Shoes and Clothes for Kids, Inc.

Consolidated Financial Report
December 31, 2017

Contents

Independent Auditor's Report

Board of Directors
Shoes and Clothes for Kids, Inc.

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Shoes and Clothes for Kids, Inc., which comprise the consolidated statement of financial position as of December 31, 2017, the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit 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 financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Shoes and Clothes for Kids, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Shoes and Clothes for Kids, Inc.'s 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 15, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

Cleveland, Ohio
May 10, 2018

Shoes and Clothes for Kids, Inc.

Consolidated Statement of Financial Position
December 31, 2017
(With Comparative Totals at December 31, 2016)

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents:		
Operating	**$ 541,587**	$ 643,923
Funds reserved for investment	**-**	96,225
Contributions receivable	**220,153**	55,907
Prepaid expenses	**11,023**	8,147
Inventory	**1,658,725**	1,637,969
Total current assets	**2,431,488**	2,442,171
Fixed assets:		
Office and warehouse equipment	**78,572**	77,493
Less accumulated depreciation	**52,633**	55,528
	25,939	21,965
Other assets:		
Deposits	**1,800**	1,500
Investments	**1,444,615**	1,148,000
	1,446,415	1,149,500
Total assets	**$ 3,903,842**	$ 3,613,636
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	**$ 25,368**	$ 12,420
Accrued gift certificates	**25,319**	29,971
Accrued payroll and taxes	**7,862**	2,004
Total current liabilities	**58,549**	44,395
Net assets:		
Unrestricted:		
Operating - undesignated	**627,709**	582,381
- inventory	**1,658,725**	1,637,969
Funds functioning as endowment	**1,444,615**	1,244,225
Total unrestricted net assets	**3,731,049**	3,464,575
Temporarily restricted	**114,244**	104,666
Total net assets	**3,845,293**	3,569,241
Total liabilities and net assets	**$ 3,903,842**	$ 3,613,636

See notes to consolidated financial statements.

Shoes and Clothes for Kids, Inc.

Consolidated Statement of Activities
Year Ended December 31, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

	Unrestricted	Temporarily Restricted	**2017 Total**	2016 Total
Operating support and revenue:				
Contributions:				
Foundations	$ 464,385	$ 94,498	**$ 558,883**	$ 261,072
Individuals	455,419	-	**455,419**	270,145
Corporate and other organizations	133,312	-	**133,312**	49,939
Special events, net	62,683	-	**62,683**	37,943
Interest income	451	-	**451**	433
Net assets released from restrictions	84,920	(84,920)	**-**	-
Total operating support and revenue before in-kind contributions	1,201,170	9,578	**1,210,748**	619,532
In-kind rent, professional services, goods and materials	72,546	-	**72,546**	61,977
In-kind inventory and gift cards	2,580,169	-	**2,580,169**	1,300,989
	2,652,715	-	**2,652,715**	1,362,966
Total operating support and revenue	3,853,885	9,578	**3,863,463**	1,982,498
Operating expenses:				
Distributions of clothing and school supplies:				
School uniforms and clothing distributed to students	1,521,612	-	**1,521,612**	2,083,202
School supplies distributed to teachers and students	2,979,839	-	**2,979,839**	-
Shoe gift certificates distributed to students	123,380	-	**123,380**	195,258
Total distributions	4,624,831	-	**4,624,831**	2,278,460
Staff and personnel cost	591,470	-	**591,470**	350,024
In-kind rent, professional services, goods and materials	72,546	-	**72,546**	61,977
Governance and administration	93,057	-	**93,057**	83,984
Facility expense	55,859	-	**55,859**	27,299
Development and communication	44,380	-	**44,380**	43,332
Other distribution expenses	30,766	-	**30,766**	3,592
Depreciation	8,614	-	**8,614**	12,395
Total operating expenses	5,521,523	-	**5,521,523**	2,861,063
Change in net assets before non-operating support and revenue	(1,667,638)	9,578	**(1,658,060)**	(878,565)
Non-operating support and revenue:				
Net realized/unrealized gain on investments	200,390	-	**200,390**	65,924
Change in net assets before contributions of net assets	(1,467,248)	9,578	**(1,457,670)**	(812,641)
Contributions of net assets:				
Received in merger with Uniforms for Kids, Inc. (Note 9)	-	-	**-**	126,087
From Cleveland Kids In Need Resource Center (Note 10)	1,733,722	-	**1,733,722**	-
Total change in net assets	266,474	9,578	**276,052**	(686,554)
Net assets - beginning	3,464,575	104,666	**3,569,241**	4,255,795
Net assets - ending	$ 3,731,049	$ 114,244	**$ 3,845,293**	$ 3,569,241

