

**SOLES4SOULS, INC. AND  
SUPPORTING ORGANIZATION  
CONSOLIDATED FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED JUNE 30, 2009 AND 2008**

**SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION  
CONSOLIDATED FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT  
YEARS ENDED JUNE 30, 2009 AND 2008**

**TABLE OF CONTENTS**

|  | <b>PAGE</b> |
|--|-------------|
| INDEPENDENT AUDITORS' REPORT   | 1           |
| FINANCIAL STATEMENTS:  |             |
| Consolidated Statements of Financial Position June 30, 2009<br>and June 30, 2008     | 2           |
| Consolidated Statements of Activity years ended June 30, 2009<br>and June 30, 2008   | 3           |
| Consolidated Statement of Functional Expenses, year ended June 30, 2009              | 4           |
| Statement of Functional Expenses, year ended June 30, 2008                           | 5           |
| Consolidated Statements of Cash Flows years ended June 30, 2009<br>and June 30, 2008 | 6           |
| Notes to Consolidated Financial Statements   | 7 - 14      |

BLANKENSHIP CPA GROUP, PLLC  
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To The Board of Directors  
Soles4Souls, Inc.

We have audited the accompanying consolidated statements of financial position of Soles4Souls, Inc. and Supporting Organization (an Alabama not-for-profit corporation, the "Organization") as of June 30, 2009 and 2008, and the related consolidated statements of activity, functional expenses and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Soles4Souls, Inc. and Supporting Organization as of June 30, 2009 and 2008 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*B. Blankenship CPA Group, PLLC*

November 24, 2009

**SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2009 AND JUNE 30, 2008**

| <b>ASSETS</b>   |                                   |                                    |
|---|-----------------------------------|------------------------------------|
|   | <b>2009</b>                       | <b>2008</b>                        |
| <b>CURRENT ASSETS:</b>  |                                   |                                    |
| Cash  | \$ 92,326                         | \$ 423,488                         |
| Certificates of deposit   | 5,666                             | 925,411                            |
| Certificates of deposit - pledged                               | 300,000                           | 500,000                            |
| Inventories   | 2,018,190                         | 2,057,185                          |
| Accounts receivable   | 14,769                            | 12,069                             |
| Prepaid expenses  | 34,539                            | 87,917                             |
| Other current assets  | 6,254                             | 11,063                             |
|   | <u>2,471,744</u>                  | <u>4,017,133</u>                   |
| <b>Total Current Assets</b>                                     |                                   |                                    |
|   | <u>2,471,744</u>                  | <u>4,017,133</u>                   |
| <b>FURNITURE, EQUIPMENT AND<br/>LEASEHOLD IMPROVEMENTS, NET</b> | <b>298,570</b>                    | <b>203,017</b>                     |
| <b>TRUST ASSETS</b>   | <b>892,983</b>                    | <b>-</b>                           |
| <b>INVESTMENTS</b>  | <u><b>5,172,647</b></u>           | <u><b>8,402,828</b></u>            |
| <b>TOTAL ASSETS</b>   | <u><u><b>\$ 8,835,944</b></u></u> | <u><u><b>\$ 12,622,978</b></u></u> |
| <b>LIABILITIES AND NET ASSETS</b>                               |                                   |                                    |
| <b>CURRENT LIABILITIES:</b>                                     |                                   |                                    |
| Accounts payable  | \$ 282,247                        | \$ 56,493                          |
| Bank overdrafts   | 46,170                            | -                                  |
| Bank lines of credit  | 397,856                           | 470,822                            |
| Current portion of long-term debt                               | 15,733                            | -                                  |
| Other current liabilities                                       | 19,871                            | 16,932                             |
|   | <u>761,877</u>                    | <u>544,247</u>                     |
| <b>Total Current Liabilities</b>                                |                                   |                                    |
|   | <u>761,877</u>                    | <u>544,247</u>                     |
| <b>LONG-TERM DEBT</b>   | <u><b>62,792</b></u>              | <u><b>-</b></u>                    |
| <b>TOTAL LIABILITIES</b>  | <u><u><b>824,669</b></u></u>      | <u><u><b>544,247</b></u></u>       |
| <b>NET ASSETS</b>   |                                   |                                    |
| Temporarily restricted net assets                               | -                                 | 10,000                             |
| Unrestricted net assets   | 8,011,275                         | 12,068,731                         |
|   | <u>8,011,275</u>                  | <u>12,078,731</u>                  |
| <b>Total Net Assets</b>   |                                   |                                    |
|   | <u>8,011,275</u>                  | <u>12,078,731</u>                  |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>                         | <u><u><b>\$ 8,835,944</b></u></u> | <u><u><b>\$ 12,622,978</b></u></u> |

