

# **Shoes and Clothes for Kids, Inc.**

Financial Report  
December 31, 2018

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RSM US LLP

## Independent Auditor's Report

Board of Directors  
Shoes and Clothes for Kids, Inc.

### Report on the Financial Statements

We have audited the accompanying financial statements of Shoes and Clothes for Kids, Inc., which comprise the statement of financial position as of December 31, 2018, the related statements of activities and cash flows for the year then ended, and the related notes to 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, 2018, 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 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 10, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*RSM US LLP*

Cleveland, Ohio  
May 15, 2019

**Shoes and Clothes for Kids, Inc.**

**Statement of Financial Position**

**December 31, 2018**

**(With Comparative Totals at December 31, 2017)**

	2018	2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents:		
Operating	\$ 445,859	\$ 541,587
Unconditional promises to give	89,909	20,153
Prepaid expenses	12,374	11,023
Inventory	3,012,785	1,658,725
<b>Total current assets</b>	<b>3,560,927</b>	<b>2,231,488</b>
Fixed assets:		
Office and warehouse equipment	83,503	78,572
Less accumulated depreciation	60,870	52,633
	<b>22,633</b>	<b>25,939</b>
Other assets:		
Deposits	1,800	1,800
Unconditional promises to give, bequest	120,000	200,000
Investments	1,308,051	1,444,615
	<b>1,429,851</b>	<b>1,646,415</b>
<b>Total assets</b>	<b>\$ 5,013,411</b>	<b>\$ 3,903,842</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Accounts payable	\$ 60,343	\$ 25,368
Accrued expenses	50,492	33,181
<b>Total current liabilities</b>	<b>110,835</b>	<b>58,549</b>
Net assets:		
Without donor restrictions:		
Operating	1,687,805	2,072,324
Operating - inventory	3,012,785	1,658,725
<b>Total net assets without donor restrictions</b>	<b>4,700,590</b>	<b>3,731,049</b>
With donor restrictions	201,986	114,244
<b>Total net assets</b>	<b>4,902,576</b>	<b>3,845,293</b>
<b>Total liabilities and net assets</b>	<b>\$ 5,013,411</b>	<b>\$ 3,903,842</b>

See notes to financial statements.

## Shoes and Clothes for Kids, Inc.

### Statement of Activities

Year Ended December 31, 2018

(With Comparative Totals for the Year Ended December 31, 2017)

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
Operating support and revenue:				
Contributions:				
Foundations	\$ 492,187	\$ 166,407	\$ 658,594	\$ 558,883
Individuals	189,031	32,991	222,022	455,419
Corporate and other organizations	79,287	-	79,287	133,312
Special events, net	101,100	-	101,100	62,683
Interest income	355	-	355	451
Net assets released from restrictions	110,914	(110,914)	-	-
<b>Total operating support and revenue before in-kind contributions</b>	<b>972,874</b>	<b>88,484</b>	<b>1,061,358</b>	<b>1,210,748</b>
In-kind rent, professional services, goods and materials	66,508	-	66,508	72,546
In-kind inventory and gift cards	3,364,290	-	3,364,290	2,580,169
<b>Total operating support and revenue</b>	<b>4,403,672</b>	<b>88,484</b>	<b>4,492,156</b>	<b>3,863,463</b>
Operating expenses:				
Distributions of clothing and school supplies:				
School uniforms and clothing distributed to students	1,235,370	-	1,235,370	1,521,612
School supplies distributed to teachers and students	935,267	-	935,267	2,979,839
Shoe gift certificates distributed to students	165,118	-	165,118	123,380
<b>Total distributions</b>	<b>2,335,755</b>	<b>-</b>	<b>2,335,755</b>	<b>4,624,831</b>
Staff and personnel cost	607,817	-	607,817	591,470
In-kind rent, professional services, goods and materials	66,508	-	66,508	72,546
Governance and administration	113,729	-	113,729	93,057
Facility expense	65,954	-	65,954	55,859
Development and communication	83,539	-	83,539	44,380
Other distribution expenses	45,530	-	45,530	30,766
Depreciation	10,100	-	10,100	8,614
<b>Total operating expenses</b>	<b>3,328,932</b>	<b>-</b>	<b>3,328,932</b>	<b>5,521,523</b>
<b>Change in net assets before non-operating support and revenue</b>	<b>1,074,740</b>	<b>88,484</b>	<b>1,163,224</b>	<b>(1,658,060)</b>
Non-operating support and revenue:				
Net realized/unrealized (loss) gain on investments	(105,199)	(742)	(105,941)	200,390
<b>Change in net assets before contributions of net assets</b>	<b>969,541</b>	<b>87,742</b>	<b>1,057,283</b>	<b>(1,457,670)</b>
Contributions of net assets:				
From Cleveland Kids In Need Resource Center (Note 10)	-	-	-	1,733,722
<b>Total change in net assets</b>	<b>969,541</b>	<b>87,742</b>	<b>1,057,283</b>	<b>276,052</b>
Net assets - beginning	3,731,049	114,244	3,845,293	3,569,241
Net assets - ending	\$ 4,700,590	\$ 201,986	\$ 4,902,576	\$ 3,845,293

See notes to financial statements.