See notes to consolidated financial statements.

Shoes and Clothes for Kids, Inc.

Consolidated Statement of Cash Flows
Year Ended December 31, 2017
(With Comparative Totals for the Year Ended December 31, 2016)

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 276,052	$ (686,554)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Contribution of net assets received in merger with Uniform for Kids, Inc.	-	(126,087)
Contribution of net assets received in donation from Cleveland Kids in Need Resource Center	(1,733,722)	-
Depreciation	8,614	12,395
Net realized/unrealized gain on investments	(200,390)	(65,924)
Increase in contributions receivable	(164,246)	(13,979)
Increase in prepaid expenses	(2,876)	(6,452)
Increase in deposits	(300)	-
Decrease in inventory	1,705,898	685,089
Increase in accounts payable	12,948	10,502
Decrease in accrued gift certificates	(4,652)	(8,484)
Increase (decrease) in accrued payroll and taxes	5,858	(2,327)
Net cash used in operating activities	(96,816)	(201,821)
Cash flows from investing activities:		
Cash received in merger with Uniforms for Kids, Inc.	-	77,414
Cash received in donation from Cleveland Kids in Need Resource Center	7,068	-
Net purchases of investments	(96,225)	3,574
Purchase of fixed assets	(12,588)	(7,875)
Net cash (used in) provided by investing activities	(101,745)	73,113
Net decrease in cash and cash equivalents	(198,561)	(128,708)
Cash and cash equivalents:		
Beginning	740,148	868,856
Ending	$ 541,587	$ 740,148
Supplemental disclosure of noncash transactions:		
Disposal of office and warehouse equipment	$ 11,509	$ -

See notes to consolidated financial statements.

Note 1. Summary of Significant Accounting Policies

Purpose: Shoes and Clothes for Kids, Inc. is a 49 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 2017, the estimated fair value of uniforms and clothing distributed to children was $1,521,612. The estimated fair value of shoe gift cards distributed in 2017 totaled $123,380, for a total 2017 fair value of clothing and shoe gift card distribution of $1,644,992.

On January 1, 2017, the Cleveland Kids in Need Resource Center donated their assets, principally $1.7 million dollars of school supplies, to Shoes and Clothes for Kids, Inc. (Note 10). Shoes and Clothes for Kids has established a new program to distribute school supplies to teachers and students in Cuyahoga County schools where 60% or more of the students meet the federal free or reduced lunch eligibility guidelines in the Greater Cleveland. Shoes and Clothes for Kids has become an affiliate of the national Kids In Need Foundation, which provides this program access to a national pipeline of donated school supplies. During 2017, the estimated fair value of school supplies distributed to children was $2,979,839.

Basis of consolidation: As further described in footnotes 9 and 10, these consolidated financial statements include the financial activity of Uniform for Kids, Inc. for the six month period ended December 31, 2016 and the activity of Shoes and Clothes for Kids, Inc., as of and for the year ended December 31, 2016. Uniform for Kids, Inc. was dissolved on June 30, 2017 and is now operated as a program of Shoes and Clothes for Kids, Inc. These consolidated financial statements also include the financial activity of the Cleveland Kids in Need Resource Center beginning January 1, 2017. Collectively, Shoes and Clothes for Kids, Inc., Uniforms for Kids, Inc., and Cleveland Kids in Need Resource Center are referred to as “the Organization” in these financial statements. All intercompany transactions have been eliminated in consolidation.

