

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

**Financial Report**

**12.31.10**

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## Independent Auditor's Report

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

We have audited the accompanying statement of financial position of Shoes and Clothes for Kids, Inc. as of December 31, 2010, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior-year summarized comparative information has been derived from Shoes and Clothes for Kids, Inc.'s 2009 financial statements and in our report dated April 23, 2010 we expressed an unqualified opinion on those statements.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2010 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, 2010, 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.

*McGladrey & Pullen, LLP*

Cleveland, Ohio  
April 11, 2011

## Shoes and Clothes for Kids, Inc.

### Statement of Financial Position

December 31, 2010

(With Comparative Totals at December 31, 2009)

Assets	2010	2009
<b>Current Assets</b>		
Cash and cash equivalents		
Operating	\$ 456,865	\$ 406,084
Funds reserved for investment	61,210	8,957
Certificates of deposit	51,426	51,097
Accounts and grants receivable, net	13,360	15,640
Contributions receivable	21,150	18,681
Prepaid expenses	7,652	20,568
Inventory	1,214,810	1,033,090
<b>Total current assets</b>	<b>1,826,473</b>	<b>1,554,117</b>
<b>Fixed Assets</b>		
Office equipment	44,112	21,295
Less accumulated depreciation	21,592	19,205
	<b>22,520</b>	<b>2,090</b>
<b>Other Assets</b>		
Investments	806,121	774,926
<b>Total assets</b>	<b>\$ 2,655,114</b>	<b>\$ 2,331,133</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 21,772	\$ 33,545
Deferred revenue	3,000	3,000
Accrued gift certificates	33,680	29,956
Accrued payroll and taxes	5,480	6,248
<b>Total current liabilities</b>	<b>63,932</b>	<b>72,749</b>
<b>Net Assets</b>		
Unrestricted		
Operating - undesignated	476,929	377,911
- inventory	1,214,810	1,033,090
Funds functioning as endowment	613,110	553,798
Board designated reserves	261,221	237,085
<b>Total unrestricted net assets</b>	<b>2,566,070</b>	<b>2,201,884</b>
Temporarily restricted	25,112	56,500
<b>Total net assets</b>	<b>2,591,182</b>	<b>2,258,384</b>
<b>Total liabilities and net assets</b>	<b>\$ 2,655,114</b>	<b>\$ 2,331,133</b>

See Notes to Financial Statements.

## Shoes and Clothes for Kids, Inc.

### Statement of Activities

Year Ended December 31, 2010

(With Comparative Totals for the Year Ended December 31, 2009)

