

**SHOES THAT FIT
FINANCIAL STATEMENT
AND
AUDITOR'S REPORT
DECEMBER 31, 2017**

**SHOES THAT FIT
DECEMBER 31, 2017**

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-9

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Board of Directors
Shoes That Fit

Independent Auditor's Report

We have audited the accompanying financial statements of Shoes That Fit (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses, 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 from 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 the 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shoes That Fit as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Bowen, McBeth Inc.
Bowen, McBeth, Inc.
April 26, 2018

SHOES THAT FIT
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017
(With comparative totals for December 31, 2016)

ASSETS	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 530,310	\$ 356,125
Investments	767,863	689,369
Inventory	160,320	154,800
Prepaid expenses	-	16,866
Total current assets	<u>1,458,493</u>	<u>1,217,160</u>
 FIXED ASSETS		
Office equipment	84,956	84,956
Less accumulated depreciation	<u>(84,925)</u>	<u>(83,149)</u>
Total fixed assets	<u>31</u>	<u>1,807</u>
 OTHER ASSETS		
Deposits	<u>2,550</u>	<u>2,550</u>
 TOTAL ASSETS	 <u><u>\$ 1,461,074</u></u>	 <u><u>\$ 1,221,517</u></u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 41,151	\$ 26,875
Accrued vacation	21,963	16,998
Accrued payroll	21,588	-
Total current liabilities	<u>84,702</u>	<u>43,873</u>
 NET ASSETS		
Unrestricted		
Undesignated	713,311	653,948
Designated endowment	590,061	513,696
Total unrestricted	<u>1,303,372</u>	<u>1,167,644</u>
Temporarily restricted	73,000	10,000
Total net assets	<u>1,376,372</u>	<u>1,177,644</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u><u>\$ 1,461,074</u></u>	 <u><u>\$ 1,221,517</u></u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

SHOES THAT FIT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2017
(With comparative totals for year ended December 31, 2016)

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>2017 TOTAL</u>	<u>2016 TOTAL</u>
REVENUES AND SUPPORT				
Contributions	\$ 936,546	\$ 73,000	\$ 1,009,546	\$ 810,890
Contributions-emergency clothing	207,951		207,951	105,951
Donated shoes and clothing	3,917,730		3,917,730	3,064,230
Special events, net	107,823		107,823	-
Interest and dividends	15,469		15,469	14,513
Unrealized gains on investments	68,069		68,069	29,408
Other income	2,833		2,833	2,479
Net assets released from restriction by payment	10,000	(10,000)	-	-
Total revenues and support	<u>5,266,421</u>	<u>63,000</u>	<u>5,329,421</u>	<u>4,027,471</u>
EXPENSES				
Program services	4,844,981		4,844,981	3,935,740
Management and general	79,832		79,832	63,743
Fundraising	205,880		205,880	163,072
Total expenses	<u>5,130,693</u>		<u>5,130,693</u>	<u>4,162,555</u>
CHANGE IN NET ASSETS	135,728	63,000	198,728	(135,084)
NET ASSETS, BEGINNING OF YEAR	<u>1,167,644</u>	<u>10,000</u>	<u>1,177,644</u>	<u>1,312,728</u>
NET ASSETS, END OF YEAR	<u>\$ 1,303,372</u>	<u>\$ 73,000</u>	<u>\$ 1,376,372</u>	<u>\$ 1,177,644</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

SHOES THAT FIT
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017
(With comparative totals for year ended December 31, 2016)

	Program Services	Management and general	Fund Raising	2017 Total	2016 Total
Distribution of shoes & clothing	\$ 3,912,210	\$	\$	\$3,912,210	\$ 3,142,500
Salaries and wages	314,217	46,134	137,443	497,794	432,833
Payroll taxes	23,059	3,404	10,139	36,602	33,963
Retirement	20,018	2,955	8,801	31,774	33,779
Employee benefits	9,192	1,357	4,041	14,590	14,721
Professional	20,467	1,204	2,408	24,079	20,446
Credit card charges		4,688		4,688	883
Development			5,636	5,636	964
Emergency shoes	319,594			319,594	172,880
Insurance	7,640	449	899	8,988	14,667
Newsletter	7,776		7,776	15,552	31,554
Office supplies	9,549	650	1,444	11,643	6,133
Postage	8,419	495	990	9,904	9,931
Printing	13,602	800	1,600	16,002	3,721
Publicity	66,666			66,666	53,706
Recognition	5,233			5,233	453
Rent	43,115	2,536	5,072	50,723	46,723
Repairs & maintenance	9,068	533	1,067	10,668	8,424
Telephone	4,760	280	560	5,600	7,169
Travel & entertainment	24,300	1,430	2,859	28,589	14,255
Depreciation	1,509	89	178	1,776	2,341
Utilities	3,752	231	443	4,426	3,506
Advertising	480			480	590
Dues	5,313	313	625	6,251	5,370
Contract labor	13,898		13,899	27,797	24,355
Bank and Investment fees		12,284		12,284	8,004
Licenses	1,144			1,144	1,985
Special projects				-	66,699
Total	\$ 4,844,981	\$ 79,832	\$205,880	\$ 5,130,693	\$ 4,162,555

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

SHOES THAT FIT
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
(With comparative totals for year ended December 31, 2016)