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. The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. At December 31, 2017, the Organization had no permanently restricted net assets.

Temporarily restricted net assets result from timing differences between the receipt of funds and the incurrence of the related expenses. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Organization records donor restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

The Organization recognizes revenue in the period in which the pledge (promise to give) is received.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 1. Summary of Significant Accounting Policies (Continued)

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 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 contribution receivables using the allowance method. Management determined no allowance for doubtful accounts is required at December 31, 2017.

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

Fixed assets: Investments in office and warehouse equipment, webpage and furniture are stated 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:

	Life
Office equipment and webpage	3 – 5 years
Office furniture	5 – 10 years
Warehouse equipment	3 – 5 years

Investments: Investments are reported in the consolidated statement of financial position at fair value with any realized or unrealized gains and losses reported in the consolidated 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.

In-kind contributions: In-kind contributions represent rent, professional services, good and materials. 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 consolidated financial statements.

Retirement plan: The Organization has an established non-contributory Section 403(b) retirement plan which covers all full-time employees.

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

Tax status: Shoes and Clothes for Kids, Inc., Uniforms for Kids, Inc., and the Cleveland Kids in Need Resource Center are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Note 1. Summary of Significant Accounting Policies (Continued)

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, 2017, management has determined there are no uncertain tax positions.

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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended December 31, 2016, from which the summarized information was derived.

Reclassifications: Certain reclassifications of 2016 amounts have been made to conform to the 2017 presentation.

Recent accounting pronouncements: 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 consolidated statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Organization is currently evaluating the impact of the new standard on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities, (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities*. The objective of this statement is to improve the current net asset classification requirements and information presented in the consolidated financial statements and notes about an entity’s liquidity, financial performance, and cash flows. The statement is effective for fiscal years beginning after December 15, 2017. The Organization has not yet determined the impact this statement will have on its consolidated financial statements.

Subsequent events: The Organization has evaluated subsequent events for potential recognition and/or disclosure through May 10, 2018, the date the consolidated financial statements were available to be issued.

Note 2. Contributions Receivable

Contributions receivable consist of unconditional promises to give by individuals, foundations and other entities. At December 31, 2017, all contributions receivable represent future contributions that are receivable in less than one year.

Note 3. Investments

The Organization measures its financial instruments at fair value, which establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America and expands disclosure about fair value measurements. This statement enables the reader of the consolidated 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 statement 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.

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 unrestricted net assets.

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, 2017:

	Level 1	Level 2	Level 3	Total
Investments- pooled funds	$ -	$ 1,444,615	$ -	$ 1,444,615

Note 4. Special Events, net

At December 31, 2017, special events activity consists of the following:

	Revenue	Expense	Net
Night at the Shoreby	$ 71,858	$ 44,137	$ 27,721
Golf Classic	67,197	32,235	34,962
	$ 139,055	$ 76,372	$ 62,683

Note 5. Functional Expenses

The following is a detail of expenses by function:

Shoes and clothing program expenses:	
School uniforms and clothing distributed to students	$ 1,521,612
School supplies distributed to teachers and students	2,979,839
Other distribution expenses	328,019
Shoe gift certificates purchased	123,380
Total shoes and clothing program expenses	4,952,850
General and administrative expenses	337,808
Fundraising	158,319
Total supporting expenses	496,127
Total program and supporting expenses before in-kind expenses	5,448,977
In-kind expenses:	
Program	31,987
Fundraising	31,053
General and administrative expenses	9,506
Total in-kind expenses	72,546
Total expenses	$ 5,521,523

Note 6. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of December 31, 2017:

	Beginning Balance	Additions	Net Assets Released	Ending Balance
Cleveland Browns Foundation - Special Team Packages	$ 84,666	$ 80,578	$ 84,666	$ 80,578
Supercenter Pilot Program	20,000	-	254	19,746
Uniform Packages for Clara E Westropp Elementary School	-	8,120	-	8,120
Appreciative Inquiry Summit	-	5,800	-	5,800
Total	$ 104,666	$ 94,498	$ 84,920	$ 114,244

Note 7. Endowment Funds

The Organization's endowment consists of funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds include funds designated by the Board of Directors to function as endowments.

