SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2012 AND 2011

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated statements of financial position of Soles4Souls, Inc. and Supporting Organization (collectively, the "Organization") as of June 30, 2012 and 2011, and the related consolidated statements of activities, cash flows and functional expenses 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 audit 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 consolidated 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, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KraftCPAs PLLC

Nashville, Tennessee
May 21, 2012

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SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2012 AND 2011

	2012	2011
ASSETS		
Cash	$ 9,827	$ 87,042
Accounts receivable	17,132	8,597
Prepaid expenses and other assets	16,832	94,780
Inventories	9,667,601	9,629,440
Investments	5,347,740	5,907,926
Property and equipment, net	3,493,820	3,638,342
Mortgage loan costs, net	32,938	-
TOTAL ASSETS	$ 18,585,890	$ 19,366,127
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 1,302,981	$ 586,906
Deposits	218,292	354,252
Inventory promised for distribution	-	1,579,200
Investment margin loan	1,980,000	750,000
Obligation under line of credit	466,011	93,078
Notes payable	2,492,847	2,501,606
TOTAL LIABILITIES	6,460,131	5,865,042
NET ASSETS		
Unrestricted net assets		
Invested in property and equipment, less related debt	1,000,973	1,136,736
Unrestricted donated shoe inventory	4,785,566	6,143,633
Undesignated	1,701,050	4,741,808
Total unrestricted net assets	7,487,589	12,022,177
Temporarily restricted net assets	4,638,170	1,478,908
TOTAL NET ASSETS	12,125,759	13,501,085
TOTAL LIABILITIES AND NET ASSETS	$ 18,585,890	$ 19,366,127

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
In-kind contributions			
Shoes:			
Corporate shoe donations	$ 14,555,968	$ 4,638,170	$ 19,194,138
Retail store shoe drives	5,579,545	-	5,579,545
Community shoe drives	6,897,422	-	6,897,422
Clothing donations	13,649,562	-	13,649,562
Other relief item donations	1,603,963	-	1,603,963
Total in-kind contributions	42,286,460	4,638,170	46,924,630
Micro-enterprise program fees	2,492,749	-	2,492,749
Contributions	1,528,066	-	1,528,066
International volunteer travel fees	586,861	-	586,861
Investment loss	(181,318)	-	(181,318)
Other income	18,200	-	18,200
Net assets released from restriction	1,478,908	(1,478,908)	-
TOTAL SUPPORT AND REVENUE	48,209,926	3,159,262	51,369,188
EXPENSES			
Program services	50,165,415	-	50,165,415
Management and general	1,510,051	-	1,510,051
Fundraising	1,069,048	-	1,069,048
TOTAL EXPENSES	52,744,514	-	52,744,514
CHANGE IN NET ASSETS	(4,534,588)	3,159,262	(1,375,326)
NET ASSETS, BEGINNING OF YEAR	12,022,177	1,478,908	13,501,085
NET ASSETS, END OF YEAR	$ 7,487,589	$ 4,638,170	$ 12,125,759

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
In-kind contributions			
Shoes:			
Corporate shoe donations	$ 20,105,637	$ 1,478,908	$ 21,584,545
Retail store shoe drives	4,735,679	$ -	4,735,679
Community shoe drives	6,867,610	-	6,867,610
Clothing donations	19,558,353	-	19,558,353
Other relief item donations	7,099,233	-	7,099,233
Total in-kind contributions	58,366,512	1,478,908	59,845,420
Micro-enterprise program fees	3,225,226	-	3,225,226
Contributions	2,171,173	-	2,171,173
International volunteer travel fees	362,038	-	362,038
Investment income	1,017,591	-	1,017,591
Other income	54,780	-	54,780
Net assets released from restriction	5,606,310	(5,606,310)	-
TOTAL SUPPORT AND REVENUE	70,803,630	(4,127,402)	66,676,228
EXPENSES			
Program services	69,956,550	-	69,956,550
Management and general	1,092,067	-	1,092,067
Fundraising	1,015,716	-	1,015,716
TOTAL EXPENSES	72,064,333	-	72,064,333
CHANGE IN NET ASSETS	(1,260,703)	(4,127,402)	(5,388,105)
NET ASSETS, BEGINNING OF YEAR	13,282,880	5,606,310	18,889,190
NET ASSETS, END OF YEAR	$ 12,022,177	$ 1,478,908	$ 13,501,085

