

**SOLES4SOULS, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEAR ENDED JUNE 30, 2007**

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BLANKENSHIP CPA GROUP, PLLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Soles4Souls, Inc.

We have audited the accompanying statement of financial position of Soles4Souls, Inc. (an Alabama not-for-profit corporation, the "Organization") as of June 30, 2007 and the related statements of activity, functional expenses 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.

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 financial position of Soles4Souls, Inc. as of June 30, 2007, 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.

Blankenship CPA Group, PLLC

October 8, 2007

SOLES4SOULS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2007

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 259,270
Certificates of deposit	3,778,661
Certificate of deposit - pledged	250,000
Inventories	2,188,119
Accounts receivable	13,430
Prepaid expenses	22,588
Other current assets	<u>2,821</u>

Total Current Assets	<u>6,514,889</u>
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FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment	25,697
Vehicles	33,746
Show booths	49,301
Leasehold improvements	15,850
Furniture and fixtures	<u>32,082</u>
	156,676
Less: Accumulated depreciation	<u>(8,531)</u>

Total Furniture, Equipment and Leasehold improvements, net	<u>148,145</u>
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TOTAL ASSETS	<u>\$ 6,663,034</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 104,065
Bank lines of credit	210,763
Other current liabilities	<u>2,876</u>

Total Current Liabilities	<u>317,704</u>
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UNRESTRICTED NET ASSETS	<u>6,345,330</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,663,034</u>
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The accompanying notes are an integral part of these financial statements.

SOLES4SOULS, INC.
STATEMENT OF ACTIVITY
YEAR ENDED JUNE 30, 2007

Public support:	
Foundation / Trust grants	\$ 7,203,920
Contributions	95,454
Corporate shoe donations	7,427,904
Public shoe donations	240,008
Other gifts in kind	11,040
Total public support	<u>14,978,326</u>
Operating revenue:	
Sales	473,766
Less: Cost of sales	<u>(605,459)</u>
	(131,693)
WSA Opening night	<u>137,300</u>
Total operating revenue	<u>5,607</u>
Total revenues and support	<u>14,983,933</u>
Expenses:	
Program services	8,519,624
Management and general	<u>182,966</u>
Total expenses	<u>8,702,590</u>
	6,281,343
Other income:	
Interest income	141,780
Other income	<u>762</u>
Change in net assets	6,423,885
Net assets, beginning of year	<u>(78,555)</u>
Net assets, end of year	<u>\$ 6,345,330</u>

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

SOLES4SOULS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2007

	Program Services	Management and General	Total
Distributed shoes	\$ 5,600,160	\$ -	\$ 5,600,160
Temporary help - contract	21,570	-	21,570
Advertising	241,468	-	241,468
Consulting fees	-	8,675	8,675
Automobile expense	18,125	-	18,125
Repairs and maintenance	6,373	-	6,373
Payroll taxes	39,926	6,409	46,335
Taxes - other	71	725	796
Salaries and wages	578,967	107,639	686,606
Employee benefits	14,915	3,416	18,331
Bank fees	883	1,476	2,359
Legal and professional	46,874	20,822	67,696
Dues and subscriptions	-	3,281	3,281
Depreciation	8,530	-	8,530
Insurance	941	9,745	10,686
Contributions and donations	26,000	5,500	31,500
Interest expense	12,562	-	12,562
Supplies	11,787	-	11,787
Office supplies	12,415	1,379	13,794
Postage, shipping and delivery	81,899	-	81,899
Rent warehouse and office	31,993	956	32,949
Telephone	18,016	769	18,785
Utilities	4,275	-	4,275
Concert expense - talent	640,000	-	640,000
Concert expense - event	554,950	-	554,950
Concert expense - venue	314,592	-	314,592
Concert expense - miscellaneous	255	-	255
Concert expense - advertising	77,722	-	77,722
Other personnel expenses	52,051	2,563	54,614
Non personnel expenses	1,654	-	1,654
Travel and meetings	9,330	-	9,330
Airline tickets	27,248	-	27,248
Conference, convention and meeting	5,970	-	5,970
Dining out	13,013	-	13,013
Hotel	24,682	-	24,682
Office equipment expense	1,306	2,146	3,452
Warehouse equipment expense	8,539	-	8,539
Outside computer expense	3,970	-	3,970
Meals and entertainment	1,321	-	1,321
Shoe drive	3,774	-	3,774
Miscellaneous expense	1,497	7,465	8,962
	<u>\$ 8,519,624</u>	<u>\$ 182,966</u>	<u>\$ 8,702,590</u>

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

SOLES4SOULS, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2007

Cash flows from operating activities:	
Change in net assets	\$ 6,423,885
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	8,531
Increase in inventories	(2,188,119)
Increase in accounts receivable	(10,930)
Increase in prepaid expenses and other current assets	(25,409)
Increase in accounts payable	85,261
Decrease in other current liabilities	<u>(100,820)</u>
Net cash provided by operating activities	<u>4,192,399</u>
Cash flows from investing activities:	
Net increase in certificates of deposit	(4,028,661)
Purchase of furniture, equipment and leasehold improvements	<u>(150,867)</u>
Net cash used by investing activities	<u>(4,179,528)</u>
Cash flows from financing activities:	
Net increase in bank lines of credit	<u>210,763</u>
Net increase in cash and cash equivalents	223,634
Cash and cash equivalents, beginning of year	<u>35,636</u>
Cash and cash equivalents, end of year	<u>\$ 259,270</u>
Supplemental cash flow disclosure:	
Cash paid during the year for interest	<u>\$ 13,596</u>

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

SOLES4SOULS, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

Soles4Souls, Inc. (the "Organization") was founded in 2006 as an Alabama not-for-profit corporation. The Organization's mission is to impact as many lives as possible with the gift of shoes. The Organization partners with charities and governments around the world to provide a basic (yet indispensable) gift that most of us take for granted. The Organization facilitates the donations of shoes, which are used to aid the hurting worldwide. Shoe companies, retailers and individuals can donate footwear (both new and used).

