

**SOLES4SOULS, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
YEARS ENDED JUNE 30, 2008 AND 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 statements of financial position of Soles4Souls, Inc. (an Alabama not-for-profit corporation, the "Organization") as of June 30, 2008 and 2007, and the related statements of activity, functional expenses and cash flows for the years 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of Soles4Souls, Inc. as of June 30, 2008 and 2007 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.

Blankenship CPA Group, PLLC

December 18, 2008

SOLES4SOULS, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2008 AND 2007

ASSETS		
	2008	2007
CURRENT ASSETS:		
Cash	\$ 423,488	\$ 259,270
Certificates of deposit	925,411	3,778,661
Certificates of deposit - pledged	500,000	250,000
Inventories	2,057,185	2,188,119
Accounts receivable	12,069	13,430
Prepaid expenses	87,917	39,255
Other current assets	11,063	2,821
	<u>4,017,133</u>	<u>6,531,556</u>
Total Current Assets		
	<u>4,017,133</u>	<u>6,531,556</u>
FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS		
Equipment	88,649	25,697
Vehicles	36,196	33,746
Show booths	67,739	49,301
Leasehold improvements	17,826	15,850
Furniture and fixtures	40,399	32,082
	<u>250,809</u>	<u>156,676</u>
Less: Accumulated depreciation	<u>(47,792)</u>	<u>(8,531)</u>
Total furniture, equipment and leasehold improvements, net	<u>203,017</u>	<u>148,145</u>
INVESTMENTS	<u>8,402,828</u>	<u>-</u>
TOTAL ASSETS	<u><u>\$ 12,622,978</u></u>	<u><u>\$ 6,679,701</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 56,493	\$ 104,065
Bank lines of credit	470,822	210,763
Other current liabilities	16,932	19,543
	<u>544,247</u>	<u>334,371</u>
Total Current Liabilities		
	<u>544,247</u>	<u>334,371</u>
NET ASSETS		
Temporarily restricted net assets	10,000	-
Unrestricted net assets	<u>12,068,731</u>	<u>6,345,330</u>
Total Net Assets	<u>12,078,731</u>	<u>6,345,330</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 12,622,978</u></u>	<u><u>\$ 6,679,701</u></u>

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

SOLES4SOULS, INC.
STATEMENTS OF ACTIVITY
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CHANGES IN NET ASSETS		
Revenue, gains, losses, and other support		
Foundation/Trust grants	\$ 12,098,103	\$ 7,203,920
Contributions	221,574	95,454
Corporate shoe donations	15,822,644	7,427,904
Public shoe donations	1,037,992	240,008
Other gifts in kind	-	11,040
Salvage	692,300	473,766
Opening night	471,814	137,300
Interest income	279,081	141,780
Dividend income	10,737	-
Realized loss	(2,363)	-
Unrealized loss	(525,492)	-
Other income	-	762
	<u>30,106,390</u>	<u>15,731,934</u>
Total revenues, gains, losses and other support		
	<u>30,106,390</u>	<u>15,731,934</u>
Expenses:		
Cost of salvage	1,376,149	605,459
Program services	22,506,640	8,519,624
Management and general	490,200	182,966
	<u>24,372,989</u>	<u>9,308,049</u>
Total expenses		
	<u>24,372,989</u>	<u>9,308,049</u>
INCREASE IN NET ASSETS	5,733,401	6,423,885
NET ASSETS, BEGINNING OF YEAR	<u>6,345,330</u>	<u>(78,555)</u>
NET ASSETS, END OF YEAR	<u>\$ 12,078,731</u>	<u>\$ 6,345,330</u>
TEMPORARILY RESTRICTED NET ASSETS, BEGINNING	\$ -	\$ -
Foundation/Trust grants	<u>10,000</u>	<u>-</u>
TEMPORARILY RESTRICTED NET ASSETS, ENDING	<u>\$ 10,000</u>	<u>\$ -</u>