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

**SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION**  
**CONSOLIDATED STATEMENTS OF ACTIVITY**  
**YEARS ENDED JUNE 30, 2009 AND JUNE 30, 2008**

|   | 2009                | 2008                 |
|---|---------------------|----------------------|
| CHANGES IN NET ASSETS                           |                     |                      |
| Revenues, gains, losses and other support       |                     |                      |
| Foundation/Trust grants                         | \$ 46,772           | \$ 12,098,103        |
| Contributions                                   | 847,493             | 221,574              |
| Corporate shoe donations                        | 33,159,968          | 15,822,644           |
| Public shoe donations                           | 2,943,910           | 1,037,992            |
| MBE handling fees                               | 1,064,151           | 692,017              |
| Opening night                                   | -                   | 471,814              |
| Interest and dividend income                    | 244,671             | 289,818              |
| Realized losses on investments                  | (1,231,563)         | (2,363)              |
| Unrealized losses on investments                | (834,429)           | (525,492)            |
| Other income                                    | 7,880               | 283                  |
|   | <u>36,248,853</u>   | <u>30,106,390</u>    |
| Total revenues, gains, losses and other support |                     |                      |
| Expenses:                                       |                     |                      |
| Program services                                | 38,887,664          | 23,882,789           |
| Management and general                          | 997,319             | 490,200              |
| Fundraising                                     | 431,326             | -                    |
|   | <u>40,316,309</u>   | <u>24,372,989</u>    |
| Total expenses                                  |                     |                      |
| CHANGES IN NET ASSETS                           | (4,067,456)         | 5,733,401            |
| NET ASSETS, BEGINNING OF YEAR                   | <u>12,078,731</u>   | <u>6,345,330</u>     |
| NET ASSETS, END OF YEAR                         | <u>\$ 8,011,275</u> | <u>\$ 12,078,731</u> |
| TEMPORARILY RESTRICTED NET ASSETS, BEGINNING    | \$ 10,000           | \$ -                 |
| Foundation/Trust grants                         | -                   | 10,000               |
| Net assets released from restrictions           | <u>(10,000)</u>     | <u>-</u>             |
| TEMPORARILY RESTRICTED NET ASSETS, ENDING       | <u>\$ -</u>         | <u>\$ 10,000</u>     |

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

**SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION**  
**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2009**

