SOLES4SOULS, INC.

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2019 AND 2018

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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, 2019 and 2018, 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
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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, 2019 and 2018, 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 18, 2019

SOLES4SOULS, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Cash		
Operating	$ 689,570	$ 496,722
Holding account	42,444	193,540
Operating reserve - board designated	628,000	628,000
Accounts receivable		
Microenterprise, net	502,313	457,434
Partner freight and other	65,849	23,811
Travel	-	17,350
Contributions and grants receivable	144,012	85,265
Prepaid expenses		
Travel costs	97,862	137,896
Operations	88,826	74,232
Employee travel advances	7,055	3,425
Deposits	17,751	34,539
Inventories	17,852,311	12,485,308
Trademarks, net	38,637	28,061
Property and equipment, net	2,742,800	2,792,507
Beneficial interest in agency endowment fund	5,564	5,937
TOTAL ASSETS	$ 22,922,994	$ 17,464,027
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	$ 184,794	$ 125,875
Accrued expenses		
Compensated absences	180,513	147,655
Employee deductions and taxes	112,840	83,147
Employee bonuses	332,610	280,494
Other	-	5,570
Deferred revenue		
Travel	151,498	286,021
Microenterprise	72,036	16,966
Notes payable	1,939,819	2,049,663
TOTAL LIABILITIES	2,974,110	2,995,391
NET ASSETS		
Without donor restrictions	7,546,140	4,285,224
With donor restrictions	12,402,744	10,183,412
TOTAL NET ASSETS	19,948,884	14,468,636
TOTAL LIABILITIES AND NET ASSETS	$ 22,922,994	$ 17,464,027

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
GIFTS IN KIND (GIK) CONTRIBUTIONS			
Shoes:			
Corporate shoe donations	$ 25,860,545	$ 3,384,706	$ 29,245,251
Community shoe drives	14,308,788	-	14,308,788
Clothing and other relief item donations	34,775,370	7,339,304	42,114,674
Net assets released from restriction	8,624,305	(8,624,305)	-
Total GIK contributions	83,569,008	2,099,705	85,668,713
PROGRAM SERVICE EXPENSE - GIK distributions	(80,301,710)	-	(80,301,710)
NET CHANGE IN GIK INVENTORY	3,267,298	2,099,705	5,367,003
SUPPORT AND REVENUE			
Microenterprise program fees	5,424,760	-	5,424,760
Contributions	1,144,929	120,000	1,264,929
International volunteer travel fees	750,682	-	750,682
Change in beneficial interest in agency endowment	-	(373)	(373)
Other income	1,304	-	1,304
TOTAL SUPPORT AND REVENUE	7,321,675	119,627	7,441,302
EXPENSES			
Program services, excluding GIK distributions above	4,852,303	-	4,852,303
Supporting services:			
Management and general	1,211,849	-	1,211,849
Fundraising	1,263,905	-	1,263,905
Total supporting services	2,475,754	-	2,475,754
TOTAL EXPENSES	7,328,057	-	7,328,057
CHANGE IN NET ASSETS	3,260,916	2,219,332	5,480,248
NET ASSETS, BEGINNING OF YEAR	4,285,224	10,183,412	14,468,636
NET ASSETS, END OF YEAR	$ 7,546,140	$ 12,402,744	$ 19,948,884

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS	TOTAL
GIFTS IN KIND (GIK) CONTRIBUTIONS			
Shoes:			
Corporate shoe donations	$ 33,270,073	$ 2,794,805	$ 36,064,878
Community shoe drives	5,005,331	-	5,005,331
Clothing and other relief item donations	33,718,350	5,438,337	39,156,687
Net assets released from restriction	2,685,795	(2,685,795)	-
Total GIK contributions	74,679,549	5,547,347	80,226,896
PROGRAM SERVICE EXPENSE - GIK distributions	(76,935,601)	-	(76,935,601)
NET CHANGE IN GIK INVENTORY	(2,256,052)	5,547,347	3,291,295
SUPPORT AND REVENUE			
Microenterprise program fees	4,524,639	-	4,524,639
Contributions	1,317,070	-	1,317,070
International volunteer travel fees	538,934	-	538,934
Change in beneficial interest in agency endowment	-	383	383
Net proceeds from sale of donated property	252,623	-	252,623
Other income	21,596	-	21,596
TOTAL SUPPORT AND REVENUE	6,654,862	383	6,655,245
EXPENSES			
Program services, excluding GIK distributions above	4,039,092	-	4,039,092
Supporting services:			
Management and general	1,049,035	-	1,049,035
Fundraising	1,082,347	-	1,082,347
Total supporting services	2,131,382	-	2,131,382
TOTAL EXPENSES	6,170,474	-	6,170,474
CHANGE IN NET ASSETS	(1,771,664)	5,547,730	3,776,066
NET ASSETS, BEGINNING OF YEAR	6,056,888	4,635,682	10,692,570
NET ASSETS, END OF YEAR	$ 4,285,224	$ 10,183,412	$ 14,468,636

