

June 4, 2025

To the Board of Directors and Members of Management of
Shoes and Clothes for Kids

We have audited the financial statements of Shoes and Clothes for Kids for the year ended December 31, 2024, and we will issue our report thereon dated June 4, 2025. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 15, 2025 related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Shoes and Clothes for Kids are described in Note A to the financial statements. During 2023, the Organization adopted Accounting Standards Update (ASU) 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The adoption of this standard did not have a material impact on the financial statements. The application of existing policies was not changed during 2024. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Inventory is recorded at an estimate of fair value of donated inventory on hand, as required by generally accepted accounting principles.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. We noted no such disclosures that were particularly sensitive.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a disagreement on a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 4, 2025.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Performance

During the audit we computed the defensive interval ratio, which is a stability ratio that measures the adequacy of the resources of the Organization to support its mission. The formula is:

$$\frac{\text{Cash} + \text{Investments} + \text{Receivable/Unrestricted Promises to Give}}{\text{Average Monthly Expenses}}$$

The ratio shows that the Organization has 6.09 months of reserve (7.26 in prior year). The industry average for a similar sized organization is 3.00 months of reserve. The Organization appears to be over the industry average. However, we recommend that management continue to monitor this ratio in connection with its intent to maintain the level of reserve and increase it as the economy allows, especially considering the organization obtains a significant amount of support on grant reimbursement basis.

Identification of Multi-Year Pledges

Multi-Year pledges are, pledges that are pledged in the current year, but the donor has indicated that payments will be satisfied in increments extending more than one year beyond the statement of financial position date (December 31). According to Generally

Accepted Accounting Principles (GAAP), multi-year pledges are to be recognized in full in the year pledged as revenue and receivable. The receivable is held at its present value, reflecting the true value of future cash flows. Due to this special nature of recording, it is important for development personnel to identify multi-year pledges to accounting personnel when the pledge is made. Often times a donor will send an initial letter spelling out the key accounting information regarding the multi-year pledge and then send payments with minor communications missing key accounting information. If the initial pledge is not communicated with accounting, often times the subsequent payments are recorded as annual revenues are paid and a present value discount is never set-up. We recommend that as part of the process to reconcile development and accounting records that multi-year pledges are identified for accounting and proper documentation from the donor is obtained/maintained.

Continued Improvements to the Inventory Process

During 2023, the Organization moved locations and was able to purge unused inventory during that time and continuing after the move. During 2024, the Organization hired a new warehouse manager, that continued to implement some of Zinner's prior recommendations and some of their own improvements from past experiences.

The Organization spends a significant amount of staff time and effort maintaining inventory. We recommend the Organization continue to explore methods of reducing time and effort involved with inventory. At this point it is also important to document such methods so that the Organization remains consistent in their application going forward.

Other Matters

This information is intended solely for the use of the Board of Directors and members of management of Shoes and Clothes for Kids and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Zinner & Co. LLP

Beachwood, Ohio

SHOES AND CLOTHES FOR KIDS, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

SHOES AND CLOTHES FOR KIDS, INC.

TABLE OF CONTENTS

	<u>Page No.</u>
Independent Auditor's Report	1-2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4-5
Statements of Functional Expenses	6-7
Statements of Cash Flows.....	8
Notes to Financial Statements.....	9-22

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Shoes and Clothes for Kids, Inc.
Cleveland, Ohio

Opinion

We have audited the accompanying financial statements of Shoes and Clothes for Kids (a nonprofit organization), which comprise the statements of financial position as of December 31, 2024 and 2023, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shoes and Clothes for Kids as of December 31, 2024 and 2023, and the change in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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.