|                                    | Program<br>Services  | Management<br>and General | Fundraising       | Total                |
|------------------------------------|----------------------|---------------------------|-------------------|----------------------|
| Distributed shoes                  | \$ 36,528,571        | \$ 2,208                  | \$ 655            | \$ 36,531,434        |
| Temporary help - contract          | 174,406              | -                         | 108,730           | 283,136              |
| Advertising                        | 282,624              | 1,250                     | 1,250             | 285,124              |
| Consulting fees                    | 52,000               | 2,215                     | -                 | 54,215               |
| Automobile expense                 | 28,147               | 517                       | 3,034             | 31,698               |
| Repairs and maintenance            | 9,556                | 600                       | -                 | 10,156               |
| Payroll taxes                      | 40,816               | 23,515                    | 4,762             | 69,093               |
| Taxes - other                      | -                    | 4,022                     | -                 | 4,022                |
| Salaries and wages                 | 725,754              | 417,514                   | 87,614            | 1,230,882            |
| Employee benefits                  | 68,977               | 34,847                    | 7,392             | 111,216              |
| Bank fees                          | -                    | 11,211                    | -                 | 11,211               |
| Legal and professional             | 33,049               | 405,774                   | -                 | 438,823              |
| Dues and subscriptions             | 12                   | 1,752                     | -                 | 1,764                |
| Depreciation                       | 56,522               | -                         | -                 | 56,522               |
| Insurance                          | -                    | 36,351                    | -                 | 36,351               |
| Contributions                      | -                    | 13,100                    | 141               | 13,241               |
| Interest expense                   | -                    | 19,738                    | -                 | 19,738               |
| Supplies                           | 5,458                | -                         | -                 | 5,458                |
| Office supplies                    | 27,056               | -                         | -                 | 27,056               |
| Postage, shipping and delivery     | 160,354              | -                         | -                 | 160,354              |
| Rent warehouse and office          | 132,624              | -                         | -                 | 132,624              |
| Telephone                          | 35,002               | -                         | -                 | 35,002               |
| Utilities                          | 11,322               | 241                       | -                 | 11,563               |
| Concert expense - venue            | -                    | -                         | 2,731             | 2,731                |
| Concert expense - advertising      | -                    | -                         | 789               | 789                  |
| Other personnel expenses           | 272,533              | 7,941                     | 40,938            | 321,412              |
| Non personnel expenses             | 4,667                | -                         | -                 | 4,667                |
| Travel and meetings                | 10,361               | -                         | 1,660             | 12,021               |
| Airline tickets                    | 39,838               | -                         | 7,366             | 47,204               |
| Conference, convention and meeting | 8,781                | -                         | -                 | 8,781                |
| Dining out                         | 34,686               | -                         | 5,916             | 40,602               |
| Hotel                              | 29,392               | -                         | 3,597             | 32,989               |
| Office equipment expense           | 2,414                | 1,294                     | -                 | 3,708                |
| Warehouse equipment expense        | 996                  | -                         | -                 | 996                  |
| Outside computer expense           | 35,712               | -                         | -                 | 35,712               |
| Meals and entertainment            | 201                  | -                         | -                 | 201                  |
| Direct mail program                | 12,076               | -                         | 148,997           | 161,073              |
| Fundraising expense                | 63,557               | 630                       | 5,754             | 69,941               |
| Miscellaneous expense              | 200                  | 12,599                    | -                 | 12,799               |
|                                    | <u>\$ 38,887,664</u> | <u>\$ 997,319</u>         | <u>\$ 431,326</u> | <u>\$ 40,316,309</u> |

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

**SOLES4SOULS, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2008**

|                                    | Program<br>Services  | Management<br>and General | Total                |
|------------------------------------|----------------------|---------------------------|----------------------|
| Distributed shoes                  | \$ 17,661,022        | \$ -                      | \$ 17,661,022        |
| Temporary help - contract          | 192,709              | -                         | 192,709              |
| Advertising                        | 328,090              | -                         | 328,090              |
| Consulting fees                    | 1,720                | 45,000                    | 46,720               |
| Automobile expense                 | 19,867               | -                         | 19,867               |
| Repairs and maintenance            | 5,548                | -                         | 5,548                |
| Payroll taxes                      | 75,274               | 6,775                     | 82,049               |
| Taxes - other                      | 317                  | 320                       | 637                  |
| Salaries and wages                 | 1,061,829            | 273,909                   | 1,335,738            |
| Employee benefits                  | 80,299               | 24,766                    | 105,065              |
| Bank fees                          | 115                  | 14,043                    | 14,158               |
| Legal and professional             | -                    | 86,614                    | 86,614               |
| Dues and subscriptions             | 1,147                | 3,888                     | 5,035                |
| Depreciation                       | 39,261               | -                         | 39,261               |
| Insurance                          | 22,294               | 500                       | 22,794               |
| Contributions                      | 1,060,000            | 3,020                     | 1,063,020            |
| Interest expense                   | 23,938               | -                         | 23,938               |
| Supplies                           | 9,445                | 199                       | 9,644                |
| Office supplies                    | 32,914               | -                         | 32,914               |
| Postage, shipping and delivery     | 169,755              | -                         | 169,755              |
| Rent warehouse and office          | 121,869              | -                         | 121,869              |
| Telephone                          | 46,617               | 309                       | 46,926               |
| Utilities                          | 12,392               | 388                       | 12,780               |
| Concert expense - talent           | 1,539,599            | -                         | 1,539,599            |
| Concert expense - event            | 449,627              | -                         | 449,627              |
| Concert expense - venue            | 480,466              | -                         | 480,466              |
| Concert expense - miscellaneous    | 55,963               | -                         | 55,963               |
| Concert expense - advertising      | 107,876              | -                         | 107,876              |
| Other personnel expenses           | 107,790              | 26,346                    | 134,136              |
| Non personnel expenses             | 2,895                | -                         | 2,895                |
| Travel and meetings                | 11,198               | -                         | 11,198               |
| Airline tickets                    | 42,266               | -                         | 42,266               |
| Conference, convention and meeting | 15,890               | 400                       | 16,290               |
| Dining out                         | 26,269               | -                         | 26,269               |
| Hotel                              | 25,883               | -                         | 25,883               |
| Office equipment expense           | -                    | 2,045                     | 2,045                |
| Warehouse equipment expense        | 5,207                | -                         | 5,207                |
| Outside computer expense           | 40,691               | -                         | 40,691               |
| Meals and entertainment            | 518                  | -                         | 518                  |
| Shoe drive                         | 33                   | -                         | 33                   |
| Miscellaneous expense              | 4,196                | 1,678                     | 5,874                |
|                                    | <u>\$ 23,882,789</u> | <u>\$ 490,200</u>         | <u>\$ 24,372,989</u> |

