SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2010

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

JUNE 30, 2010

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Consolidated Statement of Financial Position	2
Consolidated Statement of Activities	3
Consolidated Statement of Cash Flows	4
Consolidated Statement of Functional Expenses	5
Notes to Consolidated Financial Statements	6 - 20

KraftCPAs
PLLC

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Soles4Souls, Inc.
Nashville, Tennessee

We have audited the accompanying consolidated statement of financial position of Soles4Souls, Inc. and Supporting Organization (collectively, the "Organization") as of June 30, 2010, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Soles4Souls, Inc. and Supporting Organization as of June 30, 2010, and the consolidated changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

KraftCPAs PLLC

Nashville, Tennessee
November 29, 2010

KraftCPAs PLLC - Certified Public Accountants and Consultants
555 Great Circle Road • Nashville, TN 37228 • Phone 615-242-7351 • Fax 615-782-4271 • www.kraftcpas.com

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2010

ASSETS

Cash	$ 20,220
Accounts receivable	11,436
Prepaid expenses and other assets	57,059
Inventories - Notes 4 and 6	13,536,483
Investments - Notes 5, 6, 8 and 9	5,725,659
Property and equipment - at cost, less accumulated depreciation - Notes 7 and 9	1,382,378
TOTAL ASSETS	$ 20,733,235

LIABILITIES AND NET ASSETS

LIABILITIES	
Accounts payable and accrued expenses	$ 558,949
Deposits	117,966
Obligation under line of credit - Note 8	300,100
Notes payable - Note 9	867,030
TOTAL LIABILITIES	1,844,045
COMMITMENTS AND CONTINGENCIES - Notes 5, 10 and 14	
NET ASSETS	
Unrestricted net assets	
Invested in property and equipment, less related debt	515,348
Unrestricted donated shoe inventory	7,930,173
Undesignated	4,837,359
Total unrestricted net assets	13,282,880
Temporarily restricted net assets - Note 12	5,606,310
TOTAL NET ASSETS	18,889,190
TOTAL LIABILITIES AND NET ASSETS	$ 20,733,235

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Collection of donated shoes:			
Corporate shoe donations	$ 56,213,794	$ 3,030,443	$ 59,244,237
Public shoe donations	9,890,523	2,575,867	12,466,390
Foundation grants	162,720	-	162,720
Contributions	1,643,059	-	1,643,059
MBE handling fees	2,892,597	-	2,892,597
Investment income - Note 5	639,003	-	639,003
Other income	59,683	-	59,683
Net assets released from restriction	1,160,589	(1,160,589)	-
TOTAL SUPPORT AND REVENUE	72,661,968	4,445,721	77,107,689
EXPENSES			
Program services	64,238,354	-	64,238,354
Management and general	919,720	-	919,720
Fundraising	1,071,700	-	1,071,700
TOTAL EXPENSES	66,229,774	-	66,229,774
CHANGE IN NET ASSETS	6,432,194	4,445,721	10,877,915
NET ASSETS, BEGINNING OF YEAR, as restated - Note 15	6,850,686	1,160,589	8,011,275
NET ASSETS, END OF YEAR	$ 13,282,880	$ 5,606,310	$ 18,889,190

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2010

OPERATING ACTIVITIES	
Change in net assets	$ 10,877,915
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Realized and unrealized gains on investments, net	(542,123)
Depreciation	110,719
(Increase) decrease in:	
Accounts receivable	3,333
Prepaid expenses and other assets	(16,266)
Inventories	(11,518,293)
Increase (decrease) in:	
Accounts payable and accrued expenses	210,661
Deposits	117,966
TOTAL ADJUSTMENTS	(11,634,003)
NET CASH USED IN OPERATING ACTIVITIES	(756,088)
INVESTING ACTIVITIES	
Purchase of investments	(2,768,257)
Proceeds from sale of investments	4,042,738
Purchase of property and equipment	(380,877)
NET CASH PROVIDED BY INVESTING ACTIVITIES	893,604
FINANCING ACTIVITIES	
Repayments of notes payable	(25,145)
Net payments on line of credit	(97,756)
NET CASH USED IN FINANCING ACTIVITIES	(122,901)
NET INCREASE IN CASH	14,615
CASH - BEGINNING OF YEAR	5,605
CASH - END OF YEAR	$ 20,220
NONCASH INVESTING AND FINANCING ACTIVITIES	
Purchase of new headquarters facility	$ 1,013,650
Less proceeds of mortgage loan from bank	(813,650)
Net cash paid at closing	$ 200,000
SUPPLEMENTAL CASH FLOW DISCLOSURE	
Cash paid during the year for interest	$ 41,592

See accompanying notes to consolidated financial statements.

