

**SHOES THAT FIT**  
**FINANCIAL STATEMENT**  
**AND**  
**AUDITOR'S REPORT**  
**DECEMBER 31, 2012**

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The logo for Bowen, McBeth, Inc. features a stylized graphic of vertical and diagonal lines forming a triangular shape. Below the graphic, the text reads "BOWEN, McBETH, INC." in a bold, serif font, with "CERTIFIED PUBLIC ACCOUNTANTS" in a smaller, sans-serif font underneath.

**BOWEN, McBETH, INC.**  
CERTIFIED PUBLIC ACCOUNTANTS

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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, 2012, 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, 2012, 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.  
May 16 2013

**SHOES THAT FIT**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2012**  
(With comparative totals for December 31, 2011)

<b>ASSETS</b>	<u>2012</u>	<u>2011</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 75,093	\$ 148,757
Investments	782,534	789,314
Inventory	48,200	54,125
Prepaid expenses	202	27,212
Total current assets	<u>906,029</u>	<u>1,019,408</u>
<b>FIXED ASSETS</b>		
Office equipment	77,056	75,141
Less accumulated depreciation	<u>(66,138)</u>	<u>(60,831)</u>
Total fixed assets	<u>10,918</u>	<u>14,310</u>
<b>OTHER ASSETS</b>		
Deposits	<u>2,749</u>	<u>2,000</u>
<b>TOTAL ASSETS</b>	<u>\$ 919,696</u>	<u>\$ 1,035,718</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 4,023	\$ 32,514
Accrued vacation	6,584	9,519
Deferred income	<u>11,649</u>	<u>11,649</u>
Total current liabilities	<u>10,607</u>	<u>53,682</u>
<b>NET ASSETS</b>		
Unrestricted		
Undesignated	351,869	441,995
Designated endowment	<u>557,220</u>	<u>533,833</u>
Total unrestricted	909,089	975,828
Temporarily restricted	<u>6,208</u>	<u>6,208</u>
Total net assets	<u>909,089</u>	<u>982,036</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 919,696</u>	<u>\$ 1,035,718</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**SHOES THAT FIT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
(With comparative totals for year ended December 31, 2011)

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>2012 TOTAL</u>	<u>2011 TOTAL</u>
<b>REVENUES AND SUPPORT</b>				
Contributions	\$ 550,750	\$	\$ 550,750	\$ 521,134
Contributions-emergency clothing	121,466		121,466	78,289
Donated shoes and clothing	2,709,863		2,709,863	2,668,706
Interest and dividends	21,215		21,215	21,308
Unrealized gains on investments	27,119		27,119	(30,072)
Other income	259		259	963
Special events, net	32,037		32,037	-
Net assets released from restriction by payment	6,208	(6,208)	-	-
<b>Total revenues and support</b>	<u>3,468,917</u>	<u>(6,208)</u>	<u>3,462,709</u>	<u>3,260,328</u>
<b>EXPENSES</b>				
Program services	3,314,078		3,314,078	3,226,283
Management and general	95,590		95,590	72,377
Fundraising	125,988		125,988	141,310
<b>Total expenses</b>	<u>3,535,656</u>		<u>3,535,656</u>	<u>3,439,970</u>
<b>CHANGE IN NET ASSETS</b>	(66,739)	(6,208)	(72,947)	(179,642)
<b>NET ASSETS,BEGINNING OF YEAR</b>	<u>975,828</u>	<u>6,208</u>	<u>982,036</u>	<u>1,161,678</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 909,089</u>	<u>\$ -</u>	<u>\$ 909,089</u>	<u>\$ 982,036</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, 2012**  
(With comparative totals for year ended December 31, 2011)