	Unrestricted	Temporarily Restricted	2010 Total	2009 Total
Operating Support and Revenue				
Contributions				
Foundations	\$ 140,233	\$ 10,000	\$ 150,233	\$ 125,657
Individuals	153,599		153,599	173,494
Corporate	131,166		131,166	129,569
Other organizations	1,947		1,947	3,070
Special events, net	190,346	3,000	193,346	166,604
Investment income	1,996		1,996	2,901
Net assets released from restrictions	44,388	(44,388)	-	-
<b>Total operating support and revenue     before in-kind contributions</b>	<b>663,675</b>	<b>(31,388)</b>	<b>632,287</b>	<b>601,295</b>
In-kind rent, professional services, goods and materials	247,700		247,700	326,394
Inventory	2,351,498		2,351,498	2,168,660
<b>Total operating support and revenue</b>	<b>3,262,873</b>	<b>(31,388)</b>	<b>3,231,485</b>	<b>3,096,349</b>
Operating Expenses				
Distributions to children				
Inventory	2,203,246		2,203,246	1,832,484
Shoe gift certificates	130,640		130,640	136,425
<b>Total distributions to children</b>	<b>2,333,886</b>		<b>2,333,886</b>	<b>1,968,909</b>
In-kind rent, professional services, goods and materials	247,700		247,700	326,394
Salaries and wages	226,753		226,753	253,657
Professional services	40,627		40,627	54,723
Payroll taxes	21,197		21,197	18,801
Associate Board	16,259		16,259	13,743
Communications and printing	17,849		17,849	20,116
Occupancy	14,257		14,257	14,257
Miscellaneous	7,208		7,208	9,792
Employee benefits	3,016		3,016	7,910
Insurance	5,001		5,001	5,382
Office supplies and equipment	6,537		6,537	6,718
Telephone	5,135		5,135	5,862
Computer and technology	10,403		10,403	3,103
Postage and delivery	3,094		3,094	3,046
Dues, subscriptions, public relations	14,382		14,382	9,889
Depreciation	5,915		5,915	916
Meetings	2,916		2,916	1,831
<b>Total operating expenses</b>	<b>2,982,135</b>		<b>2,982,135</b>	<b>2,725,049</b>
<b>Increase (decrease) from operating activities</b>	<b>280,738</b>	<b>(31,388)</b>	<b>249,350</b>	<b>371,300</b>
Non-operating Revenues and Support				
Net realized/unrealized gain on investments	83,448		83,448	158,716
<b>Total non-operating revenues and support</b>	<b>83,448</b>		<b>83,448</b>	<b>158,716</b>
<b>Total increase (decrease) in net assets</b>	<b>364,186</b>	<b>(31,388)</b>	<b>332,798</b>	<b>530,016</b>
Net assets - beginning	2,201,884	56,500	2,258,384	1,728,368
<b>Net assets - ending</b>	<b>\$ 2,566,070</b>	<b>\$ 25,112</b>	<b>\$ 2,591,182</b>	<b>\$ 2,258,384</b>

See Notes to Financial Statements.

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

**Statement of Cash Flows**

**Year Ended December 31, 2010**

**(With Comparative Totals for the Year Ended December 31, 2009)**

	2010	2009
Cash Flows From Operating Activities		
Increase in net assets	\$ 332,798	\$ 530,016
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	5,915	916
Net realized/unrealized (gain) on investments	(83,448)	(158,716)
(Increase) in accrued interest	(329)	(646)
Decrease in accounts and grants receivable	2,280	54,020
(Increase) decrease in contributions receivable	(2,469)	21,319
(Increase) decrease in prepaid expenses	12,916	(16,378)
(Increase) in inventory	(181,720)	(361,908)
Increase (decrease) in accounts payable	(11,773)	10,848
Increase in deferred revenue	-	3,000
Increase (decrease) in accrued gift certificates	3,724	(8,170)
Increase (decrease) in accrued payroll and taxes	(768)	3,131
<b>Net cash provided by operating activities</b>	<b>77,126</b>	<b>77,432</b>
Cash Flows From Investing Activities		
Change in investments, net	52,253	(53,574)
Purchase of fixed assets	(26,345)	(1,730)
<b>Net cash provided by (used in) investing activities</b>	<b>25,908</b>	<b>(55,304)</b>
<b>Net increase in cash and cash equivalents</b>	<b>103,034</b>	<b>22,128</b>
Cash and cash equivalents		
Beginning	415,041	392,913
Ending	<b>\$ 518,075</b>	<b>\$ 415,041</b>

See Notes to Financial Statements.

## Shoes and Clothes for Kids, Inc.

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies

**Purpose:** Shoes and Clothes for Kids, Inc. is a not-for-profit corporation that provides a unique service for income-eligible families in Greater Cleveland by distributing new shoes, clothing, and items for infants and youth. Operating with compassion, caring, and respect, and as part of the network of human service providers, Shoes and Clothes for Kids, Inc. offers a way for the community to help needy families. During 2010, the estimated retail value of shoes and clothing distributed to children was \$2,203,246.

In addition, the Organization participates in a shoe gift certificate program in which gift certificates are distributed to children to purchase new shoes. The estimated retail value of certificates distributed totaled \$130,640 in 2010.