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

Auditor's Responsibility

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

Zinner & Co. LLP

Beachwood, Ohio

June 4, 2025

SHOES AND CLOTHES FOR KIDS, INC.**STATEMENTS OF FINANCIAL POSITION****DECEMBER 31, 2024 AND 2023**

	<u>2024</u>	<u>2023</u>
Assets		
Cash and cash equivalents	\$ 416,930	\$ 872,100
Unconditional promises to give:		
Without donor restrictions, net	106,178	301,317
With donor restrictions	0	50,000
Prepaid expenses	18,335	9,160
Inventory	557,611	1,491,691
Operating right-of-use assets	344,297	423,476
Construction in progress	13,950	6,120
Property and equipment	414,236	384,384
Less: Accumulated depreciation	(48,349)	(20,735)
Deposits	7,605	7,605
Investments - Unrestricted	6,080	3,658
Investments - Board designated endowment	1,303,587	1,165,594
Total Assets	<u>\$ 3,140,460</u>	<u>\$ 4,694,370</u>
Liabilities		
Accounts payable	\$ 58,136	\$ 77,725
Accrued expenses	18,984	396,465
Operating lease obligations	344,297	423,476
Total Liabilities	<u>421,417</u>	<u>897,666</u>
Net Assets		
Without donor restrictions		
Operating	2,142,032	2,202,513
Operating - Inventory	557,611	1,491,691
	<u>2,699,643</u>	<u>3,694,204</u>
With donor restrictions	19,400	102,500
Total Net Assets	<u>2,719,043</u>	<u>3,796,704</u>
Total Liabilities and Net Assets	<u>\$ 3,140,460</u>	<u>\$ 4,694,370</u>

The accompanying notes are an integral part of these financial statements.

SHOES AND CLOTHES FOR KIDS, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2024

	Without Donor Restrictions	With Donor Restrictions	Total
Operating support and revenues			
Contributions:			
Foundations	\$ 262,762	\$ 19,400	\$ 282,162
Individuals	338,426	0	338,426
Corporate and other organizations	142,935	0	142,935
Government support	220,317	0	220,317
Special events, net	131,199	0	131,199
Interest income	60	0	60
Net assets released from restrictions			
Satisfaction of program restrictions	102,500	(102,500)	0
Total operating support and revenues before in-kind contributions	1,198,199	(83,100)	1,115,099
In-kind rent, goods and materials	9,030	0	9,030
In-kind inventory and gift cards	1,295,945	0	1,295,945
	1,304,975	0	1,304,975
Total operating support and revenues	2,503,174	(83,100)	2,420,074
Operating expenses			
Program services	2,933,278	0	2,933,278
Administration	536,907	0	536,907
Fundraising	167,606	0	167,606
Total operating expenses	3,637,791	0	3,637,791
Change in net assets before non-operating revenues and expenses	(1,134,617)	(83,100)	(1,217,717)
Non-operating revenues and expenses:			
Realized/unrealized gain on investments, net of fees	140,056	0	140,056
Change in Net Assets	(994,561)	(83,100)	(1,077,661)
Net Assets at Beginning of Year	3,694,204	102,500	3,796,704
Net Assets at End of Year	\$ 2,699,643	\$ 19,400	\$ 2,719,043

The accompanying notes are an integral part of these financial statements.

SHOES AND CLOTHES FOR KIDS, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Operating support and revenues			
Contributions:			
Foundations	\$ 597,775	\$ 79,136	\$ 676,911
Individuals	198,740	0	198,740
Corporate and other organizations	70,637	0	70,637
Government support	329,964	0	329,964
Special events, net	114,515	0	114,515
Interest income	40	0	40
Net assets released from restrictions			
Satisfaction of program restrictions	210,616	(210,616)	0
Total operating support and revenues before in-kind contributions	1,522,287	(131,480)	1,390,807
In-kind rent, goods and materials	41,829	0	41,829
In-kind inventory and gift cards	2,482,734	0	2,482,734
	2,524,563	0	2,524,563
Total operating support and revenues	4,046,850	(131,480)	3,915,370
Operating expenses			
Program services	3,188,568	0	3,188,568
Administration	543,125	0	543,125
Fundraising	135,806	0	135,806
Total operating expenses	3,867,499	0	3,867,499
Change in net assets before non-operating revenues and expenses	179,351	(131,480)	47,871
Non-operating revenues and expenses:			
Realized/unrealized gain on investments, net of fees	179,088	4,151	183,239
	358,439	(127,329)	231,110
Change in Net Assets	358,439	(127,329)	231,110
Net Assets at Beginning of Year	3,335,765	229,829	3,565,594
Net Assets at End of Year	\$ 3,694,204	\$ 102,500	\$ 3,796,704

The accompanying notes are an integral part of these financial statements.