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

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

	Program Services	Management and General	Total
Distributed shoes	\$ 16,284,873	\$ -	\$ 16,284,873
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>\$ 22,506,640</u>	<u>\$ 490,200</u>	<u>\$ 22,996,840</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	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.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
Cash Flows from operating activities:		
Increase in net assets	\$ 5,733,401	\$ 6,423,885
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Unrealized losses on investments	525,492	-
Realized losses on investments	2,363	-
Depreciation	39,261	8,531
Decrease (increase) in inventories	130,934	(2,188,119)
Decrease (increase) in accounts receivable	1,361	(10,930)
Increase in prepaid expenses and other current assets	(56,904)	(25,409)
(Decrease) increase in accounts payable	(47,572)	85,261
Decrease in other current liabilities	(2,611)	(100,820)
	<u>592,324</u>	<u>(2,231,486)</u>
Net cash provided by operating activities	<u>6,325,725</u>	<u>4,192,399</u>
Cash flows from investing activities:		
Net decrease (increase) in certificates of deposit	2,603,250	(4,028,661)
Purchase of investments	(8,986,801)	-
Proceeds from sale of investments	56,118	-
Purchase of furniture, equipment and leasehold improvements	(94,133)	(150,867)
Net cash used by investing activities	<u>(6,421,566)</u>	<u>(4,179,528)</u>
Cash flows from financing activities:		
Net increase in bank lines of credit	<u>260,059</u>	<u>210,763</u>
Net increase in cash	164,218	223,634
Cash, beginning of year	<u>259,270</u>	<u>35,636</u>
Cash, end of year	<u>\$ 423,488</u>	<u>\$ 259,270</u>
Supplement cash flow disclosure:		
Cash paid during the year for interest	<u>\$ 23,938</u>	<u>\$ 13,596</u>

The accompanying notes are an integral part of these financial statements

SOLES4SOULS, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2008 AND 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 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

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

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.

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.

SOLES4SOULS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2008 AND 2007

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. 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.

Investments

The Organization investments are carried at the readily determinable fair market value in accordance with Statement of Financial Accounting Standards No. 124, "Accounting for Certain Investments by Not-for-Profit Organizations" with any unrealized gains and losses being reported on the statements of activity. Realized gains and losses are determined using the specific identification method, and are included on the statements of activity. The Board of Directors has adopted a policy that addresses investment asset classes and risk tolerance.

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.

SOLES4SOULS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2008 AND 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Advertising

All advertising costs are expensed when incurred. There were no direct response advertising costs incurred in 2008 and 2007.

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

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 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 financial statements.

SOLES4SOULS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2008 AND 2007

NOTE 3 – INVESTMENTS

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

	Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Fair <u>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>

At November 30, 2008, the Organization's investments' fair value had decreased to \$5,798,747, resulting in additional unrealized losses of approximately \$2,600,000.

NOTE 4 – RELATED PARTY

For the year ended June 30, 2007, 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. 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. As of June 30, 2007, the Trust had distributed \$2,100,000 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 other non-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 non-profit organization. Concert expenditures totaled approximately \$2,500,000. The remaining monies were invested.

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, 2007, 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 also received \$2,000 from a member of the Board of Directors.

SOLES4SOULS, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2008 AND 2007

NOTE 5 – CONCENTRATIONS AND CREDIT RISK

The Trust noted in the above footnote contributed approximately 100% of the Opening Night revenue for the year ended June 30, 2008. The Trust noted in the above footnote also contributed approximately 48% of the total public support for the year ended June 30, 2007.

The Organization had deposits at financial institutions of approximately \$1,378,000 and \$3,988,000 in excess of the amount insured by the Federal Deposit Insurance Corporation at June 30, 2008 and 2007. Management does not feel that this concentration creates any undue risk to the Organization.

NOTE 6 – 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 years ended June 30, 2008 and 2007, the Organization recognized \$39,261 and \$8,531 in depreciation expense, respectively.

The Organization leases its office and warehouse facilities. Total lease expense, including common area maintenance charges, recognized was \$121,869 and \$32,949 for the years ended June 30, 2008 and 2007, respectively. Minimum future rental payments under non-cancelable leases are:

Year ending June 30,

2009	\$ 98,856
2010	101,460
2011	104,136
2012	67,356
2013	<u>8,000</u>
	<u>\$ 379,808</u>

NOTE 7 – BANK LINES OF CREDIT

The Organization has established three bank revolving lines of credit. Interest on the first line, a \$300,000 line of credit secured by a certificate of deposit, is at 5.8% per annum and is payable monthly. The outstanding balance at June 30, 2008 was \$250,772 and the line matures on October 9, 2008. Interest on the second line, an unsecured \$100,050 line of credit, is at prime plus one percent but not more than 10% or less than 6%, 6% at June 30, 2008. The outstanding balance at June 30, 2008 was \$20,050 and the line matures on June 1, 2009. Interest on the third line, a \$200,000 line of credit secured by a certificate of deposit, is at 3.65% per annum, and is payable monthly. The outstanding balance at June 30, 2008 was \$200,000 and the line matures on February 6, 2009.