<u>SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION</u>

<u>CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES</u>

<u>FOR THE YEAR ENDED JUNE 30, 2010</u>

	Program Services	Management and General	Fundraising	Total
Salaries and contract labor	$ 1,173,959	$ 480,662	$ 392,154	$ 2,046,775
Employee benefits and payroll taxes	155,150	48,850	25,280	229,280
Total personnel costs	1,329,109	529,512	417,434	2,276,055
Cost of distributed shoes	60,627,937	-	-	60,627,937
Other distribution expenses	412,879	-	-	412,879
Advertising and promotion	722,425	-	87,904	810,329
Auto expenses	37,693	-	-	37,693
Depreciation	83,039	16,608	11,072	110,719
Direct mail	-	-	267,336	267,336
Events	60,386	-	172,081	232,467
Insurance	31,450	6,290	4,193	41,933
Interest	36,025	3,340	2,227	41,592
Miscellaneous	45,182	36,674	10,000	91,856
Supplies and equipment	75,487	7,821	2,566	85,874
Postage	207,250	2,438	34,135	243,823
Professional fees	208,719	259,089	24,177	491,985
Rent	139,117	25,656	17,103	181,876
Repairs and maintenance	26,333	9,970	1,207	37,510
Telephone and utilities	74,229	8,581	6,524	89,334
Travel	121,094	13,741	13,741	148,576
	$ 64,238,354	$ 919,720	$ 1,071,700	$ 66,229,774

See accompanying notes to consolidated financial statements.

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

Soles4Souls, Inc. ("S4S") was founded in 2006 as an Alabama not-for-profit corporation. S4S's mission is to impact as many lives as possible with gifts of shoes, apparel, and other basic needs. S4S partners with organizations around the world to provide basic necessities that most of us take for granted, but are critical to people living daily in abject poverty, or recovering from the effects of natural disasters. S4S facilitates donations of shoes, apparel, and other goods from manufacturers, wholesalers, retailers, and the general public. Since inception, S4S has provided over 12 million pairs of shoes to people in need in over 125 countries.

S4S World Headquarters are located in Nashville, Tennessee and its primary warehouse facility is located in Roanoke, Alabama. S4S also maintains a central warehouse location in Las Vegas, Nevada for the convenience of donors in the Western U.S. S4S has also engaged Village Northwest Unlimited, a Sheldon, Iowa facility, which offers services and training to 200 individuals with varying types of disabilities including intellectual disabilities, brain injuries, autism, Down syndrome, and others. S4S employs the services of the individuals served at the facility in the preparation of gently used shoes which will then be transported to developing nations.

In February 2009, Changing the World Foundation, Inc. ("CTWF") was formed as a supporting organization under the laws of the State of Tennessee as a not-for-profit corporation to support and further the charitable purposes of S4S. S4S has an economic interest in CTWF combined with control through a majority voting interest of the Board of CTWF.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of Soles4Souls, Inc. and Changing the World Foundation, Inc. (collectively the "Organization"). The accompanying consolidated financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("GAAP"). All significant intercompany accounts and transactions have been eliminated in consolidation.

Resources are classified as unrestricted, temporarily restricted or permanently restricted net assets, based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* are free of donor-imposed restrictions. All revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification. All expenditures are reported in the unrestricted class of net assets, since the use of restricted contributions in accordance with the donors' stipulations results in the release of the restriction.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Consolidation and Basis of Presentation (Continued)

- *Temporarily restricted net assets* are limited as to use by donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.

- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations. The Organization had no permanently restricted net assets as of June 30, 2010.

Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a Replacement of FASB Statement No. 162.* This statement modifies the GAAP hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature. Effective July 2009, the FASB Accounting Standards Codification (the "Codification") is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the Securities and Exchange Commission. Nonauthoritative guidance and literature include, among other things, FASB Concepts Statements, American Institute of Certified Public Accountants Issues Papers and Technical Practice Aids, and accounting textbooks. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance.

Contributions and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for future periods or for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction is fulfilled (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted and reported in the Consolidated Statement of Activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions and Support (Continued)

The Organization reports any gifts of equipment or materials as unrestricted support unless explicit donor restrictions specify how the assets must be used. Gifts of long-lived assets with explicit restrictions as to how the assets are to be used or funds restricted for the acquisition of long-lived assets are reported as restricted support. Expirations of donor restrictions are recognized when the donated or acquired long-lived assets are placed in service.

Donated Goods and Services

Donated goods, including donated shoes and relief supplies, are recorded as gifts in the period received at their estimated fair value, if there is an objective and measurable basis for determining such value.

Donated services are recognized if they create or enhance nonfinancial assets or the donated service requires specialized skills, was performed by a donor who possesses such skills, and would have been purchased by the Organization if not donated. Such services are recognized at fair value as support and expense in the period the services were performed.

A number of unpaid volunteers have made significant contributions of their time to assist the Organization in implementing various programs. The value of contributed time is not reflected in these financial statements since it is not susceptible to objective measurement or valuation.

MBE Handling Fees / Deposits

MBE handling fees are charged to certain recipient organizations (primarily microenterprise projects) that receive used footwear for redistribution. Such fees are recognized as revenue at the time the product is shipped to the recipient organization. Amounts collected in advance of shipment are classified initially as deposits on the Consolidated Statement of Financial Position and recognized in the period the product is shipped.

Cash

Cash consists of checking account balances and short-term highly liquid investments that are readily convertible to cash and mature three months or less from date of purchase.

Accounts Receivable

Accounts receivable are based on the agreed amounts paid by donating organizations for the related cost of shipping and handling of donated inventory. S4S does not charge interest on past due accounts. Accounts receivable are deemed to be fully collectible by management and no allowance for bad debts is considered necessary at June 30, 2010.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories consist primarily of donated new and used footwear, purchased footwear, DVDs, clothing, and other relief supplies. Items are assigned an estimated fair value by management at the time of donation. See the fair value measurements policy note below for further information on how the values are determined.

Purchased inventory is valued at the lower of cost or market, determined by the first-in first out (FIFO) method. Provision is made to reduce any excess, obsolete or slow moving inventory to net realizable value.

Investments

Investments consist of cash, certificates of deposit, equities, equity funds and fixed income funds and are carried at their quoted market value on the last business day of the reporting period. Changes in unrealized gains and losses are recognized currently in the Consolidated Statement of Activities.

Fair Value Measurements

Financial accounting standards relating to fair value measurements establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by the observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Level 3 Inputs to the valuation methodology are unobservable and reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

An asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques should maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

Investments - Cash, certificates of deposit, equities, equity funds, and fixed income funds are classified within Level 1 where quoted market prices are available in an active market. Inputs include investments that have quoted market prices in active markets for identical assets. If quoted market prices are unavailable, fair value is estimated using quoted prices of investments with similar characteristics, and the investments are classified within Level 2.

Donated Inventories - Management assigns an estimated fair value based on previous experience in the shoe industry and the donor's product, which approximates a range between cost and wholesale. Most donations of new product consist of mixed styles and types, for which management assigns an average fair value as follows: $30 for men's shoes, $27 for women's shoes and $16 for children's shoes. Used shoes are valued at $4 per pair, which is measured in poundage assuming an average weight of 1.1 lbs per pair.

Donated DVDs, clothing and other relief supplies are recorded as revenue at their estimated fair value as provided by the donor or, in the absence of donors' valuations, based on the Organization's estimate of wholesale values considering their condition and utility for use, at the time the goods are received from the donor.

