

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2015 AND 2014

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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. and supporting organization (collectively the "Organization"), which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, 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.

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. and supporting organization as of June 30, 2015 and 2014, 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  
February 10, 2016

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u> (Restated)
<u>ASSETS</u>		
Cash	\$ 143,931	\$ 132,496
Accounts receivable	131,692	43,996
Prepaid expenses and other assets	90,623	38,372
Inventories	10,551,369	11,636,308
Investments	502,704	500,800
Property and equipment, net	3,054,514	3,209,332
Mortgage loan costs, net	<u>22,159</u>	<u>25,752</u>
TOTAL ASSETS	<u>\$ 14,496,992</u>	<u>\$ 15,587,056</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 432,140	\$ 435,575
Deposits	138,894	73,544
Obligation under line of credit	345,000	310,000
Notes payable	<u>2,194,647</u>	<u>2,283,553</u>
TOTAL LIABILITIES	<u>3,110,681</u>	<u>3,102,672</u>
NET ASSETS		
Unrestricted net assets		
Invested in property and equipment, less related debt	859,867	925,779
Unrestricted donated inventory	1,893,871	3,907,325
Undesignated	<u>91,940</u>	<u>117,415</u>
Total unrestricted net assets	<u>2,845,678</u>	<u>4,950,519</u>
Temporarily restricted net assets	<u>8,540,633</u>	<u>7,533,865</u>
TOTAL NET ASSETS	<u>11,386,311</u>	<u>12,484,384</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 14,496,992</u>	<u>\$ 15,587,056</u>

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
In-kind contributions			
Shoes:			
Corporate shoe donations	\$ 8,084,734	\$ 5,369,625	\$ 13,454,359
Retail store shoe drives	5,111,383	-	5,111,383
Community shoe drives	4,823,028	-	4,823,028
Clothing and other relief item donations	<u>8,105,665</u>	<u>3,171,008</u>	<u>11,276,673</u>
Total in-kind contributions	26,124,810	8,540,633	34,665,443
Micro-enterprise program fees	2,426,443	-	2,426,443
Contributions	1,373,539	-	1,373,539
International volunteer travel fees	370,947	-	370,947
Investment income	1,904	-	1,904
Other income	8,095	-	8,095
Net assets released from restriction	<u>7,533,865</u>	<u>(7,533,865)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>37,839,603</u>	<u>1,006,768</u>	<u>38,846,371</u>
EXPENSES			
Program services	38,454,128	-	38,454,128
Management and general	684,632	-	684,632
Fundraising	<u>805,684</u>	<u>-</u>	<u>805,684</u>
TOTAL EXPENSES	<u>39,944,444</u>	<u>-</u>	<u>39,944,444</u>
CHANGE IN NET ASSETS	(2,104,841)	1,006,768	(1,098,073)
NET ASSETS, BEGINNING OF YEAR - as restated	<u>4,950,519</u>	<u>7,533,865</u>	<u>12,484,384</u>
NET ASSETS, END OF YEAR	<u>\$ 2,845,678</u>	<u>\$ 8,540,633</u>	<u>\$ 11,386,311</u>

