

Shoes and Clothes for Kids, Inc.

Financial Report
December 31, 2021

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Independent Auditor's Report

To the Board of Directors
Shoes and Clothes for Kids, Inc.

Opinion

We have audited the financial statements of Shoes and Clothes for Kids, Inc. (the Organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities and cash flows for the year then ended and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of December 31, 2021, and changes in its net assets, and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Organization's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 29, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

Cleveland, Ohio
May 31, 2022

Shoes and Clothes for Kids, Inc.

Statement of Financial Position

December 31, 2021

(With Comparative Totals at December 31, 2020)

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents:		
Operating	\$ 575,581	\$ 543,321
Unconditional promises to give	35,812	24,806
Prepaid expenses	11,193	11,086
Inventory	1,525,333	2,448,875
Total current assets	2,147,919	3,028,088
Fixed assets:		
Property and equipment	103,936	97,852
Less: accumulated depreciation	91,142	82,621
	12,794	15,231
Other assets:		
Deposits	-	1,800
Unconditional promises to give, long-term	9,096	22,698
Investments	1,813,905	1,623,587
	1,823,001	1,648,085
Total assets	\$ 3,983,714	\$ 4,691,404
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 23,007	\$ 16,268
Accrued expenses	583	1,505
Paycheck Protection Program loan	83,218	70,300
Total current liabilities	106,808	88,073
Net assets:		
Without donor restrictions:		
Operating	1,982,626	1,695,038
Operating - inventory	1,525,333	2,448,875
Total net assets without donor restrictions	3,507,959	4,143,913
With donor restrictions	368,947	459,418
Total net assets	3,876,906	4,603,331
Total liabilities and net assets	\$ 3,983,714	\$ 4,691,404

See notes to financial statements.

Shoes and Clothes for Kids, Inc.

Statement of Activities

Year Ended December 31, 2021

(With Comparative Totals for the Year Ended December 31, 2020)

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Operating support and revenue:				
Contributions:				
Foundations	\$ 287,899	\$ 138,760	\$ 426,659	\$ 451,402
Individuals	190,716	67,400	258,116	268,815
Corporate and other organizations	31,539	19,750	51,289	83,197
Government support	169,040	-	169,040	-
Special events, net	86,094	-	86,094	74,379
Interest income	87	-	87	79
Net assets released from restrictions	371,118	(371,118)	-	-
Total operating support and revenue before in-kind contributions	1,136,493	(145,208)	991,285	877,872
In-kind rent, professional services, goods and materials	49,567	-	49,567	128,066
In-kind inventory and gift cards	2,182,102	42,078	2,224,180	2,600,548
Total operating support and revenue	3,368,162	(103,130)	3,265,032	3,606,486
Operating expenses:				
Distributions of clothing and school supplies:				
School uniforms and clothing distributed to students	433,541	-	433,541	933,118
School supplies distributed to teachers and students	2,872,050	-	2,872,050	898,521
Shoe gift certificates distributed to students	17,713	-	17,713	9,172
Total distributions	3,323,304	-	3,323,304	1,840,811
Staff and personnel cost	575,243	-	575,243	499,750
In-kind rent, professional services, goods and materials	49,567	-	49,567	128,066
Governance and administration	80,447	-	80,447	77,008
Facility expense	48,858	-	48,858	62,422
Development and communication	67,943	-	67,943	48,624
Other distribution expenses	20,265	-	20,265	12,857
Depreciation	8,521	-	8,521	10,536
Total operating expenses	4,174,148	-	4,174,148	2,680,074
Change in net assets before non-operating support and revenue	(805,986)	(103,130)	(909,116)	926,412
Non-operating support and revenue:				
Net realized/unrealized gains on investments	170,032	12,659	182,691	172,069
Change in net assets	(635,954)	(90,471)	(726,425)	1,098,481
Net assets - beginning	4,143,913	459,418	4,603,331	3,504,850
Net assets - ending	\$ 3,507,959	\$ 368,947	\$ 3,876,906	\$ 4,603,331

See notes to financial statements.