Other than an increase of $1 per pair in the estimated fair value of donated shoes, no changes in the valuation methodologies have been made since the prior year.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with that of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements at the reporting date.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment and Depreciation

Property and equipment are reported at cost, net of accumulated depreciation, and include improvements that significantly add to productive capacity or extend useful lives. It is the Organization's policy to capitalize expenditures for assets with a cost of $1,000 or greater and an estimated useful life of at least a year. Costs of maintenance and repairs are charged to expense. When depreciable assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain (except trade-ins) or loss is recognized. Gains on trade-ins are applied to reduce the cost of the new acquisition.

Depreciation is computed under the straight-line method over the estimated useful lives of depreciable assets, as follows:

Building and improvements	10 - 30 years
Warehouse leasehold improvements	Shorter of estimated useful life or term of lease
Vehicles	5 years
Equipment	3 - 5 years
Furniture and fixtures	7 years

Program and Supporting Services

The following program and supporting services are included in the accompanying consolidated financial statements:

Program Services - Includes the direct cost of acquiring, collecting, storing, and distributing donated and purchased footwear, donated new clothing, and various relief supplies (including hospital beds, water, DVD's, mattresses, high chairs, and more) to individuals living in poverty or affected by natural disasters. Additionally, program services include an allocation of identified indirect costs which facilitate the collection, storage, and distribution of donated footwear. Programs supported during the year have resulted in well over one million pairs of shoes delivered to victims of natural disasters in Haiti, Chile, Tennessee, and various other sites; the ongoing support of microenterprise projects in developing nations; shoes, clothing, and supplies delivered to homeless shelters, inner city schools, orphanages in the U.S. and abroad, and much more. In cooperation with many agencies, S4S has impacted more than 5 million people during the year, and has provided over 10 million pairs of shoes to people in need since its inception.

Management and General - Includes the functions necessary to ensure an adequate working environment and costs not identifiable with a single program. Applicable costs include those associated with providing coordination and articulation of the Organization's program strategy, business management, general record keeping, budgeting, and related purposes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Program and Supporting Services (Continued)

Fundraising - Includes costs of activities directed towards appeals for financial support, including special events. Other activities include the cost of solicitations and creation and distribution of fund raising materials.

Allocation of Functional Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain costs have been allocated among more than one program or activity based on objectively evaluated financial and non-financial data or reasonable subjective methods determined by management.

Income Taxes

S4S qualifies as a not-for-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. CTWF is in the process of filing for exemption status as a supporting organization to S4S under Section 501(c)(3), which management believes will be granted. Accordingly, income taxes are not provided for either organization.

On July 1, 2009, the Organization adopted new guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions. Income tax positions must meet a more-likely-than-not recognition threshold to be recognized. The adoption of this guidance did not have a material effect on the Organization's financial position and results of operations.

As of June 30, 2010, the Organization did not have any accrued interest or penalties related to income tax liabilities, and no interest or penalties have been charged to operations for the year then ended.

S4S files U.S. Federal Form 990 for organizations exempt from income tax. S4S's returns for years prior to fiscal year end 2007 are closed. CTWF will file a U.S. Federal Form 990 for the year ended January 31, 2010, and the short-period ended June 30, 2010.

Advertising

The Organization uses advertising to promote its programs and raise awareness. All advertising costs are expensed when incurred.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2010 and November 29, 2010, the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

NOTE 3 - CONCENTRATIONS AND CREDIT RISK

Financial instruments that potentially subject the Organization to concentrations of credit risk consist of cash and investments.

The Organization maintains cash and certificates of deposit at financial institutions whose accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to statutory limits. As of June 30, 2010, the Organization's cash and certificates of deposits exceeded FDIC limits by approximately $600,000.

Investments are subject to market risk, the risk inherent in a fluctuating market. The broker/dealer custodian of the Foundation's securities is covered by the Securities Investor Protection Corporation ("SIPC"), which insures investor losses attributable to bankruptcy or fraudulent practices of brokerage firms. Coverage is limited to $500,000, including up to $100,000 in cash held for the purpose of securities transactions, and not for the purpose of earning interest. In the event of a SIPC liquidation, the custodian also maintains an additional $24.5 million of insurance for securities, which are protected by the SIPC with a commercial insurer, totaling $25 million or such lesser amount as is actually in the account value.