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2012

	2012	2011
OPERATING ACTIVITIES		
Change in net assets	$ (1,375,326)	$ (5,388,105)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Realized and unrealized losses (gains) on investments, net	271,825	(905,743)
Depreciation	197,994	118,828
Gain on sale of property and equipment	(5,846)	-
Amortization on mortgage loan costs	2,994	-
(Increase) decrease in:		
Accounts receivable	(8,535)	2,839
Prepaid expenses and other assets	77,948	(73,138)
Inventories	(38,161)	3,907,043
Increase (decrease) in:		
Accounts payable and accrued expenses	716,075	63,374
Deposits	(135,960)	236,286
Inventory promised for distribution	(1,579,200)	1,579,200
TOTAL ADJUSTMENTS	(500,866)	4,928,689
NET CASH USED IN OPERATING ACTIVITIES	(1,876,192)	(459,416)
INVESTING ACTIVITIES		
Purchase of investments	(2,318,866)	(2,571,387)
Proceeds from sale of investments	2,607,227	3,294,863
Purchase of property and equipment	(77,626)	(695,106)
Proceeds from sale of property and equipment	30,000	-
NET CASH PROVIDED BY INVESTING ACTIVITIES	240,735	28,370
FINANCING ACTIVITIES		
Repayments of notes payable	(93,572)	(45,110)
Borrowings on investment margin loan	1,230,000	750,000
Net borrowings (payments) on line of credit	421,814	(207,022)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,558,242	497,868
NET (DECREASE) INCREASE IN CASH	(77,215)	66,822
CASH - BEGINNING OF YEAR	87,042	20,220
CASH - ENDING OF YEAR	$ 9,827	$ 87,042
NONCASH INVESTING AND FINANCING ACTIVITIES		
Purchase of warehouse facility (2011)	$ -	$ 2,171,699
Less proceeds of mortgage loan from bank	-	(1,646,699)
Net cash paid at closing	$ -	$ 525,000
Note payable obligation incurred in refinancing	$ 2,527,000	$ -
Increase in line of credit incurred in refinancing	$ 50,197	$ -
Note payable paid-off with refinanced loan	$ (2,442,187)	$ -
Mortgage loan costs incurred on refinaced loan	$ (35,932)	$ -
Line of credit paid-off with refinanced loan	$ (99,078)	$ -
Purchase of vehicle financed with note payable	$ -	$ 32,987
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Cash paid during the year for interest	$ 159,950	$ 74,170

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2012

	Program Services	Management and General	Fundraising	Total
Salaries	$ 1,845,932	$ 733,269	$ 296,228	$ 2,875,429
Employee benefits and payroll taxes	259,482	103,041	41,650	404,173
Total personnel costs	2,105,414	836,310	337,878	3,279,602
In-kind distributions:				
Shoes	13,521,446	-	-	13,521,446
Clothing	2,806,496	-	-	2,806,496
Other relief items	1,059,485	-	-	1,059,485
Items to the micro-enterprise programs	27,919,506	-	-	27,919,506
Total in-kind distributions	45,306,933	-	-	45,306,933
Other distribution expenses	498,059	-	-	498,059
Advertising and promotion	267,677	695	44,254	312,626
Auto expenses	39,598	3,274	3,274	46,146
Bank fees	-	65,673	-	65,673
Depreciation and amortization	151,489	29,699	19,800	200,988
Direct mail	-	-	336,172	336,172
Events	118,913	-	150,697	269,610
Insurance	69,731	13,946	9,297	92,974
Interest	98,675	48,118	13,157	159,950
Miscellaneous	28,651	29,137	507	58,295
Supplies and equipment	53,091	3,146	2,097	58,334
Postage, shipping and delivery	138,658	1,631	22,838	163,127
Professional fees	458,150	436,262	94,152	988,564
Rent	47,191	-	-	47,191
Repairs and maintenance	31,972	2,788	2,113	36,873
Telephone and utilities	98,399	19,680	13,120	131,199
Travel	652,814	19,692	19,692	692,198
TOTAL EXPENSES	$ 50,165,415	$ 1,510,051	$ 1,069,048	$ 52,744,514