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Unrestricted</u>	<u>Temporarily</u>	<u>Total</u>
	<u>(Restated)</u>	<u>Restricted</u>	
	<u>(Restated)</u>	<u>(Restated)</u>	
SUPPORT AND REVENUE			
In-kind contributions			
Shoes:			
Corporate shoe donations	\$ 13,499,288	\$ 3,704,449	\$ 17,203,737
Retail store shoe drives	2,631,600	-	2,631,600
Community shoe drives	3,935,895	-	3,935,895
Clothing and other relief item donations	<u>8,330,397</u>	<u>3,829,416</u>	<u>12,159,813</u>
Total in-kind contributions	28,397,180	7,533,865	35,931,045
Micro-enterprise program fees	2,438,438	-	2,438,438
Contributions	1,140,515	-	1,140,515
International volunteer travel fees	322,061	-	322,061
Investment income	40,942	-	40,942
Other income	13,811	-	13,811
Net assets released from restriction	<u>3,099,522</u>	<u>(3,099,522)</u>	<u>-</u>
TOTAL SUPPORT AND REVENUE	<u>35,452,469</u>	<u>4,434,343</u>	<u>39,886,812</u>
EXPENSES			
Program services	40,997,301	-	40,997,301
Management and general	599,666	-	599,666
Fundraising	<u>852,607</u>	<u>-</u>	<u>852,607</u>
TOTAL EXPENSES	<u>42,449,574</u>	<u>-</u>	<u>42,449,574</u>
CHANGE IN NET ASSETS	(6,997,105)	4,434,343	(2,562,762)
NET ASSETS, BEGINNING OF YEAR	<u>11,947,624</u>	<u>3,099,522</u>	<u>15,047,146</u>
NET ASSETS, END OF YEAR	<u>\$ 4,950,519</u>	<u>\$ 7,533,865</u>	<u>\$ 12,484,384</u>

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
OPERATING ACTIVITIES		
Change in net assets	\$ (1,098,073)	\$ (2,562,762)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized gains on investments, net	(1,904)	(38,982)
Depreciation	154,818	161,037
Amortization of mortgage loan costs	3,593	3,593
Gain on sale of property and equipment	-	(4,842)
(Increase) decrease in:		
Accounts receivable	(87,696)	(24,031)
Prepaid expenses and other assets	(52,251)	(17,329)
Inventories	1,084,939	2,405,914
Increase (decrease) in:		
Accounts payable and accrued expenses	(3,435)	(231,280)
Deposits	<u>65,350</u>	<u>(172,537)</u>
TOTAL ADJUSTMENTS	<u>1,163,414</u>	<u>2,081,543</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>65,341</u>	<u>(481,219)</u>
INVESTING ACTIVITIES		
Purchase of investments	-	(584,856)
Proceeds from sale of investments	-	923,262
Purchase of property and equipment	-	(22,845)
Proceeds from sale of property and equipment	<u>-</u>	<u>10,824</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>-</u>	<u>326,385</u>
FINANCING ACTIVITIES		
Repayments of notes payable	(88,906)	(92,240)
Net borrowings on line of credit	<u>35,000</u>	<u>310,000</u>
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>(53,906)</u>	<u>217,760</u>
NET INCREASE IN CASH	11,435	62,926
CASH - BEGINNING OF YEAR	<u>132,496</u>	<u>69,570</u>
CASH - ENDING OF YEAR	<u>\$ 143,931</u>	<u>\$ 132,496</u>
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Cash paid during the year for interest	<u>\$ 124,537</u>	<u>\$ 116,888</u>
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Note paid in full upon sale of vehicle	<u>\$ -</u>	<u>\$ 10,985</u>

See accompanying notes to consolidated financial statements.



SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 1,128,183	\$ 367,858	\$ 386,845	\$ 1,882,886
Employee benefits and payroll taxes	<u>189,164</u>	<u>54,654</u>	<u>65,486</u>	<u>309,304</u>
Total personnel costs	<u>1,317,347</u>	<u>422,512</u>	<u>452,331</u>	<u>2,192,190</u>
In-kind distributions:				
Shoes	8,038,207	-	-	8,038,207
Clothing and other relief items	1,277,112	-	-	1,277,112
Items to the micro-enterprise programs	<u>26,435,063</u>	<u>-</u>	<u>-</u>	<u>26,435,063</u>
Total in-kind distributions	35,750,382	-	-	35,750,382
Other distribution expenses	190,510	-	-	190,510
Advertising and promotion	39,675	-	9,918	49,593
Auto expenses	22,941	1,017	1,017	24,975
Bank fees	-	48,425	-	48,425
Depreciation and amortization	118,809	23,761	15,841	158,411
Direct mail	-	-	131,864	131,864
Events	-	-	38,525	38,525
Insurance	125,863	25,173	16,782	167,818
Interest	93,402	18,681	12,454	124,537
Miscellaneous	41,876	24,384	5,579	71,839
Supplies and equipment	27,733	1,946	1,297	30,976
Postage, shipping and delivery	87,400	17,480	11,653	116,533
Professional fees	137,787	75,234	87,225	300,246
Rent	3,317	-	-	3,317
Repairs and maintenance	26,764	2,197	1,465	30,426
Telephone and utilities	61,331	12,266	8,177	81,774
Travel	<u>408,991</u>	<u>11,556</u>	<u>11,556</u>	<u>432,103</u>
TOTAL EXPENSES	<u>\$ 38,454,128</u>	<u>\$ 684,632</u>	<u>\$ 805,684</u>	<u>\$ 39,944,444</u>