**Shoes and Clothes for Kids, Inc.**

**Statement of Cash Flows**

**Year Ended December 31, 2018**

**(With Comparative Totals for the Year Ended December 31, 2017)**

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 1,057,283	\$ 276,052
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Contribution of net assets received in donation from Cleveland Kids in Need Resource Center	-	(1,733,722)
Depreciation	10,100	8,614
Net realized/unrealized loss (gain) loss on investments	105,941	(200,390)
Decrease (increase) in unconditional promises to give	10,244	(164,246)
Increase in prepaid expenses	(1,351)	(2,876)
Increase in deposits	-	(300)
(Increase) decrease in inventory	(1,354,060)	1,705,898
Increase in accounts payable	34,975	12,948
Increase in accrued expenses	17,311	1,206
<b>Net cash used in operating activities</b>	<b>(119,557)</b>	<b>(96,816)</b>
Cash flows from investing activities:		
Cash received in donation from Cleveland Kids in Need Resource Center	-	7,068
Net change in investments	30,623	(96,225)
Purchase of fixed assets	(6,794)	(12,588)
<b>Net cash provided by (used in) investing activities</b>	<b>23,829</b>	<b>(101,745)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(95,728)</b>	<b>(198,561)</b>
Cash and cash equivalents:		
Beginning	541,587	740,148
Ending	\$ 445,859	\$ 541,587
Supplemental disclosure of noncash transactions:		
Disposal of office and warehouse equipment	\$ 1,863	\$ 11,509

See notes to financial statements.

## Shoes and Clothes for Kids, Inc.

### Notes to Financial Statements

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#### 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 2018, the estimated retail value of uniforms and clothing distributed to children was approximately \$1,283,000. The estimated retail value of shoe gift cards distributed in 2018 totaled approximately \$249,000, for a total 2018 retail value of clothing and shoe gift card distribution of approximately \$1,532,000.

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 area. 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 2018, the estimated retail value of school supplies distributed to children was approximately \$3,950,000.

**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 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 they are received with donor stipulations that limit the use of the donated assets. 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. The Organization records donor restricted contributions whose restrictions are met in the same reporting period as support without donor restriction.

The Organization recognizes revenue in the period in which the 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.

**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.

## Shoes and Clothes for Kids, Inc.

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

**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, 2018.

**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.

**Change in accounting estimate:** In 2018, the Organization changed its method for estimating the value of school supply inventory distributed. In 2017, the distribution of school supplies was calculated using the estimated per teacher shop method. This estimate was determined as the number of teachers who shopped at the Cleveland Kids in Need Resource center multiplied by an average fair market value of the items on the teacher shopping list. In 2018, the Organization implemented an actual teacher shop method that quantified the actual items that the teachers received from the shopping list and the estimated fair value of those specific items. The result of this change in accounting estimate in 2018 resulted in \$2,298,800 less school supplies distribution expense than it would have been utilizing the 2017 estimated per teacher shop method.

**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:

	<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.

**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.

## Shoes and Clothes for Kids, Inc.

### Notes to Financial Statements

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#### 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, 2018, 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, 2017, from which the summarized information was derived.

**Reclassifications:** Certain reclassifications of 2017 amounts have been made to conform to the 2018 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 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 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 financial statements and notes about an entity's liquidity, financial performance and cash flows. The statement was effective for years beginning after December 31, 2017. The Organization has adopted this ASU and has adjusted the presentation in these financial statements accordingly. The Organization has applied the practical expedient and has not disclosed prior year liquidity and availability of resources and expenses by both natural classification and functional classification.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope of the Accounting Guidance for Contributions Received and Contributions Made*. The update provides clarifying guidance on accounting for grants and contracts of nonprofit organizations as they relate to the new revenue standard (ASU 2017-09, *Revenue from Contracts with Customers*) and aims to minimize diversity in the classification of grants and contracts that exists under current guidance. The new standard is effective for fiscal years beginning after December 15, 2018 for non-public entities. The Organization is currently evaluating the impact of the new standard on the financial statements.

**Subsequent events:** The Organization has evaluated subsequent events for potential recognition and/or disclosure through May 15, 2019, the date the financial statements were available to be issued.