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

**SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2009 AND JUNE 30, 2008**

|   | 2009               | 2008               |
|---|--------------------|--------------------|
| Cash flows from operating activities:   |                    |                    |
| Changes in net assets   | \$ (4,067,456)     | \$ 5,733,401       |
| Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities: |                    |                    |
| Unrealized losses on investments  | 834,429            | 525,492            |
| Realized losses on investments  | 1,231,563          | 2,363              |
| Depreciation  | 56,522             | 39,261             |
| Decrease in inventories   | 38,995             | 130,934            |
| (Increase) decrease in operating assets:  |                    |                    |
| Accounts receivable   | (2,700)            | 1,361              |
| Prepaid expenses and other current assets   | 58,187             | (56,904)           |
| Increase (decrease) in operating liabilities:   |                    |                    |
| Accounts payable  | 225,754            | (47,572)           |
| Bank overdrafts   | 46,170             | -                  |
| Other current liabilities   | 2,939              | (2,611)            |
| Total adjustments   | <u>2,491,859</u>   | <u>592,324</u>     |
| Net cash provided (used) by operating activities  | <u>(1,575,597)</u> | <u>6,325,725</u>   |
| Cash flows from investing activities:   |                    |                    |
| Net decrease in certificates of deposit   | 1,119,745          | 2,603,250          |
| Purchase of investments   | (2,814,987)        | (8,986,801)        |
| Proceeds from sale of investments   | 3,979,176          | 56,118             |
| Purchase of furniture, equipment and leasehold improvements   | (152,075)          | (94,133)           |
| Issuance of note receivable - officer   | (900,000)          | -                  |
| Receipts of principal note receivable - officer   | <u>7,017</u>       | <u>-</u>           |
| Net cash provided (used) by investing activities  | <u>1,238,876</u>   | <u>(6,421,566)</u> |
| Cash flows from financing activities:   |                    |                    |
| Proceeds from long-term debt  | 85,000             | -                  |
| Repayments of long-term debt  | (6,475)            | -                  |
| Net increase (decrease) in bank lines of credit   | <u>(72,966)</u>    | <u>260,059</u>     |
| Net cash provided from financing activities   | <u>5,559</u>       | <u>260,059</u>     |
| Net increase (decrease) in cash   | (331,162)          | 164,218            |
| Cash, beginning of year   | <u>423,488</u>     | <u>259,270</u>     |
| Cash, end of year   | <u>\$ 92,326</u>   | <u>\$ 423,488</u>  |
| Supplement cash flow disclosure:  |                    |                    |
| Cash paid during the year for interest  | <u>\$ 19,738</u>   | <u>\$ 23,938</u>   |

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



**SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2009 AND 2008**

**NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES**

Soles4Souls, Inc. ("S4S, Inc.") was founded in 2006 as an Alabama not-for-profit corporation. S4S, Inc.'s mission is to impact as many lives as possible with the gift of shoes. S4S, Inc. partners with charities and governments around the world to provide a basic (yet indispensable) gift that most of us take for granted. S4S, Inc. 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).