See accompanying notes to consolidated financial statements.

SOLES4SOULS, INC. AND SUPPORTING ORGANIZATION

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2011

	Program Services	Management and General	Fundraising	Total
Salaries	$ 1,565,470	$ 644,437	$ 263,259	$ 2,473,166
Contract labor	73,941	46,033	107,265	227,239
Employee benefits and payroll taxes	238,341	98,115	40,081	376,537
Total personnel costs	1,877,752	788,585	410,605	3,076,942
In-kind distributions:				
Shoes	17,104,069	-	-	17,104,069
Clothing	18,396,736	-	-	18,396,736
Other relief items	7,958,513	-	-	7,958,513
Items to the micro-enterprise programs	21,992,368	-	-	21,992,368
	65,451,686	-	-	65,451,686
Other distribution expenses	332,336	-	-	332,336
Advertising and promotion	636,143	-	102,009	738,152
Auto expenses	30,656	2,160	2,160	34,976
Depreciation	89,119	17,824	11,885	118,828
Direct mail	-	-	291,302	291,302
Events	96,743	-	88,564	185,307
Insurance	52,309	10,462	6,975	69,746
Interest	47,432	20,414	6,324	74,170
Miscellaneous	20,392	58,057	53	78,502
Supplies and equipment	85,696	7,386	4,924	98,006
Postage, shipping and delivery	138,916	1,634	22,880	163,430
Professional fees	416,987	132,943	21,809	571,739
Rent	134,103	25,985	17,324	177,412
Repairs and maintenance	40,806	2,959	2,433	46,198
Telephone and utilities	86,144	8,064	10,875	105,083
Travel	419,330	15,594	15,594	450,518
TOTAL EXPENSES	$ 69,956,550	$ 1,092,067	$ 1,015,716	$ 72,064,333

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 by providing 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 19 million pairs of shoes to people in need in over 129 countries.

S4S World Headquarters is located in Nashville, Tennessee and its primary warehouse facilities are located in Roanoke and Wadley, Alabama. S4S also maintains a central warehouse location in Las Vegas, Nevada for the convenience of donors in the Western U.S. S4S has 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 through its micro-enterprise program.

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. Temporarily restricted net assets in 2012 and 2011 consisted entirely of donated inventory restricted for distribution outside the United States of America.

- *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, 2012 and 2011.

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.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash

Cash consists of checking account balances.

Accounts Receivable

Accounts receivable are from micro-enterprise distributors related to cost of shipping and handling. The Organization 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, 2012 and 2011.

Inventories

Inventories consist primarily of donated new and used footwear, purchased footwear, clothing, DVDs, books, and other relief items. Items are assigned an estimated fair value by management at the time of donation. See the Fair Value Measurements policy note 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, mutual funds, equity funds and fixed income funds. Cash and certificates of deposit are carried at cash value plus accrued interest. Equities, mutual funds, equity funds and fixed income funds 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.

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 one 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment and Depreciation (Continued)

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

Building and improvements	10 - 30 years
Vehicles	5 years
Equipment	3 - 5 years
Furniture and fixtures	7 years

Mortgage Loan Costs

Mortgage loan costs are capitalized and amortized on a straight-line basis over a period of 10 years, the life of the related loan. Amortization of the loan costs will be $3,593 for the years 2013 through 2021, respectively and $601 in 2022.