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
OPERATING ACTIVITIES		
Change in net assets	$ 5,480,248	$ 3,776,066
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	204,868	152,329
Amortization	8,131	9,455
Bad debt expense	1,426	46,348
(Increase) decrease in:		
Accounts receivable - microenterprise	(46,305)	6,252
Accounts receivable - partner freight and other	(42,038)	(19,811)
Accounts receivable - travel	17,350	(17,350)
Contributions and grants receivable	(58,747)	(85,265)
Prepaid expenses - travel costs	40,034	(118,780)
Prepaid expenses - operations	(14,594)	(55,470)
Employee travel advances	(3,630)	11,375
Deposits	16,788	(12,821)
Inventories	(5,367,003)	(3,285,013)
Increase (decrease) in:		
Accounts payable	58,919	(83,208)
Accrued expenses - compensated absences	32,858	28,041
Accrued expenses - employee deductions and taxes	29,693	75,407
Accrued expenses - employee bonuses	52,116	28,120
Accrued expenses - other	(5,570)	5,570
Deferred revenue - travel	(134,523)	223,511
Deferred revenue - microenterprise	55,070	16,966
TOTAL ADJUSTMENTS	(5,155,157)	(3,074,344)
NET CASH PROVIDED BY OPERATING ACTIVITIES	325,091	701,722
INVESTING ACTIVITIES		
Change in beneficial interest in agency endowment	373	(383)
Payment of trademark costs	(14,119)	(7,308)
Purchase of property and equipment	(155,161)	(128,526)
NET CASH USED IN INVESTING ACTIVITIES	(168,907)	(136,217)
FINANCING ACTIVITIES		
Repayments of notes payable	(114,432)	(53,380)
NET CASH USED IN FINANCING ACTIVITIES	(114,432)	(53,380)
NET INCREASE IN CASH	41,752	512,125
CASH - BEGINNING OF YEAR	1,318,262	806,137
CASH - ENDING OF YEAR	$ 1,360,014	$ 1,318,262
CASH CONSISTS OF:		
Operating	$ 689,570	$ 496,722
Holding account	42,444	193,540
Operating reserve - board designated	628,000	628,000
	$ 1,360,014	$ 1,318,262
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Cash paid during the year for interest	$ 109,414	$ 114,582
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Donated office building subsequently sold, at net realizable value	$ -	$ 252,623

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2019

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

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2018

	Program Services		Supporting Services		
	Programs	Gifts in Kind (GIK)	Management and General	Fundraising	Total
Salaries	$ 1,707,219	$ -	$ 594,872	$ 596,543	$ 2,898,634
Employee benefits and payroll taxes	344,291	-	115,199	115,307	574,797
Total personnel costs	2,051,510	-	710,071	711,850	3,473,431
In-kind distributions:					
Free distributions of shoes and clothing	6,282	10,226,220	-	-	10,232,502
Items to the microenterprise programs	-	66,709,381	-	-	66,709,381
Total in-kind distributions	6,282	76,935,601	-	-	76,941,883
Cost of goods sold	441,221	-	-	-	441,221
Advertising and promotion	74,811	-	-	-	74,811
Auto expenses	15,353	-	-	-	15,353
Bank fees	-	-	67,464	-	67,464
Depreciation and amortization	97,070	-	32,357	32,357	161,784
Direct mail	-	-	-	185,201	185,201
Events	35,421	-	-	23,352	58,773
Insurance	62,013	-	13,012	13,012	88,037
Interest	68,750	-	22,916	22,916	114,582
Miscellaneous	149,217	-	146,371	28,339	323,927
Supplies and equipment	41,191	-	2,863	2,863	46,917
Postage, shipping and delivery	145,025	-	10,400	401	155,826
Professional fees	74,936	-	16,969	16,969	108,874
Regional donation centers	160,153	-	-	-	160,153
Rent	10,130	-	-	-	10,130
Repairs and maintenance	12,700	-	3,021	3,020	18,741
Telephone and utilities	54,459	-	18,154	18,154	90,767
Travel	538,850	-	5,437	23,913	568,200
TOTAL EXPENSES	$ 4,039,092	$ 76,935,601	$ 1,049,035	$ 1,082,347	$ 83,106,075

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.