Shoes and Clothes for Kids, Inc.

Statement of Cash Flows

Year Ended December 31, 2021

(With Comparative Totals for the Year Ended December 31, 2020)

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ (726,425)	\$ 1,098,481
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	8,521	10,536
Net realized/unrealized gains on investments	(182,691)	(172,069)
Forgiveness of Paycheck Protection Program loan	(70,300)	-
Decrease (increase) in unconditional promises to give	2,596	(5,681)
Increase in prepaid expenses	(107)	(90)
Decrease (increase) in inventory	923,542	(909,443)
Decrease in deposits	1,800	-
Increase (decrease) in accounts payable	6,739	(11,332)
Decrease in accrued expenses	(922)	(12,427)
Net cash used in operating activities	(37,247)	(2,025)
Cash flows from investing activities:		
Net change in investments	(7,627)	223,811
Purchase of fixed assets	(6,084)	(11,704)
Net cash (used in) provided by investing activities	(13,711)	212,107
Cash flows from financing activities:		
Proceeds from Paycheck Protection Program loan	83,218	70,300
Net cash provided by financing activities	83,218	70,300
Net change in cash and cash equivalents	32,260	280,382
Cash and cash equivalents:		
Beginning	543,321	262,939
Ending	\$ 575,581	\$ 543,321

See notes to financial statements.

Shoes and Clothes for Kids, Inc.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Purpose: Shoes and Clothes for Kids, Inc. (the Organization) is a 50 year-old not-for-profit corporation whose mission is to reduce the barriers to school attendance among income-eligible students in kindergarten through eighth grade in the Cleveland area. The Organization does this by providing new shoes, school uniforms, casual clothes, socks, underwear and school supplies through a network of neighborhood distribution partners and the Cleveland Metropolitan School District.

During 2021, the Organization served more than 26,000 kids in need with new shoes, school clothing, winter coats and school supplies through its four distinct programs. The school supply program, an affiliate of the national Kids in Need Foundation, served more than 2,900 teachers from 276 schools in 41 districts. In total, Shoes and Clothes for Kids programs distributed items with an estimated retail value of nearly \$3.3 million during the year ended December 31, 2021.

Accounting method: The accompanying financial statements of the Organization have been prepared, in all material respects, on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Organization is required to report information regarding its financial position and activities according to two classes of net assets: with donor restriction and without donor restriction.

The Organization reports gifts of cash and other assets as support with donor restriction if the use of the cash or other assets is limited by donor imposed restrictions that either expire by the passage of time or can be fulfilled by actions of the Organization. When a donor restriction is met, net assets with donor restrictions are reclassified to net assets without donor restriction and reported in the statement of activities as net assets released from restrictions.

Use of estimates: The preparation of financial statements in conformity with U.S. 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.

Cash and cash equivalents: The Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The Organization maintains, at various financial institutions, cash and cash equivalents which may exceed federally insured amounts, at times. Balances in excess of the federally insured limit expose the Organization to custodial credit risk.

Allowance for doubtful accounts: The Organization provides for uncollectible promises to give using the allowance method. Management determined no allowance for doubtful accounts is required at December 31, 2021.

Inventory: Inventory consists of purchased or donated uniform and clothing items for children, and purchased and donated school supplies. Inventory has been valued at estimated fair value at the date of purchase or donation.

Shoes and Clothes for Kids, Inc.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Fixed assets: Property and equipment includes investments in office and warehouse equipment, costs associated with the Organization's webpage and furniture which are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the capitalized assets. Maintenance and repairs are charged to expense as incurred.