Concentration risk with respect to donated goods is limited because the Organization receives shoes directly from certain shoe manufacturers. During 2010, the Organization did not receive cumulative donations from any one shoe manufacturer which exceeded 10% of total support and revenues.

NOTE 4 - INVENTORIES

Inventories consisted of the following at June 30, 2010:

Donated shoes:	
New shoes	$ 6,337,260
Used shoes	3,671,729
Donated clothing items	36,564
Other donated items:	
DVDs	2,122,615
Other relief supplies	82,605
Total donated inventory	12,250,773
Purchased shoes	1,285,710
	$ 13,536,483

NOTE 5 - INVESTMENTS

Investments consisted of the following at June 30, 2010:

Cash and equivalents	$ 17,003
Certificates of deposit	1,110,050
Equities	2,395,309
Equity funds	1,020,852
Fixed income	1,182,445
	$ 5,725,659

The certificates of deposit ("CD's") included above have been pledged as collateral on certain borrowings at June 30, 2010. One CD, in the amount of $300,050, is pledged as collateral on the Organization's revolving line of credit (see Note 8.) The other CD, in the amount of $810,000, is pledged as collateral on a personal loan of the Organization's Chief Executive Officer ("CEO"). As a condition of that loan, the Organization acts as guarantor on the loan and receives annually a guaranty fee equal to the difference between 6% and the interest rate on the loan times the outstanding balance. The guaranty rate was 2.5% at June 30, 2010. In addition, the Organization has a lien on certain real property owned by the Organization's CEO sufficient to secure its guaranty. The guaranty fee received by the Organization amounted to $33,815 for the year ended June 30, 2010 and is included in other income.

NOTE 5 - INVESTMENTS (CONTINUED)

In connection with the purchase of the new headquarters facility, the Organization pledged an investment account with a balance of $361,144 at June 30, 2010, as additional collateral on the building loan. (See Note 9.)

Investment income consisted of the following for the year ended June 30, 2010:

Interest and dividend income	$ 138,222
Realized losses	(153,204)
Unrealized gains	695,327
	680,345
Less: investment fees	(41,342)
Investment income, net	$ 639,003

NOTE 6 - FAIR VALUE MEASUREMENTS

Fair values of financial and nonfinancial assets measured on a recurring basis at June 30, 2010 are as follows:

	Level 1	Level 2	Level 3	Total
Investments				
Interest-bearing cash	$ 17,003	$ -	$ -	$ 17,003
Certificates of deposit	-	1,110,050	-	1,110,050
Equities:				
Nonfinancial	22,907	-	-	22,907
Financial	350,325	-	-	350,325
Utilities	70,784	-	-	70,784
Consumer growth	592,318	-	-	592,318
Consumer staples	177,876	-	-	177,876
Consumer cyclical	240,180	-	-	240,180
Industrial commodities	57,381	-	-	57,381
Capital equipment	199,657	-	-	199,657
Technology	418,283	-	-	418,283
Services	17,723	-	-	17,723
Energy	247,875	-	-	247,875
Total equities	2,395,309	-	-	2,395,309

NOTE 6 - FAIR VALUE MEASUREMENTS (CONTINUED)

	Level 1	Level 2	Level 3	Total
Investments (continued)				
Equity funds:				
Emerging markets portfolio	$ 146,895	$ -	$ -	$ 146,895
Global real estate	190,696	-	-	190,696
International portfolio	683,261	-	-	683,261
Total equity funds	1,020,852	-	-	1,020,852
Fixed income:				
Intermediate duration portfolio	1,182,445	-	-	1,182,445
Total Investments	4,615,609	1,110,050	-	5,725,659
Donated inventory	-	-	12,250,773	12,250,773
Total	$ 4,615,609	$ 1,110,050	$ 12,250,773	$ 17,976,432

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended June 30, 2010:

	Donated Inventory
Beginning of year	$ 1,841,982
Contributions received	71,710,627
Donated inventory used in program	(61,301,836)
End of year	$ 12,250,773

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2010:

Land	$	195,200
Building and improvements		927,948
Warehouse leasehold improvements		18,861
Vehicles		209,500
Equipment		95,383
Furniture and fixtures		87,778
		1,534,670
Less: accumulated depreciation		(152,292)
	$	1,382,378

NOTE 8 - LINES OF CREDIT

At June 30, 2010, the Organization had a line of credit in the amount of $300,100, which is secured by a certificate of deposit in approximately the same amount. The line bears interest at a rate of 3.75% per annum. Interest is payable monthly and the line of credit matures on March 23, 2011. The outstanding balance at June 30, 2010 was $300,100.