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.

During 2017, Soles4Souls, Inc. established Soles4Souls Canada, a Canadian not-for-profit company with Soles4Souls, Inc. as the sole member. In April 2019, Soles4Souls, Inc. established Soles4Souls Europe, a Netherlands not-for-profit company with Soles4Souls, Inc. as the sole member. There were no transactions in the Europe company during 2019.

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 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidation and Basis of Presentation (Continued)

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.

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. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Consolidated Statements of Activities.

Operating Reserve - Board Designated

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

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.

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 $5 per pound for used clothing.

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 2019 and 2018, the Organization trademarked certain information relating to its name and brand. Costs associated with these trademarks in the amount of $45,928 at June 30, 2019 ($31,809 at June 30, 2018) were capitalized and are being amortized over ten to fifteen years, depending on the type of item. Amortization expense for 2019 amounted to $3,543 ($2,574 in 2018) and is expected to be approximately $4,135 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 was $4,588 in 2019 and 2018.

Donated Goods and Services

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

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

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

Microenterprise Program Fees

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

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

Program and Supporting Services

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

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

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

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 Costa Rica, Dominican Republic, Guatemala, Haiti, Honduras, India, Jamaica, Madagascar, Morocco and Puerto Rico on 27 trips in 2019 (25 trips in 2018). Shoes and clothing were distributed to children and families in orphanages, schools, villages and tent cities.

The Gifts in Kind 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

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

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

Income Taxes

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

Soles4Souls files a U.S. Federal Form 990 for organizations exempt from income tax. Soles4Souls Canada is required to file a T2 tax return and a T1044 information return.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Adoption of New Accounting Pronouncement

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Additionally, ASU 2016-14 requires all not-for-profit organizations to report present expenses by their natural and functional expense classification. The Organization has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Recent Authoritative Accounting Guidance

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

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, with certain practical expedients available. The Organization anticipates this ASU will have a material effect on the Consolidated Statement of Financial Position.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (*Topic 958*): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies the guidance for evaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. Where the Organization is a resource provider, the ASU is effective for annual periods beginning after December 15, 2019 and interim periods within annual periods beginning after December 15, 2020. The adoption of ASU 2018-08 is not expected to have a material impact on the Organization's consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications

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

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2019 and October 18, 2019, 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 statement of financial position, comprise the following as of June 30, 2019:

Financial assets at year end:	
Cash	
Operating	$ 689,570
Holding account	42,444
Operating reserve - board designated	628,000
Accounts receivable	
Microenterprise, net	502,313
Partner freight and other	65,849
Contributions and grants receivable	144,012
Total financial assets	2,072,188
Less amounts not available to be used within one year:	
Holding account	(42,444)
Operating reserve - board designated	(628,000)
Amounts not available to be used within one year	(670,444)
Financial assets available to meet cash needs for general expenditures within one year	$ 1,401,744

The Organization has a $650,000 line of credit available if financial assets are not available to meet cash needs. Additionally, the amount the board has designated as an operating reserve could be made available for general expenditure, if necessary.

NOTE 4 - INVENTORIES

Inventories consisted of the following at June 30:

	2019	2018
Donated shoes:		
New shoes	$ 7,198,905	$ 4,770,613
Used shoes	1,603,390	1,199,028
Donated clothing items	8,186,419	6,220,282
Other donated items:		
Other relief supplies	863,597	295,385
Total donated inventory	$ 17,852,311	$ 12,485,308

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

	2019	2018
Beginning of year	$ 12,485,308	$ 9,194,013
Contributions received	85,668,713	80,226,896
Donated inventory distributed in programs	(80,301,710)	(76,935,601)
End of year	$ 17,852,311	$ 12,485,308

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 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2019	2018
Land	$ 238,800	$ 238,800
Building and improvements	3,262,242	3,225,161
Vehicles	121,152	121,152
Equipment	481,134	363,054
Furniture and fixtures	140,147	140,147
	4,243,475	4,088,314
Less: accumulated depreciation	(1,500,675)	(1,295,807)
	$ 2,742,800	$ 2,792,507

During 2018, the Organization received a piece of property in conjunction with the DUW MOU. That property was originally appraised at approximately $400,000; however, the Organization sold it for $252,623, which is the net realizable value recorded in the Consolidated Statements of Activities.