**Accounting method:** The accompanying financial statements of Shoes and Clothes for Kids, Inc. 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. Shoes and Clothes for Kids, Inc. is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. At December 31, 2010, the Organization had no permanently restricted net assets.

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

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

**Use of estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and cash equivalents:** The Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. The Organization maintains, at various financial institutions, cash and equivalents which may exceed federally insured amounts, at times. Balances in excess of the federally insured limit, expose the Organization to custodial credit risk.

**Certificates of deposit:** The carrying amount of certificates of deposit represents costs plus accrued interest.

**Allowance for doubtful accounts:** The Organization provides for uncollectible receivables using the allowance method. The allowance for bad debts was \$520 at December 31, 2010.

## Shoes and Clothes for Kids, Inc.

### Notes to Financial Statements

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

**Inventory:** Inventory consists of purchased or donated shoes and clothing items for infants and children. Inventory has been valued at estimated retail value at the date of purchase or donation.

**Fixed assets:** Investments in office equipment 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 income as incurred.

The following lives are assigned to the various assets:

Office equipment	<u>Life</u> 3 – 5 years
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**Investments:** Investments are reported in the statement of financial position at fair value with any realized or unrealized gains and losses reported in the statement of activities. Investment income is recognized as revenue in the period it is earned and gains and losses are recognized as changes in net assets in the accounting periods in which they occur.

**In-kind contributions:** In-kind contributions represent donated goods, professional services, and facilities. The estimated retail values of professional services and facilities 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 an established non-contributory Section 403(b) retirement plan which covers all full-time employees.

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

**Tax status:** The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

The Organization adopted the accounting standard on accounting for uncertainty in income taxes, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods. At December 31, 2010, there were no unrecognized tax benefits identified or recorded as liabilities.

With few exceptions, the Organization is no longer subject to tax examination by tax authorities for years prior to 2007.

## Shoes and Clothes for Kids, Inc.

### Notes to Financial Statements

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#### **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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

**Subsequent events:** The Organization has evaluated subsequent events for potential recognition and/or disclosure through April 11, 2011, the date the financial statements were available to be issued.

#### **Note 2. Contributions Receivable**

Contributions receivable consist of unconditional promises by individuals, foundations, and other entities. At December 31, 2010, all contributions receivable represent future contributions that are receivable in less than one year.

#### **Note 3. Investments**

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

## Shoes and Clothes for Kids, Inc.

### Notes to Financial Statements

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#### Note 3. Investments (Continued)

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, 2010:

	Level 1	Level 2	Level3	Total
Equity Funds				
Common/Collective funds	\$ -	\$ 114,570	\$ -	\$ 114,570
Mutual Funds - Equity				
International	215,265			215,265
Large-Cap value	94,768			94,768
Mid-Cap value	50,583			50,583
Commodity index	22,997			22,997
Large growth	83,124			83,124
Fixed Income Funds	86,150	138,664		224,814
<b>Total</b>	<b>\$ 552,887</b>	<b>\$ 253,234</b>	<b>\$ -</b>	<b>\$ 806,121</b>

The Organization's Level 1 investments are traded on a public exchange, while the Level 2 investments value is provided by the trustee with whom the funds are invested. The valuation techniques for investments have been consistent from year to year.

#### Note 4. Line of Credit

The Organization has available a line of credit for \$100,000, which bears interest at a variable rate (3.25% at December 31, 2010) and is secured by the property and investments now owned or hereafter acquired. There was no outstanding obligation at December 31, 2010.

