	4,563,885	2,935,701
Undesignated	347,855	178,085
Total unrestricted net assets	6,056,888	4,054,061
Temporarily restricted net assets	4,630,128	3,778,661
Permanently restricted net assets	5,554	-
TOTAL NET ASSETS	10,692,570	7,832,722
TOTAL LIABILITIES AND NET ASSETS	$ 13,420,937	$ 10,441,436

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

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

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Total
GIFTS IN KIND (GIK) CONTRIBUTIONS			
Shoes:			
Corporate shoe donations	$ 10,996,299	$ 2,412,916	$ 13,409,215
Retail store shoe drives	7,137,284	-	7,137,284
Community shoe drives	4,628,221	-	4,628,221
Clothing and other relief item donations	11,158,408	872,647	12,031,055
Net assets released from restriction	8,047,535	(8,047,535)	-
Total GIK contributions	41,967,747	(4,761,972)	37,205,775
PROGRAM SERVICE EXPENSE - GIK distributions	(40,925,917)	-	(40,925,917)
NET CHANGE IN GIK INVENTORY	1,041,830	(4,761,972)	(3,720,142)
SUPPORT AND REVENUE			
Microenterprise program fees	3,159,740	-	3,159,740
Contributions	1,210,346	-	1,210,346
International volunteer travel fees	356,556	-	356,556
Investment income	818	-	818
Other income	10,993	-	10,993
TOTAL SUPPORT AND REVENUE	4,738,453	-	4,738,453
EXPENSES			
Program services, excluding GIK distributions above	3,080,845	-	3,080,845
Supporting services			
Management and general	733,478	-	733,478
Fundraising	757,577	-	757,577
Total supporting services	1,491,055	-	1,491,055
TOTAL EXPENSES	4,571,900	-	4,571,900
CHANGE IN NET ASSETS	1,208,383	(4,761,972)	(3,553,589)
NET ASSETS, BEGINNING OF YEAR	2,845,678	8,540,633	11,386,311
NET ASSETS, END OF YEAR	$ 4,054,061	$ 3,778,661	$ 7,832,722

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
OPERATING ACTIVITIES		
Change in net assets	$ 2,859,848	$ (3,553,589)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	149,436	145,453
Amortization	9,660	22,847
(Increase) decrease in:		
Accounts receivable	(25,942)	(352,400)
Contribution receivable	(4,000)	-
Prepaid expenses and other assets	(34,810)	70,153
Inventories	(2,472,634)	3,823,708
Increase (decrease) in:		
Accounts payable and accrued expenses	183,539	(26,868)
Deposits	(9,557)	(85,943)
TOTAL ADJUSTMENTS	(2,204,308)	3,596,950
NET CASH PROVIDED BY OPERATING ACTIVITIES	655,540	43,361
INVESTING ACTIVITIES		
Interest added to investment balance	(554)	(818)
Establishment of agency endowment fund	(5,000)	-
Proceeds from sale of investments	-	503,522
Payment of trademark costs	(24,500)	-
Purchase of property and equipment	(54,980)	(1,705)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(85,034)	500,999
FINANCING ACTIVITIES		
Repayments of notes payable	(62,816)	(44,844)
Net borrowings (payments) on line of credit	-	(345,000)
NET CASH USED IN FINANCING ACTIVITIES	(62,816)	(389,844)
NET INCREASE IN CASH	507,690	154,516
CASH - BEGINNING OF YEAR	298,447	143,931
CASH - ENDING OF YEAR	$ 806,137	$ 298,447
CASH CONSISTS OF:		
Operating	$ 43,137	$ 118,447
Holding account	338,000	-
Board designated operating reserve	375,000	180,000
Board designated board fund	50,000	-
	$ 806,137	$ 298,447
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Cash paid during the year for interest	$ 115,254	$ 139,493
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Note payable incurred with refinance	$ -	$ 2,190,861
Debt issuance costs paid included in loan balance	$ -	$ (20,644)
Original loan balance repaid with refinance	$ -	$ (2,170,217)

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2017

	Program Services		Supporting Services		
	Programs	Gifts in Kind (GIK)	Management and General	Fundraising	Total
Salaries	$ 1,325,432	$ -	$ 528,453	$ 560,317	$ 2,414,202
Employee benefits and payroll taxes	200,518	-	79,947	84,767	365,232
Total personnel costs	1,525,950	-	608,400	645,084	2,779,434
In-kind distributions:					
Shoes	7,017	1,001,064	-	-	1,008,081
Clothing and other relief items	-	1,869,183	-	-	1,869,183
Items to the microenterprise programs	-	58,891,492	-	-	58,891,492
Total in-kind distributions	7,017	61,761,739	-	-	61,768,756
Cost of good sold	371,997	-	-	-	371,997
Advertising and promotion	65,485	-	-	65,485	130,970
Auto expenses	11,065	-	-	-	11,065
Bank fees	-	-	52,097	-	52,097
Depreciation and amortization	119,322	-	23,864	15,910	159,096
Direct mail	-	-	-	162,087	162,087
Events	-	-	905	140,951	141,856
Insurance	94,336	-	18,868	12,578	125,782
Interest	86,441	-	17,288	11,525	115,254
Miscellaneous	72,165	-	104,062	10,891	187,118
Supplies and equipment	51,487	-	4,418	2,418	58,323
Postage, shipping and delivery	128,656	-	7,148	7,148	142,952
Professional fees	46,274	-	61,963	36,468	144,705
Rent	20,370	-	-	-	20,370
Repairs and maintenance	37,873	-	3,878	2,585	44,336
Telephone and utilities	54,335	-	10,867	7,245	72,447
Travel	600,581	-	22,442	27,351	650,374
TOTAL EXPENSES	$ 3,293,354	$ 61,761,739	$ 936,200	$ 1,147,726	$ 67,139,019