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 198,728	\$ (135,084)
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation	1,776	2,341
(Increase) decrease in inventory	(5,520)	78,270
(Increase) decrease in prepaid expenses	16,866	(16,866)
Decrease in deposits	-	199
Increase in accounts payable	14,276	15,201
Increase in accrued vacation	4,965	3,652
Increase in accrued payroll	21,588	-
Net cash provided (used) by operating activities	<u>252,679</u>	<u>(52,287)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
(Increase) decrease in investments	<u>(78,494)</u>	<u>(39,166)</u>
Net cash provided (used) by investing activities	<u>(78,494)</u>	<u>(39,166)</u>
NET INCREASE (DECREASE) IN CASH	174,185	(91,453)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>356,125</u>	<u>447,578</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 530,310</u>	<u>\$ 356,125</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**SHOES THAT FIT
NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL

Shoes That Fit (the Organization) is a non-profit California corporation. Shoes That Fit provides new shoes to children in need so that they can attend school in comfort and with dignity.

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

REVENUE SOURCES

The Organization is primarily funded by public contributions.

DONOR IMPOSED RESTRICTIONS

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions. Contributions are recognized when the donor makes a promise to give to the Organization. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

DONATED ASSETS

Donated assets are recorded at estimated fair market value at the time of donation. The value of donated services is not recognized in the accompanying financial statements because no objective basis is available to measure the value of such services.

PROPERTY AND EQUIPMENT

The Organization capitalizes expenditures over \$1,000 as property and equipment. Furniture, equipment, leasehold improvements, and property are carried at cost or estimated fair market value at date of donation. Depreciation of equipment is computed principally by the straight-line method over the following estimated useful lives:

	<u>Years</u>
Equipment	5-7

**SHOES THAT FIT
NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2017**

NOTE 1 (continued)

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

For purpose of the statements of cash flows, the Organization considers all bank accounts and investments available for current use with an initial maturity of three months or less to be cash.

TAX STATUS

The Organization is exempt from income taxes under Section 501 (c) (3) of the Internal Revenue Code and Section 23701d of the California Revenue and Taxation Code. Generally accepted accounting principles provides accounting and disclosure guidance about positions taken by an organization in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken by the organization in its federal and state tax returns are more likely than not to be sustained upon examination. The Organization's tax returns are subject to examination by federal taxing authorities for a period of three years from the date they are filed and for a period of four years for California taxing authorities.

FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

ADVERTISING EXPENSE

Advertising costs are expensed as they are incurred.

SUBSEQUENT EVENTS

The Organization evaluated events subsequent to December 31, 2017 and through April 26, 2018, the date the financial statements were available to be issued.

SUMMARIZED PRIOR YEAR 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 generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2016, from which the summarized information was derived.

SHOES THAT FIT
NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2017

NOTE 2 INVESTMENTS

Investments are presented in the financial statements at market value. Investments at December 31, 2017 are as follows:

Money Market funds	\$ 61,815
Mutual funds	309,286
Exchange Traded Funds	<u>396,762</u>
	<u>\$ 767,863</u>

NOTE 3 OPERATING LEASES

The Organization has entered into an operating lease for the space used for administrative offices in Claremont, California. The lease is for a period of five years beginning March 1, 2017 and ending February 28, 2022. Rent expense for the year was \$50,723. Minimum lease payments for years ending December 31 are as follows:

2018	\$ 41,404
2019	42,646
2020	43,925
2021	45,243
2022	7,577

NOTE 4 DONATED ASSETS AND SERVICES

The Organization receives a significant amount of donated shoes and clothing for distribution to children. The donated items are recorded at estimated fair market as a revenue and related expense on the accompanying financial statements. Volunteers and Board members have also provided numerous volunteer hours collecting and distributing shoes and clothing to children. The accompanying financial statements do not reflect the value of the volunteer hours.

NOTE 5 RETIREMENT PLAN

The Organization has a 403(b)-salary deferral plan whereby employees can contribute up to an amount as allowed under Internal Revenue Service Regulations. The Organization matches employee contributions to a maximum of 10% of their salary. Retirement expense for the year was \$31,774.

NOTE 6 INVENTORY

Inventory is comprised of donated and purchased shoes which will be distributed to children in need of shoes for school. The purchased shoes are recorded at cost. The donated shoes are recorded at estimated fair value.

**SHOES THAT FIT
NOTES TO FINANCIAL STATEMENT
DECEMBER 31, 2017**

NOTE 7 DESIGNATED NET ASSETS

The Organization has designated a portion of the net assets as an endowment to provide revenues to fund future operations.

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are restricted for the purchase of shoes and provide program services.

NOTE 9 FAIR VALUE MEASUREMENTS

Investments are reported at fair value. Fair value is defined as the price that the Organization would receive to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It prioritizes the inputs to the valuation techniques used to measure fair value by giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements), and the lowest priority to measurements involving significant unobservable (Level 3 measurements).

Fair values of assets measured at December 31, 2017 are as follows:

	Fair Value	Quoted Prices		
		In Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Funds	\$ 61,815	\$ 61,815	-	-
Mutual Funds	309,286	309,286		
Exchange Traded Funds	396,762	396,762	-	-
Total	\$ 767,863	\$ 767,863	\$ -	\$ -