In November 2010, the Organization obtained a second line of credit in the amount of $100,000, which is unsecured and bears interest at a rate based on the U.S. Prime rate, not to fall below 5%. The line matures November 5, 2011.

NOTE 9 - NOTES PAYABLE

Notes payable consisted of the following at June 30, 2010:

Note payable to a bank for purchase of the new headquarters facility in January 2010 in the original principal amounts of $813,650. Monthly principal and interest payments of $5,638 are due through December 2014 and the balance is due January 2015. The rate of interest is 5.51%. The note is collateralized by the real estate financed and an investment account in the amount of $361,144.	$ 804,175
Note payable to a bank for purchase of a vehicle. Monthly principal and interest payments of $1,602 are due through January 2014. The rate of interest is 4.88% and the note is collateralized by the vehicle.	62,855
Total notes payable	$ 867,030

Annual principal maturities of notes payable at June 30, 2010 are as follows:

Year ending June 30,	
2011	$ 40,366
2012	42,636
2013	44,931
2014	39,276
2015	699,821
	$ 867,030

NOTE 10 - LEASES

The Organization leases its previous office space, under a lease which runs through June 2012, and three warehouse facilities under noncancelable operating leases. Rental payments range from $500 to $6,395 per month and expire through various lease terms ranging from January 2011 to February 2013.

Future minimum rental payments under non-cancelable operating leases at June 30, 2010 (including those signed or extended subsequent to year end) are as follows:

Year ending June 30,	
2011	$ 133,901
2012	97,044
2013	10,500
	$ 241,445

NOTE 11 - EMPLOYEE BENEFIT PLAN

Effective August 1, 2007, S4S implemented a Section 401(k) Safe Harbor plan which covers substantially all employees upon completion of 3 months of service. The plan allows participants to contribute up to the lesser of 84% of compensation or the amount allowable by the Internal Revenue Code. S4S makes matching contributions based on a percentage of the participant's contributions up to 6%. Participants are immediately 100% vested in their elective contributions, the S4S contributions and investment earnings on those balances. Total S4S contributions amounted to $53,710 which is included in employee benefits expense for the year ended June 30, 2010.

The plan also provides for the Organization to make discretionary non-elective contributions. The Organization has not made any discretionary contributions to the plan as of June 30, 2010.

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30, 2010:

Inventory restricted for distribution:	
International (outside the U.S.)	$ 3,030,443
Haiti	2,575,867
	$ 5,606,310

NOTE 13 - RELATED PARTY TRANSACTIONS

During the year ended June 30, 2010, the Organization's Board members and executives donated approximately $8,100 to the Organization.

NOTE 14 - COMMITMENTS

S4S has entered into employment contracts with certain key employees. The contracts contain provisions for severance compensation ranging from three months to in excess of one year in the event the employee is terminated without cause (excluding disability or death), along with any amounts earned, accrued or owed but not yet paid under the terms of the contract, and any other benefits in accordance with applicable plans and programs of S4S.

NOTE 15 - PRIOR PERIOD ADJUSTMEMT

A prior period adjustment has been made to the Organization's net assets as of July 1, 2009, to properly classify donated footwear as restricted for specific distribution. This adjustment had no effect on total net assets as of July 1, 2009.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets - July 1, 2009, as previously reported	$ 8,011,275	$ -	$ -	$ 8,011,275
Reclassify donated footwear restricted for distribution	(1,160,589)	1,160,589	-	-
Net assets - July 1, 2009, as restated	$ 6,850,686	$ 1,160,589	$ -	$ 8,011,275