In the event that the Organization has donor-restricted endowment funds, the Organization would follow the following rules:

Interpretation of relevant law: The Board of Directors of the Organization has interpreted the State of Ohio's 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 classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment. In addition, UPMIFA introduced the concept of total return expenditure of endowment net assets 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, 2017:

	Unrestricted
Beginning balance at December 31, 2016	$ 1,244,225
Investment earnings	200,390
Ending balance at December 31, 2017	$ 1,444,615

There are no donor restricted endowment funds at December 31, 2017.

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 8. Lease Commitments

The Organization leases office space and certain office equipment with lease terms ranging through March 2019. Obligations under non-cancellable operating leases as of December 31, 2017 are as follows:

2018	$	20,224
2019		4,249
Total	$	24,473

Rental expense for operating leases amounted to $34,031 for the year ended December 31, 2017.

Note 9. Merger with Uniforms for Kids, Inc.

Effective July 1, 2016, the respective Boards of Directors of Shoes and Clothes for Kids, Inc. and Uniform for Kids, Inc. voted to approve a merger agreement with the two merged entities becoming known as Shoes and Clothes for Kids, Inc. The purpose of this merger was to facilitate the distribution of school uniforms to students in need within the Greater Cleveland area by leveraging the buying network and knowledge of Uniforms for Kids, Inc. with the distribution operation and network of Shoes and Clothes for Kids, Inc. The merged Organization will operate a uniform program with the goal of removing clothing as a barrier to attending school. The Organization recorded the merger of Uniform for Kids, Inc. in accordance with the Business Combinations Topic of the Accounting Standards Codification (ASC). The results and activities of Uniform for Kids, Inc. were captured from the merger date forward. No consideration was paid by Shoes and Clothes for Kids, Inc. for the merger, therefore, the Organization recognized on its consolidated statement of activities a contribution of unrestricted net assets in the amount of $126,087. The following table summarizes the estimated fair values of the assets contributed at the merger date:

Fair value of assets contributed:		
Cash and cash equivalents	$	77,414
Accounts receivable		23,620
Uniform inventory		25,053
Total identifiable net assets contributed	$	126,087

As a result of this transaction, no identifiable intangible assets were acquired. The costs associated with this acquisition were donated to the Organization in-kind and were not material to the consolidated financial statements.

Note 10. Donation of Net Assets from Cleveland Kids in Need Resource Center

Effective January 1, 2017, the Board of Directors of Cleveland Kids in Need Resource Center voted to donate the assets of Cleveland Kids in Need Resource Center to Shoes and Clothes for Kids, Inc. and to dissolve Cleveland Kids in Need Resource Center and the Board of Directors of Shoes and Clothes for Kids, Inc., voted to approve Shoes and Clothes for Kids, Inc.'s agreement to become the Cleveland affiliate of Kids in Need Foundation. The purpose of these actions was to facilitate the distribution of school supplies to teachers and students in the Greater Cleveland area by leveraging the distribution network of Shoes and Clothes for Kids, Inc. and purchasing power of Cleveland Kids in Need Resource Center. As part of the dissolution of Cleveland Kids in Need Resource Center, Cleveland Kids in Need Resource Center donated cash of $7,068 and inventory with an estimated fair value of $1,726,654 to Shoes and Clothes for Kids, Inc. There were no liabilities transferred to Shoes and Clothes for Kids, Inc. Cleveland Kids in Need Resource Center operates as a separate program of Shoes and Clothes for Kids, Inc.