## Shoes and Clothes for Kids, Inc.

### Notes to Financial Statements

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#### 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 contractual or donor-imposed restrictions within one year of the available within one year of the statement of financial position date are as follows:

Financial assets at year end:

Cash and cash equivalents	\$ 445,859
Investments	1,308,051
Contributions receivable	89,909
<b>Total financial assets</b>	<u>1,843,819</u>

Less amounts not available to be used for general expenditure within one year:

Restricted by donors to the 50th Anniversary Program Growth Fund	32,199
Restricted by donors with purpose restrictions	169,787
Board designated for endowment, less designation for 2019 operations	1,135,302
<b>Financial assets not available to be used within one year</b>	<u>1,337,288</u>
<b>Financial assets available to meet general expenditures within one year</b>	<u><u>\$ 506,531</u></u>

#### **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. The Organization currently does not receive funding from government grants, instead 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 \$3,364,290 for the year ended December 31, 2018.

#### **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 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 50<sup>th</sup> Anniversary Program Growth Fund with a goal of raising an additional one million dollars 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 and occur over five years following the completion of this fundraising campaign.

#### Note 3. Unconditional Promises to Give

Unconditional promises to give consist of unconditional promises to give by individuals, foundations and other entities. All unconditional promises to give are recorded at their net realizable value. At December 31, 2018, the Organization expects to collect unconditional promises to give of \$89,909 within one year and \$120,000 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 to not be material.

## Shoes and Clothes for Kids, Inc.

### Notes to Financial Statements

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#### Note 4. Investments

The Organization measures its investments 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 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 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, 2018:

	Level 1	Level 2	Level 3	Total
Investments - pooled funds	\$ -	\$ 1,308,051	\$ -	\$ 1,308,051

#### Note 5. Special Events, Net

At December 31, 2018, special events activity consists of the following:

	Revenue	Expense	Net
Night at the Shoreby	\$ 109,795	\$ 44,012	\$ 65,783
Golf Classic	68,745	33,428	35,317
	\$ 178,540	\$ 77,440	\$ 101,100

## Shoes and Clothes for Kids, Inc.

### Notes to Financial Statements

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#### Note 6. Functional Expenses

The following is a detail of expenses by function as of December 31, 2018:

	<u>Program</u>	<u>Support</u>	<u>Fundraising</u>	<u>Total</u>
Operating expenses:				
Distributions of clothing and school supplies:				
School uniforms and clothing distributed to students	\$ 1,235,370	\$ -	\$ -	\$ 1,235,370
School supplies distributed to teachers and students	935,267	-	-	935,267
Shoe gift certificates distributed to students	165,118	-	-	165,118
<b>Total distributions</b>	<b>2,335,755</b>	<b>-</b>	<b>-</b>	<b>2,335,755</b>
Staff and personnel cost	324,642	186,108	97,067	607,817
In-kind rent, professional services, goods and materials	54,881	11,550	77	66,508
Governance and administration	22,447	80,988	10,294	113,729
Facility expense	41,112	24,842	-	65,954
Development and communication	1,443	240	81,856	83,539
Other distribution expenses	45,530	-	-	45,530
Depreciation	-	10,100	-	10,100
<b>Total operating expenses</b>	<b>\$ 2,825,810</b>	<b>\$ 313,828</b>	<b>\$ 189,294</b>	<b>\$ 3,328,932</b>

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 7. Net Assets with Donor Restrictions

Net assets with donor restrictions consist of the following at December 31, 2018:

Subject to expenditure for specified purpose:	
Cleveland Browns Foundation - Special Team Packages	\$ 38,000
Uniform Packages for Clara E Westropp Elementary School	3,330
Uniform Packages for Promise Neighborhood	3,457
Capacity Building	115,000
Classroom Guarantee Pilot Program	10,000
50th Anniversary Program Growth Fund	32,199
<b>Total net assets with donor restrictions</b>	<b>\$ 201,986</b>

## Shoes and Clothes for Kids, Inc.

### Notes to Financial Statements

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#### Note 8. Endowment Funds – Without Donor Restrictions

The Organization's endowment consists of certain net assets without donor restrictions that have been designated by the Board of Directors to function as an endowment. The endowment does not currently include assets with donor restriction, but in the event that it did, 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, 2018:

	Without Donor Restriction
Beginning balance at December 31, 2017	\$ 1,444,615
Board designation to operations	(63,500)
Board designation to 50th Anniversary Program Growth Fund	(80,000)
Investment loss	(100,813)
<b>Ending balance at December 31, 2018</b>	<b><u>\$ 1,200,302</u></b>

**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 30<sup>th</sup>.

## Shoes and Clothes for Kids, Inc.

### Notes to Financial Statements

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#### Note 9. Lease Commitments

The Organization leases office space and certain office equipment. Obligations under non-cancellable operating leases as of December 31, 2018, are as follows:

2019	\$	17,719
2020		4,500
2021		4,500
2022		4,500
2023		4,500
Thereafter		1,125
Total	\$	<u>36,844</u>

Rental expense for operating leases amounted to \$34,024 for the year ended December 31, 2018.

#### 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.