S4S, Inc.'s administrative offices are located in Nashville, Tennessee and its main warehouse facilities are located in Roanoke, Alabama. S4S, Inc. also has a collection warehouse in Las Vegas, Nevada. S4S, Inc.'s primary sources of revenues are cash and footwear from private entities and the public.

Effective February 13, 2009, Changing the World Foundation, Inc. ("CTW, Inc.") was formed as a supporting organization under the laws of the State of Tennessee as a not-for-profit corporation for the sole purpose of supporting and benefitting the charitable, religious, scientific, literary, and educational purposes of S4S, Inc. S4S, Inc. has an economic interest in CTW, Inc. combined with control through a majority voting interest in the board of CTW, Inc.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of S4S, Inc. and CTW, Inc. (collectively the "Organization") after elimination of all intercompany accounts and transactions. The accounts of CTW, Inc. are included in the consolidated financial statements of the Organization as of and for the year ended June 30. CTW, Inc.'s fiscal year end is January 31.

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

Use of Estimates

The preparation of consolidated 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 periods. Actual results could differ from those estimates.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year consolidated financial statements.

**SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Cash

Cash consists of cash on deposit at a financial institution and a brokerage house.

Fair Value Measurement and Income Recognition

Level 1 Inputs - Fair values are based on quoted prices (unadjusted) in active markets for identical assets that the Organization has the ability to access at the measurement date (e.g. prices derived from NYSE, NASDAQ, or Chicago Board of Trade).

Level 2 Inputs - Fair values are based on inputs other than quoted price included within level 1 that are observable for valuing the asset or liability, either directly or indirectly (e.g. interest rate and yield curves observable at commonly quoted intervals, default rates, etc.). Observable inputs included quoted prices for similar assets or liabilities in active or non-active markets. Level 2 inputs may also include significant adjustments to market observable inputs.

Level 3 Inputs - Fair values are based on unobservable inputs used for valuing the asset or liability. Unobservable inputs are those that reflect the Organization's own assumptions about the assumptions that market participants would use in pricing the asset, based on the best information available in the circumstances. An example would be real estate valuations, which require significant judgment.

Purchases and sales of securities are recorded on a trade-date based. Interest and dividends income are recorded when received.

Fair values of assets measured on a recurring basis at June 30, 2009 are as follows:

| <u>Investment Category</u> | <u>Fair Value</u>   | <u>Level 1 Inputs</u> | <u>Level 2 Inputs</u> | <u>Level 3 Inputs</u> |
|----------------------------|---------------------|-----------------------|-----------------------|-----------------------|
| Stocks                     | \$ 2,723,008        | \$ 2,723,008          | \$ -                  | \$ -                  |
| Mutual funds               | <u>2,449,639</u>    | <u>-</u>              | <u>2,228,877</u>      | <u>220,762</u>        |
| Total                      | <u>\$ 5,172,647</u> | <u>\$ 2,723,008</u>   | <u>\$ 2,228,877</u>   | <u>\$ 220,762</u>     |

Effect of Level 3 inputs on Net Assets:

| <u>Investment Category</u> | <u>Beginning Balance</u> | <u>Total Loss</u>  | <u>Interest Credited</u> | <u>Purchases, Issuances, Settlements</u> | <u>Ending Balance</u> | <u>Unrealized Loss</u> |
|----------------------------|--------------------------|--------------------|--------------------------|--|-----------------------|------------------------|
| Mutual Funds               | <u>\$ 398,072</u>        | <u>\$(194,474)</u> | <u>\$ 8,887</u>          | <u>\$ 8,277</u>                          | <u>\$ 220,762</u>     | <u>\$(113,325)</u>     |

The above unrealized loss is included in the unrealized losses in the statements of activity.

The Board of Directors has adopted a policy that addresses investment asset classes and risk tolerance.

**SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Inventories

Inventories consist of new and used footwear. It is management's 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.