SHOES AND CLOTHES FOR KIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2024

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>
	<u>Program</u>	<u>Administration</u>	<u>Fundraising</u>	
Distributions of clothing and school supplies				
School uniforms and clothing distributed to students/teachers	\$ 2,543,384	\$ 0	\$ 0	\$ 2,543,384
Total distributions	2,543,384	0	0	2,543,384
Staff and personnel costs	250,672	355,536	140,224	746,432
In-kind rent, goods and materials	3,780	0	5,250	9,030
Governance and administration	4,477	101,055	8,356	113,888
Facility expenses	73,082	35,860	0	108,942
Development and communication	14,252	16,842	13,776	44,870
Other distribution expenses	43,631	0	0	43,631
Depreciation	0	27,614	0	27,614
Total	<u>\$ 2,933,278</u>	<u>\$ 536,907</u>	<u>\$ 167,606</u>	<u>\$ 3,637,791</u>
	81%	15%	4%	100%

The accompanying notes are an integral part of these financial statements.

SHOES AND CLOTHES FOR KIDS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2023

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>
	<u>Program</u>	<u>Administration</u>	<u>Fundraising</u>	
Distributions of clothing and school supplies				
School uniforms and clothing distributed to students/teachers	\$ 2,866,445	\$ 0	\$ 0	\$ 2,866,445
Total distributions	2,866,445	0	0	2,866,445
Staff and personnel costs	197,542	350,905	105,667	654,114
In-kind rent, goods and materials	40,170	1,659	0	41,829
Governance and administration	8,998	140,775	5,627	155,400
Facility expenses	41,857	23,039	0	64,896
Development and communication	0	18,266	24,512	42,778
Other distribution expenses	33,556	0	0	33,556
Depreciation	0	8,481	0	8,481
Total	<u>\$ 3,188,568</u>	<u>\$ 543,125</u>	<u>\$ 135,806</u>	<u>\$ 3,867,499</u>
	82%	14%	4%	100%

The accompanying notes are an integral part of these financial statements.

SHOES AND CLOTHES FOR KIDS, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
Cash Flows from Operating Activities		
Changes in net assets	\$ (1,077,661)	\$ 231,110
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation	27,614	8,481
Realized/unrealized gains on investments, net of fees	(140,056)	(183,239)
(Increase) decrease in:		
Unconditional promises to give, net	245,139	(156,361)
Prepaid expenses	(9,175)	6,954
Inventory	934,080	(37,297)
Deposits	0	(7,605)
Increase (decrease) in:		
Accounts payable	(19,589)	12,288
Accrued expenses	(27,908)	29,732
Net Cash Used by Operating Activities	(67,556)	(95,937)
Cash Flows from Investing Activities		
Net change in investments	(359)	504,271
Construction in progress	(7,830)	(6,120)
Purchase of fixed assets	(379,425)	(16,064)
Net Cash Provided (Used) by Investing Activities	(387,614)	482,087
Net Increase (Decrease) in Cash and Cash Equivalents	(455,170)	386,150
Cash and Cash Equivalents at Beginning of Year	872,100	485,950
Cash and Cash Equivalents at End of Year	\$ 416,930	\$ 872,100

The accompanying notes are an integral part of these financial statements.

SHOES AND CLOTHES FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

NOTE A - NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Shoes and Clothes for Kids, Inc. (the Organization) is a 54 year-old not-for-profit corporation whose mission is to reduce the barriers to school attendance among income-eligible students in Cuyahoga county. The Organization does this by providing new school appropriate shoes, clothes, and school supplies through a network of neighborhood distribution partners and eligible schools.