Fair Value Measurements

The Organization classifies its assets and liabilities measured at fair value based on a hierarchy consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available), and Level 3 (valued based on significant unobservable inputs).

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 used 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 - Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid securities and certain other products, such as mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows and 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 obtained through retail stores and community shoe drives are valued at $4 per pair, which is measured in poundage assuming an average weight of 1.25 lbs per pair.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (Continued)

Donated clothing, DVDs, books and other relief supplies are recorded 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.

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.

Donated Goods and Services

Donated goods, including donated shoes, clothing, DVDs, books and other relief items, are recorded as in-kind 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.

Micro-enterprise Program Fees / Deposits

Micro-enterprise ("MBE") program handling fees are charged to certain recipient organizations 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 in the Consolidated Statement of Financial Position and recognized in the period the product is shipped.

Inventory Promised for Distribution

Unconditional promises to give donated inventory are recognized as a liability and in-kind distribution expense in the period the donated inventory is promised to a distribution partner.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising

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

Program and Supporting Services

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

Program Services - facilitates the donation and collection of new and used shoes, new and used clothing and other relief supplies (including diapers, water, DVD's, books, toys etc.) from footwear, clothing and other manufacturers, retailers and individuals. These items are distributed to people in need locally, nationally and internationally through a network of volunteer organizations and in cooperation with other charitable organizations, referred to as distribution partners, who work on the Organization's behalf to distribute these items providing relief to individuals living in poverty or affected by natural disasters. Through this extensive network, the Organization has distributed shoes, clothing, and other relief supplies to people in more than 125 countries.

The Organization operates a micro-enterprise operation in Haiti and contracts with established micro-enterprise distributors to distribute shoes in Central America, South America and Africa. This program is designed to provide impoverished people in developing nations with the resources to start and maintain their own business. In this way, the Organization focuses on long-term development by distributing shoes and clothing that are inappropriate for crisis relief or that need cleaning or conditioning in order to be useful.

In 2011, the Organization introduced a program that allows volunteers to accompany staff on distribution trips to various countries to experience first-hand providing shoes and clothing to people in desperate situations. Teams visited Haiti, Costa Rica, Honduras, India, Jamaica and Tanzania on 17 trips in 2012 (19 trips in 2011). Shoes and clothing were distributed to children and families in orphanages, schools, villages and tent cities.

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 fund raising materials.

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 non-financial data or reasonable subjective methods determined by management.

Income Taxes

S4S and CTWF qualify as not-for-profit organizations exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, income taxes are not provided for either organization.

S4S and CTWF each file a U.S. Federal Form 990 for organizations exempt from income tax. S4S's tax returns for years prior to fiscal year end 2009 are now closed and no longer open to further examination by the Internal Revenue Service. CTWF filed a U.S. Federal Form 990 for the year ended January 31, 2010, and a short-period tax return for the five-month period ended June 30, 2010. Subsequent CTWF tax returns are filed on a June 30 fiscal year end. All CTWF tax returns filed are still open for examination.

Management performs an evaluation of all income tax positions taken or expected to be taken in the course of preparing the Organization's income tax returns to determine whether the income tax positions meet a "more likely than not" standard of being sustained under examination by the applicable taxing authorities. Management has performed its evaluation of all income tax positions taken on all open income tax returns and has determined that there were no positions taken that do not meet the "more likely than not" standard. Accordingly, there are no provisions for income taxes, penalties or interest receivable or payable relating to uncertain income tax positions in the accompanying consolidated financial statements.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Events Occurring After Reporting Date

The Organization has evaluated events and transactions that occurred between June 30, 2012 and May 21, 2013, the date the consolidated financial statements were available to be issued, for possible recognition or disclosure in the consolidated financial statements.