Average values by gender were as follows as of and for the years ending June 30:

|            | 2009 | 2008 |
|------------|------|------|
| Men        | \$27 | \$21 |
| Women      | \$24 | \$17 |
| Children's | \$15 | \$ 9 |

The Organization will begin to utilize shoe values of \$30, \$27, and \$16 for men's, women's, and children's shoes for the year ended June 30, 2010. Management believes that this pricing is more reflective of the value of the donations received.

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.

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 Statements 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. AND SUPPORTING ORGANIZATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

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.

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.

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.

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 fundraising materials.

**SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Advertising

The Organization uses advertising to promote its programs and appeal for funds. All advertising costs are expensed when incurred. There were no direct response advertising costs incurred in 2009 and 2008.

Income Taxes

The Organization is 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.

**NOTE 3 - 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.

Furniture, equipment and leasehold improvements consists of the following:

|                                | 2009              | 2008              |
|--------------------------------|-------------------|-------------------|
| Equipment                      | \$ 88,365         | \$ 88,649         |
| Vehicles                       | 187,520           | 36,196            |
| Show booths                    | 67,739            | 67,739            |
| Leasehold improvements         | 18,861            | 17,826            |
| Furniture and fixtures         | 40,399            | 40,399            |
|                                | 402,884           | 250,809           |
| Less: accumulated depreciation | (104,314)         | (47,792)          |
|                                | <u>\$ 298,570</u> | <u>\$ 203,017</u> |

For the years ended June 30, 2009 and 2008, the Organization recognized \$56,522 and \$39,261 in depreciation expense, respectively.

The Organization leases its office and warehouse facilities. Total lease expense, including common area maintenance charges, recognized was \$132,624 and \$121,869 for the years ended June 30, 2009 and 2008, respectively. Minimum future rental payments under non-cancelable leases are:

|                      |                   |
|----------------------|-------------------|
| Year ending June 30, |                   |
| 2010                 | \$ 88,556         |
| 2011                 | 89,483            |
| 2012                 | 91,584            |
|                      | <u>\$ 269,623</u> |

**SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

**NOTE 4 - TRUST ASSETS**

During the year ended June 30, 2009, an officer and director of the Organization held certain real estate in trust for the Organization in exchange for funds. Subsequent to June 30, 2009, those funds have been returned and the transaction has been restructured as a loan to the officer and director by a third party, guaranteed by the Organization, with the guaranty secured by collateral with value in excess of the guaranty. The officer and director is compensating the Organization at fair market value for the guaranty.

**NOTE 5 - INVESTMENTS**

Cost and fair market value of marketable debt and equity securities at June 30, 2009 are as follows:

|                     | <u>Amortized<br/>Cost</u> | <u>Gross<br/>Unrealized<br/>Gains</u> | <u>Gross<br/>Unrealized<br/>Losses</u> | <u>Fair<br/>Value</u> |
|---------------------|---------------------------|---------------------------------------|--|-----------------------|
| Available for Sale: |                           |                                       |  |                       |
| Stocks              | \$ 3,121,024              | \$ -                                  | \$ (398,016)                           | \$ 2,723,008          |
| Mutual funds        | <u>3,419,737</u>          | <u>-</u>                              | <u>(970,098)</u>                       | <u>2,449,639</u>      |
| Total               | <u>\$ 6,540,761</u>       | <u>\$ -</u>                           | <u>\$ (1,368,114)</u>                  | <u>\$ 5,172,647</u>   |

Cost and fair market value of marketable debt and equity securities at June 30, 2008 are as follows:

|                     | <u>Amortized<br/>Cost</u> | <u>Gross<br/>Unrealized<br/>Gains</u> | <u>Gross<br/>Unrealized<br/>Losses</u> | <u>Fair<br/>Value</u> |
|---------------------|---------------------------|---------------------------------------|--|-----------------------|
| Available for Sale: |                           |                                       |  |                       |
| Stocks              | \$ 4,067,370              | \$ -                                  | \$ (319,993)                           | \$ 3,747,377          |
| Mutual funds        | <u>4,860,950</u>          | <u>-</u>                              | <u>(205,499)</u>                       | <u>4,655,451</u>      |
| Total               | <u>\$ 8,928,320</u>       | <u>\$ -</u>                           | <u>\$ (525,492)</u>                    | <u>\$ 8,402,828</u>   |