The following lives are assigned to the various assets:

	<u>Life</u>
Office equipment and webpage	3-5 years
Office furniture	5-10 years
Warehouse equipment	3-5 years

Investments: Investments are reported in the statement of financial position at fair value with any realized or unrealized gains and losses reported in the statement of activities. Investment income is recognized as revenue in the period it is earned and gains and losses are recognized as changes in net assets in the accounting periods in which they occur.

Contributions: Contributions are recognized as revenue when they are received or unconditionally pledged. Unconditional promises to give that are expected to be collected within one year are recorded at realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Government support: Government grant revenues are recorded when the expenditures are incurred in accordance with the grant document or when the grant objectives have been met.

In-kind contributions: In-kind contributions represent rent, professional services, good and materials, and inventory. The estimated fair values of rent, professional services, goods and materials are recorded as contributions and expenses at the date they are received. The Organization also benefits from a substantial number of nonprofessional volunteer services during the year, the value of which cannot be quantified and, accordingly, has not been recorded in the financial statements.

Retirement plan: The Organization has established a SIMPLE IRA plan which covers all employees. The plan includes a match of 1% of the employees' compensation.

Operating leases: The Organization leases office space and various office equipment on an annual basis.

Tax status: Shoes and Clothes for Kids, Inc. is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Uncertain tax positions: The Financial Accounting Standards Board (FASB) provides guidance for how uncertain income tax positions should be recognized, measured, disclosed and presented in the financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Organization's tax returns to determine whether the tax positions are more-likely-than-not of being sustained when challenged or when examined by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense and liability in the current year. For the year ended December 31, 2021, management has determined there are no uncertain tax positions.

Shoes and Clothes for Kids, Inc.

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Comparative information: The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2020, from which the summarized information was derived.

Recent accounting pronouncements not yet adopted: In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either financing or operating, with classification affecting the pattern of expense recognition in the income statement. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) – Effective Dates for Certain Entities*, which defers the effective date of ASU 2016-02 one year making it effective for annual reporting periods beginning after December 15, 2021.

In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958), Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The amendments in this update clarify and improve presentation and disclosure of contributed nonfinancial assets. This ASU is effective for annual periods beginning after June 15, 2021 and early adoption is permitted.

The Organization is currently evaluating the impact these statements will have on its financial statements.

Subsequent events: The Organization has evaluated subsequent events for potential recognition and/or disclosure through May 31, 2022, the date the financial statements were issued.

Note 2. Liquidity and Availability

The Organization's financial assets as of the statement of financial position date, reduced by amounts not available for general use because of Board of Directors' designations or other contractual or donor-imposed restrictions within one year of the statement of financial position date are as follows:

Financial assets at year end:	
Cash and cash equivalents	\$ 575,581
Investments	1,813,905
Unconditional promises to give	35,812
Total financial assets	<u>2,425,298</u>
Less amounts not available to be used for general expenditure within one year:	
Restricted by donors to the 50th Anniversary Program Growth Fund	193,263
Restricted by donors with purpose restrictions	175,684
Board designated for endowment, less designation for 2022 operations	1,477,656
Financial assets not available to be used within one year	<u>1,846,603</u>
Financial assets available to meet general expenditures within one year	<u><u>\$ 578,695</u></u>

Shoes and Clothes for Kids, Inc.

Notes to Financial Statements

Note 2. Liquidity and Availability (Continued)

Availability of resources: The Organization receives significant contributions restricted by donors, and considers contributions restricted for programs which are ongoing, major and central to its annual operations. Support is solicited annually from private foundations, corporate sponsors and individual donors. A significant portion of the clothing, shoe and school supply inventory distributed through its programs is obtained from in-kind donations, which was \$2,224,180 for the year ended December 31, 2021.

Liquidity management: The Organization maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Organization is committed to maintaining operating reserves equal to at least one year of operations. The current spending policy permits that during the annual budget process the Board of Directors may authorize the expenditure of 5% of the funds functioning as endowment for the following year's operations, if the three-year average endowment balance exceeds the current year cash needs. In 2018, the Board of Directors authorized the creation of a 50th Anniversary Program Growth Fund with a goal of raising additional support to serve additional students beyond its current program capacity. These funds are being held in a separate account at the Cleveland Foundation and disbursements from this fund for additional programming will be approved by the Board of Directors and occur over five years.