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016

	Program Services		Supporting Services		
	Programs	Gifts in Kind (GIK)	Management and General	Fundraising	Total
Salaries	$ 1,315,159	$ -	$ 403,574	$ 347,649	$ 2,066,382
Employee benefits and payroll taxes	206,853	-	56,695	54,967	318,515
Total personnel costs	1,522,012	-	460,269	402,616	2,384,897
In-kind distributions:					
Shoes	103,894	1,680,196	-	-	1,784,090
Clothing and other relief items	-	678,532	-	-	678,532
Items to the microenterprise programs	-	38,567,189	-	-	38,567,189
Total in-kind distributions	103,894	40,925,917	-	-	41,029,811
Cost of good sold	270,441	-	-	-	270,441
Advertising and promotion	79,404	-	-	19,850	99,254
Auto expenses	21,461	-	1,167	1,167	23,795
Bank fees	-	-	51,614	-	51,614
Depreciation and amortization	126,225	-	25,245	16,830	168,300
Direct mail	-	-	-	158,971	158,971
Events	-	-	-	55,394	55,394
Insurance	106,870	-	21,374	14,249	142,493
Interest	104,620	-	20,924	13,949	139,493
Miscellaneous	48,490	-	52,414	6,464	107,368
Supplies and equipment	26,021	-	2,512	1,675	30,208
Postage, shipping and delivery	69,128	-	13,825	9,217	92,170
Professional fees	53,334	-	55,391	33,484	142,209
Rent	45,877	-	-	-	45,877
Repairs and maintenance	39,533	-	3,598	2,399	45,530
Telephone and utilities	57,500	-	11,500	7,667	76,667
Travel	406,035	-	13,645	13,645	433,325
TOTAL EXPENSES	$ 3,080,845	$ 40,925,917	$ 733,478	$ 757,577	$ 45,497,817

See accompanying notes to consolidated financial statements.

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

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

In February 2009, Changing the World Foundation, Inc. ("CTWF") was formed as a supporting organization as a Tennessee not-for-profit corporation to support and further the charitable purposes of Soles4Souls. Soles4Souls has an economic interest in CTWF combined with control through a majority voting interest of the Board of CTWF. CTWF had no activity during the fiscal years ended June 30, 2017 or 2016, and was formally dissolved in 2017.

During 2017, Soles4Souls, Inc. established Soles4Souls Canada, a Canadian not-for-profit company 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 subsidiary, Soles4Souls Canada. The accompanying consolidated financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("GAAP"). All significant intercompany accounts and transactions have been eliminated in consolidation.

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

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

- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose. Temporarily restricted net assets in 2017 and 2016 consisted entirely of donated inventory restricted for distribution outside the United States of America.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidation and Basis of Presentation (continued)

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

Contributions and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

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

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

Board Designated Cash Reserves

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

Accounts Receivable

Accounts receivable are from microenterprise partners. During fiscal years ended June 30, 2017 and June 30, 2016, the Organization did not charge interest on past due accounts. However, beginning in fiscal year 2018, the Organization has instituted a 2.5% late fee for past due accounts per credit terms established with microenterprise partners. Accounts receivable are deemed to be fully collectible by management and no allowance for bad debts is considered necessary at June 30, 2017 and 2016.

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 lbs. per pair.

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

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 2017, the Organization trademarked certain information relating to its name and brand. Costs associated with these trademarks in the amount of $24,500 were capitalized and are being amortized over ten to fifteen years, depending on the type of item. Amortization expense for 2017 amounted to $1,173, and is expected to be approximately $2,450 per year in each of the next five years.

Property, Equipment and Depreciation

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

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 (the "Community Foundation") is recognized as an asset. Investment income and changes in the value of the fund are recognized in the consolidated Statements of Activities, and distributions received from the fund are recorded as increases (decreases) in the beneficial interest.

Debt Issuance Costs

Debt issuance costs related to a recognized debt liability are presented in the Consolidated Statements of Financial Position as a direct reduction of the carrying amount of the debt liability. Debt issuance costs are amortized on a straight-line basis over the life of the related debt liability. Amortization of the loan costs are expected to be $7,684 in 2018 and $3,785 in 2019.