**NOTE 6 - BANK LINES OF CREDIT**

The Organization has established two bank revolving lines of credit. Interest on the first line, a \$300,100 line of credit secured by a certificate of deposit, is at 4.5% per annum and is payable monthly. The outstanding balance at June 30, 2009 was \$299,849 and the line matures on March 21, 2010. Interest on the second line, an unsecured \$100,000 line of credit, is at prime plus one percent but not more than 10% or less than 6%, 6% at June 30, 2009. The outstanding balance at June 30, 2009 was \$98,007 and the line matures on March 21, 2010.

**SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

**NOTE 7 - LONG-TERM DEBT**

Long-term debt consists of the following at June 30, 2009:

|  |                  |
|--|------------------|
| Installment note due to a bank in monthly principal and interest at 4.88% of \$1,602; final payment due January 2014. The note is collateralized by a vehicle. | \$ 78,525        |
| Less current portion   | <u>(15,733)</u>  |
|  | <u>\$ 62,792</u> |

The principal maturities of long-term debt at June 30, 2009 are as follows:

|                      |                  |
|----------------------|------------------|
| Year ending June 30, |                  |
| 2010                 | \$ 15,733        |
| 2011                 | 16,518           |
| 2012                 | 17,343           |
| 2013                 | 18,208           |
| 2014                 | <u>10,723</u>    |
|                      | <u>\$ 78,525</u> |

**NOTE 8 - EMPLOYEE BENEFIT PLAN**

Effective August 1, 2007, the Organization implemented a 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. The Organization 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 Organization contributions and investment earnings on those balances. Total Organization contributions of \$36,171 and \$37,565 which were included as employee benefits in the statements of functional expense for the years ended June 30, 2009 and 2008, respectively. Furthermore, the plan allows for the Organization to make discretionary non-elective contributions. The Organization has not made any discretionary contributions as of June 30, 2009.

**NOTE 9 - RELATED PARTY**

During the year ended June 30, 2009, the Founder/Chairman of the Board donated \$25,595 to the Organization. The Organization also received \$7,729 from various members of the Board of Directors and Officers of the Organization. During the year ended June 30, 2008, the Founder/Chairman of the Board donated \$6,500 to the Organization. The Organization also received \$14,696 from various members of the Board of Directors and Officers of the Organization.

During the year ended June 30, 2009, the Organization purchased three vehicles from the Founder/Chairman of the Board for \$55,000.

**SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

**NOTE 9 - RELATED PARTY (CONTINUED)**

In October, 2006 a charitable trust (Trust) of which the Founder / Chairman of the Board and the CFO / COO of the Organization are Trustees was established for the sole benefit of the Organization and another not-for-profit organization. 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 organizes and implements 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. In addition, the Trust committed that a portion or all of the net proceeds of the fund-raising concerts shall be distributed to the other not-for-profit organization in such amounts and at such times as the Board of the Trust determines.

During the year ended June 30, 2008, the Trust was amended to relieve the Organization from the organization and implementation of the fund-raising concerts. Due to this amendment, the entire remaining outstanding balance of the Trust's commitment was contributed to the Organization during the fiscal year. The Organization received approximately \$12,000,000 from the Trust during the fiscal year. Of this amount, the Organization elected to distribute \$1,058,000 to the other not-for-profit organization. Concert expenditures totaled approximately \$2,500,000. The remaining monies were invested.

The Trust was dissolved in December 2008.

**NOTE 10 - CONCENTRATIONS AND CREDIT RISK**

The Organization maintains cash deposits at financial institutions at balances which, at times, may exceed amounts insured by the Federal Deposit Insurance Corporation. In management's opinion, the financial institutions have strong credit ratings and exposure to such concentrations does not create any undue risk to the Organization.

One company contributed approximately 10.8% of total revenues, gains, losses and other support for the year ended June 30, 2009.

The Trust noted in the above footnote contributed approximately 100% of the Opening Night revenue for the year ended June 30, 2008.