Note 3. Unconditional Promises to Give

Unconditional promises to give consist of contributions by individuals, foundations and other entities. Unconditional promises to give are recorded at their net realizable value. At December 31, 2021, the Organization expects to collect unconditional promises to give of \$35,812 within one year and \$9,096 in future years. The Organization believes that all promises to give will be collected timely and accordingly no allowance has been recorded. The Organization has deemed the recording of a discount for the present value of estimated future cash flows to not be material.

Note 4. Investments

The Organization measures its investments at fair value in accordance with Accounting Standards Codification (ASC) 820, *Fair Value Measurements*, which establishes a framework for measuring fair value in accordance with U.S. GAAP and expands disclosure about fair value measurements. This statement enables the reader of the financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. The standard requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1 — Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 — Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 — Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

In determining the appropriate levels, the Organization performs a detailed analysis of the assets that are subject to fair value measurements.

Shoes and Clothes for Kids, Inc.

Notes to Financial Statements

Note 4. Investments (Continued)

The Organization participates in a pooled fund held and managed by the Cleveland Foundation. The Cleveland Foundation provides the fair value of the Organization's interest in the pooled fund. The underlying assets in the pooled fund consist of securities, whose fair value is based on reported market prices, in addition to alternative investments for which a readily determined fair value does not exist. The fair value of the alternative investment portfolio is determined based on valuations received by the Cleveland Foundation from the underlying fund manager. Interest and dividend income and realized and unrealized investment gains and losses are reported as increases or decreases in the statement of activities as net assets without donor restrictions.

The following table presents the Organization's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2021:

	Level 1	Level 2	Level 3	Total
Investments - pooled funds	\$ -	\$ 1,813,905	\$ -	\$ 1,813,905

Note 5. Paycheck Protection Program Loan

On March 27, 2020, the CARES (Coronavirus Aid, Relief, and Economic Security) Act was signed into law. The CARES Act legislation is intended to provide relief for small businesses that have been negatively impacted by the COVID-19 pandemic. One of the many provisions of the CARES Act, the Paycheck Protection Program (PPP), provided loans to small businesses to prevent layoffs and business closures during the pandemic. In April of 2020, the Organization received the first round of PPP funding in the amount of \$70,300. During the year ended December 31, 2021, the Organization received formal forgiveness for this loan and recorded the forgiveness of this debt within the government support caption in the statement of activities.

During the year ended December 31, 2021, the Organization applied for and received proceeds from the second round of PPP funding in the amount of \$83,218. The PPP loan had a stated interest rate of 1% and was required to be repaid with two years of the award date. The Organization submitted the requisite paperwork seeking forgiveness of the loan from the Small Business Administration and received forgiveness for the entire loan amount subsequent to year end.

Note 6. Special Events, Net

For the year ended December 31, 2021, special events activity consists of the following:

	Revenue	Expense	Net
Night at the Shoreby	\$ 87,880	\$ 41,250	\$ 46,630
Golf Classic	61,430	21,966	39,464
Total	\$ 149,310	\$ 63,216	\$ 86,094

Shoes and Clothes for Kids, Inc.