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2014

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries	\$ 1,265,236	\$ 360,935	\$ 317,934	\$ 1,944,105
Employee benefits and payroll taxes	<u>183,278</u>	<u>45,992</u>	<u>46,283</u>	<u>275,553</u>
Total personnel costs	<u>1,448,514</u>	<u>406,927</u>	<u>364,217</u>	<u>2,219,658</u>
In-kind distributions:				
Shoes	8,600,409	-	-	8,600,409
Clothing and other relief items	484,183	-	-	484,183
Items to the micro-enterprise programs	<u>29,252,812</u>	<u>-</u>	<u>-</u>	<u>29,252,812</u>
Total in-kind distributions	38,337,404	-	-	38,337,404
Other distribution expenses	111,468	-	-	111,468
Advertising and promotion	86,592	-	21,648	108,240
Auto expenses	26,666	1,002	1,002	28,670
Bank fees	-	55,282	-	55,282
Depreciation and amortization	123,472	24,695	16,463	164,630
Direct mail	-	-	153,994	153,994
Events	-	-	108,238	108,238
Insurance	127,645	25,529	17,019	170,193
Interest	87,666	17,533	11,689	116,888
Miscellaneous	12,335	34,288	12,335	58,958
Supplies and equipment	27,609	2,033	1,355	30,997
Postage, shipping and delivery	117,497	1,382	19,352	138,231
Professional fees	48,566	964	101,327	150,857
Rent	41,889	-	-	41,889
Repairs and maintenance	25,803	4,123	2,749	32,675
Telephone and utilities	70,334	14,067	9,378	93,779
Travel	<u>303,841</u>	<u>11,841</u>	<u>11,841</u>	<u>327,523</u>
TOTAL EXPENSES	<u>\$ 40,997,301</u>	<u>\$ 599,666</u>	<u>\$ 852,607</u>	<u>\$ 42,449,574</u>

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

Soles4Souls, Inc. (“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 micro-enterprise 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 very limited activity during the fiscal year ended June 30, 2015.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of Soles4Souls, Inc. and Changing the World Foundation, Inc. (collectively the “Organization”). 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.

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidation and Basis of Presentation (Continued)

- *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 2015 and 2014 consisted entirely of donated inventory restricted for distribution outside the United States of America.
- *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. The Organization had no permanently restricted net assets as of June 30, 2015 and 2014.

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.

Cash

Cash consists of checking account balances.

Accounts Receivable

Accounts receivable are from micro-enterprise distributors related to cost of shipping and handling. The Organization does not charge interest on past due accounts. Accounts receivable are deemed to be fully collectible by management and no allowance for bad debts is considered necessary at June 30, 2015 and 2014.

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015 AND 2014

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. Items are assigned an estimated fair value by management at the time of donation. Management assigns an estimated fair value 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 market, 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.

Investments

Investments at June 30, 2015 and 2014 consist of certificates of deposits which are valued at cost plus accrued interest.

Property and 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 \$1,000 or greater and an estimated useful life of at least one year. Costs of maintenance and repairs are charged to expense. When depreciable assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain (except trade-ins) or loss is recognized. Gains on trade-ins are applied to reduce the cost of the new acquisition.

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment and Depreciation (Continued)

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

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

Mortgage Loan Costs

Mortgage loan costs are capitalized and amortized on a straight-line basis over a period of 10 years, the life of the related loan. Amortization of the loan costs are expected to be \$22,159 in 2016.