#### Note 5. Special Events

At December 31, 2010, special events consist of the following:

	Revenue	Expense	Net
Heart and Sole Luncheon	\$ 142,761	\$ 35,518	\$ 107,243
Golf Classic	48,907	10,054	38,853
Spring Fundraiser	89,331	42,081	47,250
	<b>\$ 280,999</b>	<b>\$ 87,653</b>	<b>\$ 193,346</b>

## Shoes and Clothes for Kids, Inc.

### Notes to Financial Statements

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#### Note 6. Functional Expenses

The following is a detail of expenses by function:

Shoes and Clothing Program Expenses	
Inventory	\$ 2,331,902
Change in inventory	(181,720)
Distribution expenses	249,836
Shoe Gift Certificate Program	130,640
<b>Total Shoes and Clothing Program Expenses</b>	<u>2,530,658</u>
General and Administrative Expenses	54,698
Fundraising	149,079
Total Supporting Expenses	<u>203,777</u>
<b>Total Program and Supporting Expenses Before In-Kind Expenses</b>	<u>2,734,435</u>
In-Kind Expenses	
Program	212,803
Fundraising	34,397
General and Administrative Expenses	500
<b>Total In-Kind Expenses</b>	<u>247,700</u>
<b>Total Expenses</b>	<u>\$ 2,982,135</u>

During 2010, the Organization received a significant amount of in-kind rent, professional services, goods, and materials to assist with program and supporting operations.

#### Note 7. Unrestricted Net Assets

**Funds functioning as endowment:** Funds functioning as endowment represent investments that have been designated by the Organization's Board of Directors as "endowment" funds. Investment income derived is to be reinvested into the principal until future usage of the accumulated investment is determined by the Board of Directors. The balance of these funds at December 31, 2010 was \$613,110 and is collateral for the line of credit.

**Board designated reserves:** Board designated reserves represent investments maintained by the Organization to be used in the event of a sudden Organizational opportunity or challenge. The balance of these funds at December 31, 2010 was \$261,221.

## Shoes and Clothes for Kids, Inc.

### Notes to Financial Statements

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#### Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of December 31, 2010:

	Beginning Balance	Additions	Net Assets Released	Ending Balance
Buying and Distribution Program	\$ 11,000	\$ 10,000	\$ 11,000	\$ 10,000
Phone System	25,000	-	25,000	-
Spring Fundraiser 2010 Sponsorship	3,000	3,000	3,000	3,000
Strategic Plan	17,500	-	5,388	12,112
<b>Total</b>	<b>\$ 56,500</b>	<b>\$ 13,000</b>	<b>\$ 44,388</b>	<b>\$ 25,112</b>

#### Note 9. Endowment Funds

The Organization's endowment consists of funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor - imposed restrictions.

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

**Interpretation of relevant law:** The Board of Directors of the Organization has interpreted the Uniform Management of Institutional Funds Act (UMIFA) 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, UMIFA 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."

## Shoes and Clothes for Kids, Inc.

### Notes to Financial Statements

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#### Note 9. Endowment Funds (Continued)

Changes in endowment net assets for the year ended December 31, 2010:

	Unrestricted
Beginning balance at December 31, 2009	<u>\$ 553,798</u>
Investment return	
Net investment income	22,816
Net appreciation	<u>36,496</u>
<b>Total investment return</b>	59,312
Contributions	-
Net assets reclassified	-
<b>Ending balance at December 31, 2010</b>	<u>\$ 613,110</u>

There are no donor restricted endowment funds at December 31, 2010.

**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.

## Shoes and Clothes for Kids, Inc.

### Notes to Financial Statements

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#### Note 10. Lease Commitments

Subsequent to year-end, the Organization entered into a lease agreement for new office space. The lease term is for the period of April 1, 2011 to September 30, 2016 with an option to renew for an additional five years at the end of the term. The arrangement includes a six-month free rent period with monthly payments commencing October 1, 2011 for \$1,605. Future lease payments under the non-cancellable operating lease as of December 31, 2010 are as follows:

2011	\$	4,816
2012		19,263
2013		19,263
2014		19,263
2015		19,263
Thereafter		14,447
<b>Total</b>	<b>\$</b>	<b>96,315</b>

Rental expense for operating leases amounted to \$16,033 for the year ended December 31, 2010.

#### Note 11. Future Bequest

The Organization has been notified that it will be the beneficiary of a bequest in the amount of \$100,000 and another in an unspecified amount pending the final settlement of an estate.