

Shoes and Clothes for Kids, Inc.

Financial Report
December 31, 2019

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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, 2019, 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, 2019, 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 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RSM US LLP

Cleveland, Ohio
May 27, 2020

Shoes and Clothes for Kids, Inc.

Statement of Financial Position

December 31, 2019

(With Comparative Totals at December 31, 2018)

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents:		
Operating	\$ 262,939	\$ 445,859
Unconditional promises to give	27,514	89,909
Prepaid expenses	10,996	12,374
Inventory	1,539,432	3,012,785
Total current assets	1,840,881	3,560,927
Fixed assets:		
Office and warehouse equipment	86,148	83,503
Less: accumulated depreciation	72,085	60,870
	14,063	22,633
Other assets:		
Deposits	1,800	1,800
Unconditional promises to give, long-term	14,309	120,000
Investments	1,675,329	1,308,051
	1,691,438	1,429,851
Total assets	\$ 3,546,382	\$ 5,013,411
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 27,600	\$ 60,343
Accrued expenses	13,932	50,492
Total current liabilities	41,532	110,835
Net assets:		
Without donor restrictions:		
Operating	1,717,329	1,687,805
Operating - inventory	1,539,432	3,012,785
Total net assets without donor restrictions	3,256,761	4,700,590
With donor restrictions	248,089	201,986
Total net assets	3,504,850	4,902,576
Total liabilities and net assets	\$ 3,546,382	\$ 5,013,411

See notes to financial statements.

Shoes and Clothes for Kids, Inc.

Statement of Activities

Year Ended December 31, 2019

(With Comparative Totals for the Year Ended December 31, 2018)

	Without Donor Restrictions	With Donor Restrictions	2019 Total	2018 Total
Operating support and revenue:				
Contributions:				
Foundations	\$ 459,795	\$ -	\$ 459,795	\$ 658,594
Individuals	179,909	141,142	321,051	222,022
Corporate and other organizations	92,340	9,000	101,340	79,287
Special events, net	92,746	-	92,746	101,100
Interest income	186	-	186	355
Net assets released from restrictions	180,719	(180,719)	-	-
Total operating support and revenue before in-kind contributions	1,005,695	(30,577)	975,118	1,061,358
In-kind rent, professional services, goods and materials	49,579	-	49,579	66,508
In-kind inventory and gift cards	2,479,379	73,446	2,552,825	3,364,290
Total operating support and revenue	3,534,653	42,869	3,577,522	4,492,156
Operating expenses:				
Distributions of clothing and school supplies:				
School uniforms and clothing distributed to students	1,876,768	-	1,876,768	1,235,370
School supplies distributed to teachers and students	2,354,497	-	2,354,497	935,267
Shoe gift certificates distributed to students	32,995	-	32,995	165,118
Total distributions	4,264,260	-	4,264,260	2,335,755
Staff and personnel cost	603,242	-	603,242	607,817
In-kind rent, professional services, goods and materials	49,579	-	49,579	66,508
Governance and administration	96,587	-	96,587	113,729
Facility expense	73,562	-	73,562	65,954
Development and communication	100,715	-	100,715	83,539
Other distribution expenses	24,419	-	24,419	45,530
Depreciation	11,215	-	11,215	10,100
Total operating expenses	5,223,579	-	5,223,579	3,328,932
Change in net assets before non-operating support and revenue	(1,688,926)	42,869	(1,646,057)	1,163,224
Non-operating support and revenue:				
Net realized/unrealized gains (losses) on investments	245,097	3,234	248,331	(105,941)
Change in net assets	(1,443,829)	46,103	(1,397,726)	1,057,283
Net assets - beginning	4,700,590	201,986	4,902,576	3,845,293
Net assets - ending	\$ 3,256,761	\$ 248,089	\$ 3,504,850	\$ 4,902,576

See notes to financial statements.

Shoes and Clothes for Kids, Inc.

Statement of Cash Flows

Year Ended December 31, 2019

(With Comparative Totals for the Year Ended December 31, 2018)

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (1,397,726)	\$ 1,057,283
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	11,215	10,100
Net realized/unrealized (gains) losses on investments	(248,331)	105,941
Decrease in unconditional promises to give	168,086	10,244
Decrease (increase) in prepaid expenses	1,378	(1,351)
Decrease (increase) in inventory	1,473,353	(1,354,060)
(Decrease) increase in accounts payable	(32,743)	34,975
(Decrease) increase in accrued expenses	(36,560)	17,311
Net cash used in operating activities	(61,328)	(119,557)
Cash flows from investing activities:		
Net change in investments	(118,947)	30,623
Purchase of fixed assets	(2,645)	(6,794)
Net cash (used in) provided by investing activities	(121,592)	23,829
Net decrease in cash and cash equivalents	(182,920)	(95,728)
Cash and cash equivalents:		
Beginning	445,859	541,587
Ending	\$ 262,939	\$ 445,859
Supplemental disclosure of noncash transactions:		
Disposal of office and warehouse equipment	\$ -	\$ 1,863

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 2019, the Organization served more than 12,000 kids in need with new shoes, school clothing, winter coats and more through three distinct programs. The school supply program, an affiliate of the national Kids in Need Foundation, served nearly 4,000 teachers in 250 Cuyahoga County schools, reaching almost another 20,000 kids. Those four Shoes and Clothes for Kids programs distributed an estimated retail value of \$6,610,000 items during the year ended December 31, 2019.