Donated Goods and Services

Donated goods, including donated shoes, clothing, DVDs, books and other relief items, are recorded as in-kind gifts 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 / Deposits

Microenterprise program handling fees are charged to certain recipient organizations that receive used footwear for redistribution. 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.

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015 AND 2014

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 Organization's behalf to distribute these items providing relief to individuals living in poverty or affected by natural disasters. Through this extensive network, the Organization has distributed shoes, clothing, and other relief supplies to people in more than 127 countries.

The Organization operates a micro-enterprise operation in Haiti and contracts with established micro-enterprise distributors to distribute shoes in Central America, South America and Africa. 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 Organization's staff on distribution trips to various countries to experience first-hand providing shoes and clothing to people in desperate situations. Teams visited Haiti, Costa Rica, Honduras, Guatemala, Jamaica and Tanzania on 17 trips in 2015 (18 trips in 2014). Shoes and clothing were distributed to children and families in orphanages, schools, villages and tent cities.

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 the Organization's 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.

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015 AND 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

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

Soles4Souls and CTWF each file a U.S. Federal Form 990 for organizations exempt from income tax.

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.

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, 2015 and February 10, 2016, the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.



SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015 AND 2014

NOTE 3 - INVENTORIES

Inventories consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Donated shoes:		
New shoes	\$ 5,632,126	\$ 4,887,437
Used shoes	1,113,289	1,420,460
Donated clothing items	3,408,463	4,347,638
Other donated items:		
Other relief supplies	<u>280,626</u>	<u>785,655</u>
Total donated inventory	10,434,504	11,441,190
Purchased shoes	<u>116,865</u>	<u>195,118</u>
	<u>\$ 10,551,369</u>	<u>\$ 11,636,308</u>

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

	<u>2015</u>	<u>2014</u>
Beginning of year	\$ 11,441,190	\$ 13,801,497
Contributions received	34,665,443	35,931,045
Donated inventory distributed in programs	<u>(35,672,129)</u>	<u>(38,291,352)</u>
End of year	<u>\$ 10,434,504</u>	<u>\$ 11,441,190</u>

At June 30, temporarily restricted net assets consist entirely of donated shoe and clothing inventory restricted for distribution outside of the United States and amounts to \$8,540,633 and \$7,533,865, respectively for 2015 and 2014.

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015 AND 2014

NOTE 4 - INVESTMENTS

Investments consisted solely of certificates of deposit at June 30, 2015 and 2014.

Investment income (loss) consisted of the following for the year ended June 30:

	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 1,904	\$ 7,458
Realized gains (losses)	<u>-</u>	<u>38,982</u>
	1,904	46,440
Less: investment fees	<u>-</u>	<u>(5,498)</u>
Investment income, net	<u>\$ 1,904</u>	<u>\$ 40,942</u>

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Land	\$ 238,800	\$ 238,800
Building and improvements	3,198,378	3,198,378
Vehicles	121,152	121,152
Equipment	204,625	204,625
Furniture and fixtures	<u>140,147</u>	<u>140,147</u>
	3,903,102	3,903,102
Less: accumulated depreciation	<u>(848,588)</u>	<u>(693,770)</u>
	<u>\$ 3,054,514</u>	<u>\$ 3,209,332</u>

NOTE 6 - LINES OF CREDIT

In October 2013, the Organization obtained a line of credit in the amount of \$300,000 with interest at a rate of 3.75% annually that is secured by a \$300,000 certificate of deposit. The line of credit was renewed in December 2014 through December 2015 and bears interest at the rate of 3.4% annually. The balance on this line was \$300,000 at June 30, 2015 and 2014. This line of credit was repaid subsequent to year end.

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015 AND 2014

NOTE 6 - LINES OF CREDIT (CONTINUED)

Additionally, the Organization obtained a second line of credit in May 2014 in the amount of \$200,500 that is secured by a \$200,000 certificate of deposit. The second agreement was renewed in May 2015 through May 2016 and bears interest at the rate of 3.4% annually. The balance on the second line of credit was \$ 45,000 on June 30, 2015 and \$10,000 on June 30, 2014. This line of credit was repaid subsequent to year end.