NOTE 6 - 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 years ended June 30:

	2019	2018
Balance - beginning of year	$ 5,937	$ 5,554
Investment income (loss)	(373)	383
Balance - end of year	$ 5,564	$ 5,937

NOTE 7 - LINE OF CREDIT

The Organization obtained a line of credit in September 2016 in the amount of $200,000 (later increased to $320,000 and subsequently increased to $650,000 on October 12, 2018). 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 November 2019. There was no balance on the line of credit at June 30, 2019 or 2018.

NOTE 8 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

	2019	2018
Mortgage payable on warehouse facility located in Wadley, Alabama, refinanced in March 2018. Requires monthly payments of $10,899, with final payment in March 2033 of all remaining principal and accrued interest. Interest accrues at a rate of 4.83% per year, and the loan is secured by the underlying property with a carrying value of $1,647,485 at June 30, 2019.	$ 1,313,286	$ 1,391,141
Mortgage payable on headquarters facility located in Nashville, Tennessee, refinanced in March 2018. Requires monthly payments of $5,195, with final payment in March 2033 of all remaining principal and accrued interest. Interest accrues at a rate of 4.83% per year, and the loan is secured by the underlying property with a carrying value of $805,312 at June 30, 2019.	626,533	663,110
	1,939,819	2,054,251
Less: loan issuance cost	-	(4,588)
Total notes payable	$ 1,939,819	$ 2,049,663

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

NOTE 8 - NOTES PAYABLE (CONTINUED)

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

Year ending June 30,		
2020	$	101,769
2021		106,795
2022		112,069
2023		117,603
2024		123,471
Thereafter		1,378,112
	$	1,939,819

Total interest expense on all indebtedness for the year ended June 30, 2019 amounted to $109,414 ($114,582 in 2018).

NOTE 9 - LEASES

The Organization leases certain facilities and office equipment under operating leases expiring at various dates through April 2024. Rent expense totaled $220,194 and $100,753 for the fiscal year ended June 30, 2019 and 2018, respectively.

Future minimum lease payments required under noncancelable operating leases as of June 30, 2019 are as follows:

Year ending June 30,		
2020	$	156,079
2021		126,186
2022		118,900
2023		57,324
2024		19,781
	$	478,270

NOTE 10 - NET ASSETS

Net assets consisted of the following at June 30:

	2019	2018
Net assets without donor restrictions		
Operating reserve - board designated	$ 628,000	$ 628,000
Invested in property and equipment, less related debt	802,981	742,844
Donated inventory without restriction	5,575,131	2,307,833
Undesignated	540,028	606,547
Total net assets without donor restriction	$ 7,546,140	$ 4,285,224
Net assets with donor restriction		
Purpose restrictions -		
Donated inventory for distribution internationally	$ 12,277,180	$ 10,177,475
Haiti expansion project	120,000	-
Maintained in perpetuity -		
Beneficial interest in agency endowment	5,564	5,937
Total net assets with donor restriction	$ 12,402,744	$ 10,183,412

NOTE 11 - 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 $151,029 for the year ended June 30, 2019 ($108,116 in 2018) 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, 2019 and 2018.

NOTE 12 - 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, 2019, receivables from two microenterprise partners totaled approximately $400,000, or 81% of total accounts receivable ($324,000, or 64% of accounts receivable, at June 30, 2018).

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

During 2019, the Organization:

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

During 2018, the Organization:

- Received 12% of its shoe donations from one shoe manufacturer.
- Received 34% of its clothing donations from one manufacturer.
- Utilized four distribution partners to distribute 68% of its total shoe and clothing distributions.
- Utilized four microenterprise partners to distribute 78% of items sent to the microenterprise program.
- Received microenterprise program fees from six companies that represent 91% of total microenterprise program fees.