Notes to Financial Statements

Note 7. Functional Expenses

The following is a detail of expenses by function as of December 31, 2021:

	Program	Administration	Fundraising	Total
Operating expenses:				
Distributions of clothing and school supplies:				
School uniforms and clothing distributed to students	\$ 433,541	\$ -	\$ -	\$ 433,541
School supplies distributed to teachers and students	2,872,050	-	-	2,872,050
Shoe gift certificates distributed to students	17,713	-	-	17,713
Total distributions	3,323,304	-	-	3,323,304
Staff and personnel cost	161,056	271,674	142,513	575,243
In-kind rent, professional services, goods and materials	40,903	8,297	367	49,567
Governance and administration	1,030	75,319	4,098	80,447
Facility expense	35,123	13,735	-	48,858
Development and communication	1,139	7,342	59,462	67,943
Other distribution expenses	18,740	1,525	-	20,265
Depreciation	-	8,521	-	8,521
Total operating expenses	\$ 3,581,295	\$ 386,413	\$ 206,440	\$ 4,174,148

The financial statements report certain categories of expense that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Distributions of clothing and school supplies and other distribution expenses are directly allocated to program. All other expenses benefit multiple functional areas and have been allocated across programs, support and fundraising based on the proportion of time and effort across each function.

Note 8. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at December 31, 2021:

Subject to expenditure for specified purpose:	
Classroom Guarantee Pilot Program	\$ 175,684
50th Anniversary Program Growth Fund	193,263
Total net assets with donor restrictions	<u>\$ 368,947</u>

Net assets released from restriction totaled \$371,118 during the year ended December 31, 2021. Net assets released from restriction were for capacity building, COVID response, the classroom guarantee program, and various other purposes as stipulated by donor restrictions.

Note 9. Endowment Funds – Without Donor Restrictions

The Organization's endowment consists of certain net assets that have been designated by the Board of Directors to function as an endowment. The endowment does not currently include net assets with donor restriction, but in the event that it did, the Organization would follow the following rules:

Shoes and Clothes for Kids, Inc.

Notes to Financial Statements

Note 9. Endowment Funds – Without Donor Restrictions (Continued)

Interpretation of relevant law: The Board of Directors of the Organization has interpreted the State of Ohio's Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization would classify as net assets with donor restrictions (a) the original value of gifts donated to the donor restricted endowment and (b) the original value of subsequent gifts to the donor restricted endowment. In addition, UPMIFA introduced the concept of total return expenditure of endowment net assets with donor restrictions for charitable program purposes, expressly permitting prudent expenditure of both appreciation and income. Thus asset growth and income can be appropriated for program purposes, subject to the rule that a fund cannot be spent below "historic dollar value."

Changes in endowment net assets for the year ended December 31, 2021:

	Without Donor Restriction
Beginning balance at December 31, 2020	\$ 1,447,532
Investment gain	164,164
Ending balance at December 31, 2021	<u>\$ 1,611,696</u>

Return objectives and risk parameters: The Organization has adopted an investment policy for endowment assets that attempts to maximize long-term return from interest and dividends, yet maintaining the liquidity necessary to meet cash flow needs. Under this policy, as approved by the Board of Directors, the endowment assets are invested assuming a low level of risk to maximize long-term returns.

Strategies employed for achieving objectives: To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy: The Organization has a policy to preserve the board-designated endowment fund. However, if there is a need or organizational challenge, the Finance Committee shall take its recommendations to the Board of Directors for approval. Distributions may be made in accordance with a 5% spending policy, multiplied by the average market value of the fund for the twelve consecutive calendar quarters ending the previous June 30th.

Note 10. Lease Commitments

The Organization leases office space and certain office equipment. Obligations under non-cancellable operating leases as of December 31, 2021, are as follows:

2022	\$ 4,500
2023	4,500
2024	1,125
Total	<u>\$ 10,125</u>

Rental expense for operating leases amounted to \$24,300 for the year ended December 31, 2021.

Shoes and Clothes for Kids, Inc.

Notes to Financial Statements

Note 11. Pandemic

The Organization continues to monitor the impact of the COVID-19 pandemic on its fundraising and programming. As the impact of the pandemic on fundraising and programming evolves, the Board of Directors continues to evaluate the most sustainable and impactful course of action. The Executive Committee of the Board of Directors has been meeting regularly to review these changing scenarios.