NOTE 7 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Mortgage payable on the headquarters facility located in Nashville, Tennessee and the warehouse facility located in Wadley, Alabama. As discussed below, the loan is in forbearance with the lender through March 6, 2016. Payments of principal and interest at 6.25% of \$17,957 are due monthly. The loan is secured by a deed of trust of the real estate properties.	\$ 2,194,647	\$ 2,281,408
Note payable for the purchase of a vehicle. This note was refinanced in September 2011 and requires monthly principal and interest payments of \$795 through September 2014. The rate of interest is 3.25% and is collateralized by the vehicle.	<u>-</u>	<u>2,145</u>
Total notes payable	<u>\$ 2,194,647</u>	<u>\$ 2,283,553</u>

The mortgage payable for the headquarters facility and the warehouse facility were refinanced and consolidated into a \$2.5 million note in September 2012. The note is collateralized by the real estate of both facilities, and requires a specified cash flow coverage ratio. The Organization was not in compliance with the cash flow coverage ratio as of June 30, 2014. On March 19, 2015, the lender issued a default letter, thereby declaring the loan in default and the entire balance of the note to be immediately due and payable. On April 30, 2015, the Organization entered into a forbearance agreement (the "Forbearance Agreement") whereby the lender agreed to forbear from exercising its remedies under the note until October 31, 2015, provided that the Organization complies with certain conditions of forbearance relating to correctness of representations and warranties and financial reporting requirements as outlined in the Forbearance Agreement. This Agreement was subsequently extended through March 5, 2016. During the forbearance period, the interest rate on the underlying indebtedness was increased to 6.25% and required payments beginning in November 2015 will be \$18,119.

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015 AND 2014

NOTE 7 - NOTES PAYABLE (CONTINUED)

On January 5, 2016, the Organization received commitment letters from a new lender which will allow the Organization to refinance the real estate loan into two separate secured fixed-rate loans at 5.3% per year. The two proposed loans are for amounts up to \$1,500,000 and \$700,000, each not to exceed 70% loan to value of the respective properties. The proposed loans are for a period of 36 months, amortized on a 240 month term, and will be secured by the respective real estate.

Total interest expense on all indebtedness for the year ended June 30, 2015 amounted to \$124,537 (\$116,888 in 2014).

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 \$72,466 for the year ended June 30, 2015 (\$76,875 in 2014) 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, 2015 and 2014.

NOTE 9 - CONCENTRATIONS AND CREDIT RISK

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

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

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2015 AND 2014

NOTE 9 - CONCENTRATIONS AND CREDIT RISK (CONTINUED)

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

During 2015, the Organization:

- Received 25% of its shoe donations from one shoe manufacturer.
- Received 63% of its clothing donations from two manufacturers.
- Utilized 3 distribution partners to distribute 69% of its total shoe and clothing distributions.
- Utilized 2 MBE distributors to distribute 76% of items sent to the MBE program.
- Received micro-enterprise programs fees from two companies that represent 78% of total micro-enterprise programs fees.

During 2014, the Organization:

- Received 37% of its shoe donations from two shoe manufacturers.
- Received 61% of its clothing donations from three manufacturers.
- Utilized 3 distribution partners to distribute 86% of its total shoe and clothing distributions.
- Utilized 3 MBE distributors to distribute 99% of items sent to the MBE program.
- Received micro-enterprise programs fees from three companies that represent 97% of total micro-enterprise programs fees.

NOTE 10 - PRIOR PERIOD ADJUSTMENT

During 2015, it was determined that the Organization did not show all donated inventory items with external distribution restrictions as temporarily restricted inventory and net assets in the 2014 financial statements. As such, ending restricted net assets were increased by \$3,554,461, 2014 contributions of restricted items were increased by the same amount, and unrestricted contributions and ending net assets were reduced by a corresponding amount. The effect of this adjustment has no impact on the change in net assets for the fiscal year ended June 30, 2014, as previously presented.