Donated Goods and Services

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

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

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

Microenterprise Program Fees

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

Advertising

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services

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

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

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

Through its Travel4Souls program, volunteers from across the United States join the Soles4Souls staff on distribution trips to various countries to experience first-hand providing shoes and clothing to people in desperate situations. Teams visited Ecuador, Bolivia, Haiti, Costa Rica, Jamaica, Dominican Republic, Guatemala, Honduras, Cuba and Tanzania on 27 trips in 2017 (19 trips in 2016). Shoes and clothing were distributed to children and families in orphanages, schools, villages and tent cities.

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

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

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

Allocation of Functional Expenses

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

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

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

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

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

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Authoritative Accounting Guidance

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Authoritative Accounting Guidance (Continued)

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

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2017 and October 10, 2017, the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

NOTE 3 - INVENTORIES

Inventories consisted of the following at June 30:

	2017	2016
Donated shoes:		
New shoes	$ 4,507,007	$ 3,624,139
Used shoes	928,282	1,245,488
Donated clothing items	3,702,145	1,682,955
Other donated items:		
Other relief supplies	56,579	161,780
Total donated inventory	9,194,013	6,714,362
Purchased shoes	6,282	13,299
	$ 9,200,295	$ 6,727,661

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

	2017	2016
Beginning of year	$ 6,714,362	$ 10,434,504
Contributions received	64,241,390	37,205,775
Donated inventory distributed in programs	(61,761,739)	(40,925,917)
End of year	$ 9,194,013	$ 6,714,362

Temporarily restricted net assets consist entirely of donated shoe and clothing inventory restricted for distribution outside of the United States and amounts to $4,630,128 and $3,778,661, respectively at June 30, 2017 and 2016.

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2017	2016
Land	$ 238,800	$ 238,800
Building and improvements	3,215,161	3,198,378
Vehicles	121,152	121,152
Equipment	244,528	206,331
Furniture and fixtures	140,147	140,147
	3,959,788	3,904,808
Less: accumulated depreciation	(1,143,478)	(994,042)
	$ 2,816,310	$ 2,910,766

NOTE 5 - BENEFICIAL INTEREST IN ENDOWMENT FUND

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

A schedule of changes in the Fund are as follows for the year ended June 30, 2017:

Balance - beginning of year	$ -
Contributions	5,000
Investment income	554
Balance - end of year	$ 5,554

NOTE 6 - LINE OF CREDIT

The Organization obtained a line of credit in September 2016 in the amount of $200,000 that 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 in March 2019. There is no balance on the line of credit at June 30, 2017.

NOTE 7 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

	2017	2016
Mortgage payable on warehouse facility located in Wadley, Alabama. Monthly payments of $10,039, with final payment in February 2019 of all remaining principal and accrued interest. Interest accrues at a rate of 5.3% per year, and the loan is secured by the underlying property.	$ 1,427,301	$ 1,469,844
Mortgage payable on headquarters facility located in Nashville, Tennessee. Monthly payments of $4,786, with final payment in February 2019 of all remaining principal and accrued interest. Interest accrues at a rate of 5.3% per year, and the loan is secured by the underlying property.	680,330	700,603
	2,107,631	2,170,447
Less: loan issuance cost	(11,469)	(19,956)
Total notes payable	$ 2,096,162	$ 2,150,491

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

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

Year ending June 30,	
2018	$ 67,667
2019	2,039,964
	$ 2,107,631

Total interest expense on all indebtedness for the year ended June 30, 2017 amounted to $115,254 ($139,493 in 2016).

NOTE 8 - 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 $82,173 for the year ended June 30, 2017 ($72,729 in 2016) and are reported in employee benefits expense in the Consolidated Statement 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, 2017 and 2016.

NOTE 9 - CONCENTRATIONS AND CREDIT RISK

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

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

Accounts receivable are subject to credit risk as they are from concentrated sources. At June 30, 2017, receivables from three microenterprise partners totaled $384,228, or 75% of total accounts receivable.

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

During 2017, the Organization:

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

NOTE 9 - CONCENTRATIONS AND CREDIT RISK (CONTINUED)

During 2016, the Organization:

- Received 35% of its shoe donations from one shoe manufacturer.
- Received 71% of its clothing donations from two manufacturers.
- Utilized three distribution partners to distribute 80% of its total shoe and clothing distributions.
- Utilized two microenterprise partners to distribute 85% of items sent to the microenterprise program.
- Received microenterprise programs fees from two companies that represent 78% of total microenterprise programs fees.

NOTE 10 - SUBSEQUENT EVENT

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

In connection with this MOU, the Organization has received approximately $3,900,000 in donated clothing inventory and real property valued at approximately $400,000. Prior to June 30, 2017, the Organization had received approximately $2,083,000 of the clothing inventory, which is recorded in ending inventory and clothing and other relief item donations for the year ended June 30, 2017.