	Program Services	Management and general	Fund Raising	2012 Total	2011 Total
Distribution of shoes & clothing	\$ 2,715,788	\$	\$	\$2,715,788	\$ 2,675,406
Salaries and wages	207,976	32,812	61,371	302,159	293,290
Payroll taxes	17,286	2,756	5,010	25,052	24,200
Retirement	17,122	2,730	4,962	24,814	27,078
Professional	77,920	12,422	22,585	112,927	190,607
Credit card charges		76		76	586
Development			2,090	2,090	2,318
Emergency shoes	143,444			143,444	93,158
Insurance	9,405	1,176	1,176	11,757	11,482
Newsletter	14,795		14,795	29,590	19,195
Office supplies	7,447	930	930	9,307	10,651
Postage	5,047	631	631	6,309	5,968
Printing	4,181	522	522	5,225	1,141
Publicity	4,662		1,166	5,828	3,799
Recognition	2,324			2,324	1,717
Rent	28,619	3,577	3,577	35,773	26,783
Repairs & maintenance	5,463	683	683	6,829	4,298
Telephone	10,038	1,255	1,255	12,548	7,404
Travel & entertainment	9,252	1,156	1,156	11,564	15,928
Depreciation	4,245	531	531	5,307	4,993
Utilities	2,620	327	327	3,274	2,843
Advertising	672			672	189
Dues	2,596	324	324	3,244	4,162
Contract labor	23,176	2,897	2,897	28,970	5,110
Investment fees		10,744		10,744	7,664
Licenses		2,962		2,962	
Moving		15,458		15,458	
Miscellaneous		1,621		1,621	
<b>Total</b>	<b>\$ 3,314,078</b>	<b>\$ 95,590</b>	<b>\$125,988</b>	<b>\$3,535,656</b>	<b>\$ 3,439,970</b>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**SHOES THAT FIT**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**  
**(With comparative totals for year ended December 31, 2011)**

	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (72,947)	\$ (179,642)
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:		
Depreciation	5,307	4,993
Decrease in inventory	5,925	6,700
(Increase) decrease in prepaid expenses	27,010	(27,212)
(Increase) in deposits	(749)	
Increase (decrease) in accounts payable	(28,491)	23,687
Increase (decrease) in accrued vacation	(2,935)	3,484
Increase (decrease) in deferred income	(11,649)	11,649
Net cash provided (used) by operating activities	(78,529)	(156,341)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease in investments	6,780	114,959
Purchase of equipment	(1,915)	(14,290)
Net cash provided by investing activities	4,865	100,669
 <b>NET INCREASE (DECREASE) IN CASH</b>	(73,664)	(55,672)
 <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	148,757	204,429
 <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 75,093	\$ 148,757

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**SHOES THAT FIT  
NOTES TO FINANCIAL STATEMENT  
DECEMBER 31, 2012**

**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 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.

**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, 2012**

**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, 2012 and through May 16, 2013.

**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, 2011, from which the summarized information was derived.

**SHOES THAT FIT  
NOTES TO FINANCIAL STATEMENT  
DECEMBER 31, 2012**

**NOTE 2 INVESTMENTS**

Investments are presented in the financial statements at market value. Investments at December 31, 2012 are as follows:

Money Market funds	\$ 46,092
Equity Mutual funds	39,678
Index funds	680,745
Bond funds	<u>16,019</u>
	<u>\$ 782,534</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 April 1, 2012 and ending March 31, 2017. Rent expense for the year was \$35,773. Minimum lease payments for years ending December 31 is as follows:

2013	\$ 39,801
2014	41,001
2015	42,231
2016	43,494
2017	10,953

**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 \$24,814.

**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, 2012**

**NOTE 7      TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets were decreased for the purchase of shoes for distribution to children in need of shoes for school.

**NOTE 8      DESIGNATED NET ASSETS**

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

**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, 2012 are as follows:

	<u>Fair Value</u>	Quoted Prices In Active Markets for Identical Assets <u>(Level 1)</u>	Other Observable Inputs <u>(Level 2)</u>	Significant Unobservable Inputs <u>(Level 3)</u>
Money Market Funds	\$ 46,092	\$ 46,092	-	-
Equity Mutual Funds	39,678	39,678		
Index Funds	680,745	680,745	-	-
Bond Funds	<u>16,019</u>	<u>16,019</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 782,534</u>	<u>\$782,534</u>	<u>\$ -</u>	<u>\$ -</u>