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. The Organization records donor restricted contributions whose restrictions are met in the same reporting period as support without donor restriction.

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, 2019.

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: 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.

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.

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, 2019, 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, 2018, from which the summarized information was derived.

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, 2020, including interim periods within those fiscal years. The Organization is currently evaluating the impact of the new standard on the financial statements.

During 2019, the Organization adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): 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 2014-09, *Revenue from Contracts with Customers*) and aims to minimize diversity in the classification of grants and contracts that exists under current guidance. The Organization adopted this standard effective January 1, 2019, which did not have a significant impact on the financial statements.

Subsequent events: The Organization has evaluated subsequent events for potential recognition and/or disclosure through May 27, 2020, the date the financial statements were available to be issued.

In March 2020, the Organization was impacted by the onset of the COVID-19 pandemic. The pandemic is expected to have a significant impact on fundraising and programming. The Organization responded immediately by contacting key funders and community partners. With this insight, the Organization revised its plans for 2020 to include providing school supplies, clothing and hygiene kits to meet children's immediate needs while operating in an unknown fundraising environment. The Organization applied for and received proceeds from the Paycheck Protection Program and the Board of Directors approved the expenditure of additional reserves in order to continue to deliver the immediate need of programming. As the impact of the pandemic on programming and fundraising evolves, the Board of Directors will continue to evaluate the most sustainable but impactful course of action. The Executive Committee of the Board of Directors has been meeting regularly to review these changing scenarios.

Shoes and Clothes for Kids, Inc.

Notes to Financial Statements

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	\$ 262,939
Investments	1,675,329
Unconditional promises to give	27,514
Total financial assets	<u>1,965,782</u>

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

Restricted by donors to the 50th Anniversary Program Growth Fund	176,575
Restricted by donors with purpose restrictions	71,514
Board designated for endowment, less designation for 2020 operations	1,260,754
Financial assets not available to be used within one year	<u>1,508,843</u>

Financial assets available to meet general expenditures within one year \$ 456,939

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 \$2,552,825 for the year ended December 31, 2019.

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 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, 2019, the Organization expects to collect unconditional promises to give of \$27,514 within one year and \$14,309 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.

Shoes and Clothes for Kids, Inc.

Notes to Financial Statements

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 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 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, 2019:

	Level 1	Level 2	Level 3	Total
Investments - pooled funds	\$ -	\$ 1,675,329	\$ -	\$ 1,675,329

Note 5. Special Events, Net

For the year ended December 31, 2019, special events activity consists of the following:

	Revenue	Expense	Net
Night at the Shoreby	\$ 88,600	\$ 43,624	\$ 44,976
Golf Classic	92,502	44,732	47,770
	<u>\$ 181,102</u>	<u>\$ 88,356</u>	<u>\$ 92,746</u>

Shoes and Clothes for Kids, Inc.

Notes to Financial Statements

Note 6. Functional Expenses

The following is a detail of expenses by function as of December 31, 2019:

	Program	Administration	Fundraising	Total
Operating expenses:				
Distributions of clothing and school supplies:				
School uniforms and clothing distributed to students	\$ 1,876,768	\$ -	\$ -	\$ 1,876,768
School supplies distributed to teachers and students	2,354,497	-	-	2,354,497
Shoe gift certificates distributed to students	32,995	-	-	32,995
Total distributions	4,264,260	-	-	4,264,260
Staff and personnel cost	202,519	281,296	119,427	603,242
In-kind rent, professional services, goods and materials	5,294	44,208	77	49,579
Governance and administration	16,082	67,782	12,723	96,587
Facility expense	40,481	33,081	-	73,562
Development and communication	7,575	15,127	78,013	100,715
Other distribution expenses	23,813	606	-	24,419
Depreciation	-	11,215	-	11,215
Total operating expenses	\$ 4,560,024	\$ 453,315	\$ 210,240	\$ 5,223,579

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, 2019:

Subject to expenditure for specified purpose:

Capacity Building	\$ 25,532
Classroom Guarantee Pilot Program	45,982
50th Anniversary Program Growth Fund	176,575
Total net assets with donor restrictions	\$ 248,089

Net assets released from restriction totaled \$180,719 during the year ended December 31, 2019. Net assets released from restriction for capacity building initiatives included expenses associated with implementation of new volunteer and inventory management systems. Net assets released from restriction for the Classroom Guarantee program included the distribution of donated inventory restricted to that program.

Shoes and Clothes for Kids, Inc.

Notes to Financial Statements

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 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 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, 2019:

	<u>Without Donor Restriction</u>
Beginning balance at December 31, 2018	\$ 1,200,302
Board of Directors designation to operations	(73,700)
Investment gain	218,163
Ending balance at December 31, 2019	<u><u>\$ 1,344,765</u></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.

Shoes and Clothes for Kids, Inc.

Notes to Financial Statements

Note 9. Lease Commitments

The Organization leases office space and certain office equipment. Obligations under non-cancellable operating leases as of December 31, 2019, are as follows:

2020	\$	15,263
2021		4,500
2022		4,500
2023		4,500
2024		1,125
Total	\$	29,888

Rental expense for operating leases amounted to \$34,732 for the year ended December 31, 2019.