The Organization's administrative offices are located in Nashville, Tennessee and its main warehouse facilities are located in Roanoke, Alabama. The Organization also has a collection warehouse in Las Vegas, Nevada. The Organization's primary sources of revenues are grants from a private trust and donations of footwear from footwear manufacturers and the general public.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Cash and Cash Equivalents

Cash and cash equivalents consist principally of checking and savings account balances with financial institutions.

Contributions

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 designated for future periods or restricted by the donor 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 Statement of Activity as net assets released in satisfaction of program restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as unrestricted.

SOLES4SOULS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2007

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

The Organization is a not-for-profit corporation exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

Inventories

Inventories consist of new and used footwear. It is managements philosophy to use a conservative approach in the valuation of donated footwear. For new footwear, management assigns a value to reflect approximately one-third of full retail price, which in shoe industry terms would place the value at or below the donors' acquisition cost. Management draws upon their experience in the footwear industry to determine the value of each donation. Most donations of new product are mixed styles and types, for which management assigns an average value by gender. For the year ended June 30, 2007, management has estimated an average value as follows: Men's footwear \$21 per pair; Women's footwear \$17 per pair; and Children's footwear \$9 per pair. In the case of specific donations that would be exceptional in nature and identifiable, management assigns an appropriate value in keeping with its stated philosophy of conservatism in its valuation of footwear donations.

All used footwear is valued at \$3 per pair, approximating a mix of the value of footwear worthy of being used in charitable distributions and the salvage value of footwear inappropriate for this use.

Advertising

All advertising costs are expensed when incurred. There were no direct response advertising costs incurred in 2007.

Program and Supporting Services

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

Program services – Includes the direct cost of collecting, storing and distributing donated footwear. Additionally, program services includes an allocation of identified indirect costs which facilitate the collection, storage and distribution of donated footwear

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

SOLES4SOULS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2007

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 nonfinancial data or reasonable subjective methods determined by management.

Donated Goods and Services

Donated goods 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 possess 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 and exhibits. The value of contributed time is not reflected in these financial statements since it is not susceptible to objective measurement or valuation.

Use of Estimates in the Preparation of Financial Statements

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 reported period. Actual results could differ from those estimates.

SOLES4SOULS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2007

NOTE 3 - RELATED PARTY

The Organization received approximately \$7,200,000 from a charitable trust (Trust) of which the Founder / Chairman of the Board and the CFO / COO of the Organization are Trustees. The Trust was established in October, 2006 for the sole benefit of the Organization and another non-profit organization (Supported Organizations). The Trust committed to making an initial distribution of \$5,000,000 to the Organization and additional distributions of no less than \$15,300,000 if the Organization is organizing and implementing the fund-raising concerts of the Trust in such amounts and at such times as the Board of the Trust determines necessary for the organization and implementation of such fund-raising concerts. As of June 30, 2007, the Trust had distributed \$2,100,00 of the \$15,300,000 commitment. In addition, the Trust has committed that a portion or all of the net proceeds of the fund-raising concerts shall be distributed to the Supported Organizations in such amounts and at such times as the Board of the Trust determines.

The Organization purchased a vehicle from the Founder / Chairman of the Board for \$16,500. The Founder / Chairman of the Board donated \$20,363 to the Organization.

The Organization received \$2,000 from a member of the Board of Directors.

NOTE 4 - CONCENTRATIONS AND CREDIT RISK

The Trust noted in the above footnote contributed approximately 48% of the total public support.

The Organization had deposits at financial institutions of approximately \$3,988,000 in excess of the amount insured by the Federal Deposit Insurance Corporation. Management does not feel that this concentration creates any undue risk to the Organization.

NOTE 5 - FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Furniture, equipment and leasehold improvements are stated at acquisition cost or at estimated fair value at the time of the gift, if donated. The Organization depreciates its assets over their estimated useful lives on a straight line basis with a half year convention. For the year ended June 30, 2007, the Organization recognized \$8,531 in depreciation expense.

SOLES4SOULS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED JUNE 30, 2007

NOTE 5 - FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS (CONTINUED)

The Organization leases it's office and warehouse facilities. Total lease expense recognized was \$32,949. Minimum future rental expense under non-cancelable leases are:

2008	\$ 65,972
2009	67,951
2010	69,989
2011	72,088
2012	43,313
	<u>\$ 319,313</u>

NOTE 6 - BANK LINES OF CREDIT

The Organization has established two bank revolving lines of credit. Interest on the first line, a \$250,000 line of credit secured by a certificate of deposit, is at 6.5% per annum and is payable monthly. The outstanding balance at June 30, 2007 was \$190,772 and the line matures on October 9, 2007. Interest on the second line, an unsecured \$100,000 line of credit, is at prime plus one percent, 9.25% at June 30, 2007. The outstanding balance at June 30, 2007 was \$19,991 and the line matures on October 6, 2007.