During each of the years ended December 31, 2024 and 2023, the Organization served more than 28,000 kids in need with new shoes, clothes, and school supplies through three distinct programs. The teacher program, an affiliate of the national Kids in Need Foundation, served more than 1,300 teachers from 281 schools in 40 districts. In total, Shoes and Clothes for Kids programs distributed items with an estimated retail value of over \$2.7 million and \$3.5 million during the years ended December 31, 2024 and 2023, respectively.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) 958-205. Under ASC 958-205, the Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

ASC 958-205 requires board-designated funds to be reported as part of net assets without donor restrictions; accordingly, the Organization reports designations of voluntary board-approved segregations of net assets without donor restrictions for specific purposes as a classification of net assets without donor restrictions.

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents

For purposes of the financial statements, the Organization considers all unrestricted highly liquid financial instruments purchased with a maturity of three months or less to be cash equivalents.

SHOES AND CLOTHES FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

NOTE A - NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

The Organization records unconditional promises to give that are expected to be collected within one year at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the Statement of Activities.

The Organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance for uncollectible pledges, is based on prior experience and management's analysis of specific promises made. Management has determined an allowance for uncollectible pledges of \$2,866 and \$14,827 as of the years ended December 31, 2024 and 2023, respectively.

Accounts Receivable

Trade accounts receivable are stated at the amount management expects to collect from the balances outstanding at year end. The Organization establishes an allowance based on the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the assets. If management determines that a balance is no longer collectable it is written-off to credit loss expense at that time. Accounts receivable are reported net of allowance for credit losses. As of December 31, 2024 and 2023 management has determined that an allowance for credit losses is not necessary. Accounts receivable at the opening of the years presented amounted to \$0 as of January 1, 2022.

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

DECEMBER 31, 2024 AND 2023

NOTE A - NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Investments are valued at fair value.

Donated investments are reflected as contributions at their fair values at date of receipt. Dividend and interest income and gains and losses on investments are reflected in current without donor restriction activities unless with donor restriction, either by law or explicit donor stipulation, in which case they would be reported in with donor restriction. Investment activity is generally comprised of large volumes with quick turnover and is therefore netted together on the Statement of Cash Flows.

Valuation of Long-Lived Assets

The Organization reviews for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. An impairment loss is recognized when the estimated future cash flows are less than the carrying amount of the asset. No impairment losses were recognized in 2024 or 2023.

Donated Equipment

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. It is the Organization's policy to imply a time restriction, based on the assets' estimated useful lives, on donations of property and equipment that are not restricted as to their use by the donor. Accordingly, those donations are recorded as support increasing with donor restriction net assets. The Organization reclassifies to net assets without donor restriction each year for the amount of the donated property and equipment's depreciation expense.

Fixed Assets

Fixed assets are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The Organization follows the practice of capitalizing all expenditures for property and equipment in excess of \$1,000.

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

Deferred Revenue

Funds received by the Organization prior to the recognition of revenue are recorded as deferred revenue.

SHOES AND CLOTHES FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

NOTE A - NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Assets Without Donor Restrictions

Net assets without donor restrictions are available for use at the discretion of the Board of Directors and/or management for general operating purposes. From time to time the Board designates a portion of these net assets for specific purposes which makes them unavailable for use at management's discretion.

Net Assets With Donor Restrictions

Net assets with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions. The Organization reports gifts of cash and other assets as revenue with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, the net assets are reclassified as net assets without donor restrictions and are reported in the Statement of Activities as net assets released from restrictions.

Revenue Recognition for Contracts with Customers

The Organization's revenue stream under contracts with customers consists primarily of revenue under the following category:

Special event revenues: The Organization runs fundraising events throughout the year, a portion of which include benefits granted to participants. The fair value of the benefit received by participants is considered revenue from contracts with customers and recognized at the time the event is held.

Revenue recognition for the revenue stream identified above is subject to the satisfaction of performance obligations. Revenue is recognized when performance obligations are satisfied over a period of time or at a point in time. Revenue is measured as the amount of consideration the Organization expects to receive in exchange for providing services. Any payments received in advance of satisfaction of performance obligations are recorded as deferred revenue until the obligation is met.

Revenue and Support With and Without Donor Restrictions

The Organization recognizes contributions received and made, including unconditional promises to give, as revenue in the period received or made. Contributions received are reported as either revenues without donor restrictions or revenues with donor restrictions. In situations where the Organization meets all donor-imposed restrictions on amounts contributed for a specific purpose in the same reporting period in which the contribution was received, the contribution is reported as without donor restrictions. Promises to contribute that stipulate conditions to be met before the contribution is made are not recorded until the conditions are met. Funds received related to conditional grants are classified as refundable advances until expended for the purposes of the grants.

SHOES AND CLOTHES FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

NOTE A - NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

Advertising costs are expensed when incurred.

Functional Expense Allocation

Costs of providing various programs and supporting services are allocated based on specific identification, if practical. Certain categories of expenses 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.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash and equivalents and promises to give. The Organization maintains its cash and equivalents with financial institutions and although at times they have invested amounts in excess of any federal insurance limits, management does not feel that it is exposed to any substantial credit risk. Concentrations with respect to promises to give are limited due to the large number of donors comprising the Organization's donor base and the variety of the Organization's funding sources. As of December 31, 2024 and 2023, the Organization had no other significant concentrations of credit risk.

Reclassification

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

SHOES AND CLOTHES FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

NOTE A - NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables, and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the Statements of Activities as the amounts expected to be collected change. ASU 2016-13 was effective for fiscal years beginning after December 15, 2022. The Organization adopted this standard on January 1, 2023 using a modified-retrospective approach. The comparative information has not been restated and continues to be reported under the accounting standards in effect in those reporting periods. The adoption of this standard did not have any significant impact on the financial statements.

Subsequent Events

The Organization has evaluated subsequent events through, June 4, 2025, the date the financial statements were available to be issued, and all relevant subsequent information is included within the applicable notes to the financial statements.

NOTE B - PROMISES TO GIVE

Unconditional promises to give at December 31, 2024 and 2023 consist of:

	2024	2023
Without donor restrictions	\$ 106,178	\$ 301,317
Restricted for programming	0	50,000
Gross unconditional promises to give	106,178	351,317
Less: Unamortized discount	0	0
Net Unconditional Promises to Give	<u>\$ 106,178</u>	<u>\$ 351,317</u>
Amounts due in:		
Less than one year	\$ 106,178	\$ 351,317
One to five years	0	0
Total Amounts Due	<u>\$ 106,178</u>	<u>\$ 351,317</u>

SHOES AND CLOTHES FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

NOTE B - PROMISES TO GIVE (CONTINUED)

Conditional promises to give at December 31, 2024 and 2023 consist of:

	2024	2023
Challenge grant	\$ 225,000	\$ 0
Total Conditional Promises to Give	\$ 225,000	\$ 0

NOTE C - INVESTMENTS AND FAIR VALUE MEASUREMENTS

The following is a summary of costs and fair market values of investments - unrestricted at December 31, 2024 and 2023:

	2024		
	Cost	Fair Value	Unrealized Gain
Money market	\$ 106	\$ 106	\$ 0
Equities	661	5,974	5,313
Total	\$ 767	\$ 6,080	\$ 5,313
	2023		
	Cost	Fair Value	Unrealized Gain
Money market	\$ 46	\$ 46	\$ 0
Equities	551	3,612	3,061
Total	\$ 597	\$ 3,658	\$ 3,061

The Organization uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with ASC 820-10, the Organization has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Organization has the ability to access. These include investments that are recorded at fair value on a recurring basis and fair value measurement is based upon quoted prices, if available. Securities valued using Level 1 inputs include those traded on an active exchange and other exchange trade securities.

SHOES AND CLOTHES FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

NOTE C - INVESTMENTS AND FAIR VALUE MEASUREMENTS (CONTINUED)

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable, either directly or indirectly, for subsequently the full term of the asset or liability.

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

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 by level for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2024 and 2023.

	2024			
	Total	Level 1	Level 2	Level 3
Money market	\$ 106	\$ 106	\$ 0	\$ 0
Equities				
Energy	5,974	5,974	0	0
Investments - pooled funds	1,303,587	0	1,303,587	0
Total investments	\$ 1,309,667	\$ 6,080	\$1,303,587	\$ 0
	2023			
	Total	Level 1	Level 2	Level 3
Money market	\$ 46	\$ 46	\$ 0	\$ 0
Equities				
Energy	3,612	3,612	0	0
Investments - pooled funds	1,165,594	0	1,165,594	0
Total investments	\$ 1,169,252	\$ 3,658	\$1,165,594	\$ 0

SHOES AND CLOTHES FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

NOTE D - FIXED ASSETS

Fixed assets consist of the following as of December 31, 2024 and 2023:

	2024	2023
Computer equipment	\$ 16,063	\$ 16,063
Leasehold improvements	379,573	349,721
Website	18,600	18,600
	414,236	384,384
Less: Accumulated depreciation	(48,349)	(20,735)
	<u>\$ 365,887</u>	<u>\$ 363,649</u>

NOTE E - SPECIAL EVENTS, NET

For the years ended December 31, 2024 and 2023, special events activity consists of the following:

	2024		
	Revenue	Expense	Net
Party on South Waterloo	\$ 136,708	\$ 37,161	\$ 99,547
Golf Classic	54,833	24,639	30,194
Par-Tee	9,094	7,636	1,458
Total	<u>\$ 200,635</u>	<u>\$ 69,436</u>	<u>\$ 131,199</u>
	2023		
	Revenue	Expense	Net
Night at the Shoreby	\$ 106,154	\$ 20,782	\$ 85,372
Golf Classic	70,473	41,330	29,143
Total	<u>\$ 176,627</u>	<u>\$ 62,112</u>	<u>\$ 114,515</u>

SHOES AND CLOTHES FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

NOTE F - NET ASSETS WITH DONOR RESTRICTIONS

Temporarily restricted net assets at December 31, 2024 and 2023 are available for the following purposes or periods:

	2024	2023
Charter and Parochial School Programs	\$ 0	\$ 50,000
School Attendance Program	5,000	5,000
Supplies and distributions in future years	10,000	42,000
Shopping cart naming rights	0	5,500
Resource center	4,400	0
Total	<u>\$ 19,400</u>	<u>\$ 102,500</u>

NOTE G - ENDOWMENT FUNDS WITHOUT DONOR RESTRICTIONS

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

Interpretation of Relevant Law

The Board of Directors of the Organization has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) 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 net assets with donor restrictions in perpetuity (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in net assets with donor restriction in perpetuity is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by SPMIFA.

SHOES AND CLOTHES FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

NOTE G - ENDOWMENT FUNDS WITHOUT DONOR RESTRICTIONS (CONTINUED)

Interpretation of Relevant Law (Continued)

In accordance with SPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the endowment funds, (2) purposes of the institution and the endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies. Changes in endowment net assets for the years ended December 31, 2024 and 2023:

	<u>Without Donor Restrictions</u>
Beginning balance at December 31, 2023:	\$ 1,165,594
Distributions made	0
Investment income	<u>137,993</u>
Ending balance at December 31, 2024:	<u>\$ 1,303,587</u>
Beginning balance at December 31, 2022:	\$ 1,405,177
Distributions made	(417,721)
Investment income	<u>178,138</u>
Ending balance at December 31, 2023:	<u>\$ 1,165,594</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 Executive Committee of 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 Executive Committee of 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

DECEMBER 31, 2024 AND 2023

NOTE H - DONATED GOODS AND SERVICES

The value of donated goods and services included in the financial statements for the years ended December 31, 2024 and 2023, are as follows:

	<u>2024</u>	<u>2023</u>
Inventory and gift cards	\$ 1,295,945	\$ 2,482,734
Data analyst professional services	3,780	0
Program supplies	5,250	0
Warehouse space	0	40,170
Vehicles usage	<u>0</u>	<u>1,659</u>
Total	<u>\$ 1,304,975</u>	<u>\$ 2,524,563</u>

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific assistance programs, development, and administration. These services do not meet the criteria for recognition under ASC 958-605.

NOTE I - INCOME TAXES

The Organization qualifies as a charitable organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is exempt from income taxes. The Organization has not been classified as a private foundation within the meaning of Section 509(a) and does qualify for deductible contributions as provided in Section 170(b)(1)(A)(vi).

As of January 1, 2023 and for the years ended December 31, 2024 and 2023, the Organization had not engaged in any activity which management considers to be activity that could result in a loss of its 501(c)(3) IRS designation.

The 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 or being sustained 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 years ended December 31, 2024 and 2023, management has determined there are no uncertain tax positions.

As well, management does not consider any of the activity of the Organization to be considered unrelated business income that could result in income tax. For the years ended December 31, 2024 and 2023, there was no tax interest or penalties reflected in the Statement of Activities or in the Statement of Financial Position.

SHOES AND CLOTHES FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

NOTE J - OPERATING LEASES

The Organization leases office/warehouse space, and office equipment under non-cancelable operating leases expiring in various years through 2029, with a weighted-average remaining lease term in years of 3.91 as of December 31, 2024.

The net present value of the lease commitments were calculated using the risk free rate practical expedient resulting in discount rates ranging from 0.96% to 4.328%, with a weighted-average discount rate of 4.30%. The operating right-of-use assets and operating lease obligations are being amortized over the respective lives of the leases. As of December 31, 2024 and 2023, the unamortized operating right-of-use assets were valued at \$344,297 and \$423,476, respectively and the unamortized operating lease obligations were valued at \$344,297 and \$423,476, respectively.

At December 31, 2024, minimum future rental payments for the next five years and thereafter, separately and in the aggregate, are:

2025	\$	95,840
2026		95,840
2027		95,840
2028		86,963
2029		192
Thereafter		<u>0</u>
Total Future Minimum Payments		374,675
Less: Imputed Interest		<u>30,378</u>
Total operating lease obligation	\$	<u>344,297</u>

Rent expense, including lease expense and other costs, for office space and leased equipment, amounted to \$95,840 and \$27,300 for the years ended December 31, 2024 and 2023, respectively.

NOTE K - RETIREMENT PLAN

The Organization has established a SIMPLE IRA plan which covers all employees. The plan includes a match of 3% of the employees' compensation.

SHOES AND CLOTHES FOR KIDS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024 AND 2023

NOTE L – LIQUIDITY

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:

	<u>2024</u>	<u>2023</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 416,930	\$ 872,100
Unconditional promises to give	106,178	351,317
Investments - Unrestricted	6,080	3,658
Investments - Board designated endowment	<u>1,303,587</u>	<u>1,165,594</u>
Total financial assets	1,832,775	2,392,669
Less amounts not available to be used for general expenditures within one year:		
Restricted by donors with purpose restrictions	19,400	102,500
Board designated for endowment, less designation for future operations	<u>1,303,587</u>	<u>1,165,594</u>
Financial assets not available to be used within one year	<u>1,322,987</u>	<u>1,268,094</u>
Financial assets available to meet general expenditures within one year	<u>\$ 509,788</u>	<u>\$ 1,124,575</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. 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 \$1,295,945 for the year ended December 31, 2024.

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 strives to maintain operating reserves to support its operations. The current spending policy permits that during the annual budget process the Executive Committee of 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.