Reclassifications

Certain reclassifications have been made to prior year amounts in order to be comparative with the current year presentation.

NOTE 3 - INVENTORIES

Inventories consisted of the following at June 30:

	2012	2011
Donated shoes:		
New shoes	$ 4,589,386	$ 5,593,158
Used shoes	787,367	456,251
Donated clothing items	2,629,615	908,834
Other donated items:		
DVDs	195,800	180,510
Books	-	1,990,338
Other relief supplies	1,221,568	72,650
Total donated inventory	9,423,736	9,201,741
Purchased shoes	243,865	427,699
	$ 9,667,601	$ 9,629,440

At June 30, 2011, the Organization had promised $1,579,200 of the book inventory to a distribution partner in the United States. The inventory promised for distribution is recorded as a liability in the Consolidated Statement of Financial Position. At June 30, 2012, the Organization did not hold any inventory promised for distribution.

NOTE 4 - INVESTMENTS

Investments consisted of the following at June 30:

	2012	2011
Cash	$ 70,498	$ 8,876
Certificates of deposit	-	296,903
Mutual funds	141,895	-
Equities	2,620,272	2,974,596
Equity funds	1,121,400	1,284,543
Fixed income	1,393,675	1,343,008
	$ 5,347,740	$ 5,907,926

Investment income (loss) consisted of the following for the year ended June 30:

	2012	2011
Interest and dividend income	$ 123,560	$ 144,600
Realized gains	80,689	211,619
Unrealized gains (losses)	(352,514)	694,124
	(148,265)	1,050,343
Less: investment fees	(33,053)	(32,752)
Investment income (loss), net	$ (181,318)	$ 1,017,591

NOTE 5 - FAIR VALUE MEASUREMENTS

Fair values of financial and nonfinancial assets measured on a recurring basis at June 30, 2012 and June 30, 2011 are as follows:

	2012			
	Level 1	Level 2	Level 3	Total
Investments				
Mutual funds	$ 141,895	$ -	$ -	$ 141,895
Equities:				
Nonfinancial	34,970	-	-	34,970
Financial	377,942	-	-	377,942
Utilities	69,456	-	-	69,456
Consumer growth	608,440	-	-	608,440
Consumer staples	278,900	-	-	278,900
Consumer cyclical	241,306	-	-	241,306
Industrial commodities	16,108	-	-	16,108
Capital equipment	188,596	-	-	188,596
Technology	469,229	-	-	469,229
Services	37,852	-	-	37,852
Energy	297,473	-	-	297,473
Total equities	2,620,272	-	-	2,620,272
Equity funds:				
Emerging markets portfolio	149,296	-	-	149,296
Global real estate	236,512	-	-	236,512
International portfolio	735,592	-	-	735,592
Total equity funds	1,121,400	-	-	1,121,400
Fixed income:				
Intermediate duration portfolio	1,393,675	-	-	1,393,675
Total investments valued at fair value	5,277,242	-	-	5,277,242
Donated inventory	-	-	9,423,736	9,423,736
Total assets valued at fair value	$ 5,277,242	$ -	$ 9,423,736	$ 14,700,978

NOTE 5 - FAIR VALUE MEASUREMENTS (CONTINUED)

	2011			
	Level 1	Level 2	Level 3	Total
Investments				
Equities:				
Nonfinancial	$ 12,333	$ -	$ -	$ 12,333
Financial	366,400	-	-	366,400
Utilities	97,072	-	-	97,072
Consumer growth	619,847	-	-	619,847
Consumer staples	154,028	-	-	154,028
Consumer cyclical	242,023	-	-	242,023
Industrial commodities	169,831	-	-	169,831
Capital equipment	277,594	-	-	277,594
Technology	552,104	-	-	552,104
Services	59,784	-	-	59,784
Energy	423,580	-	-	423,580
Total equities	2,974,596	-	-	2,974,596
Equity funds:				
Emerging markets portfolio	187,297	-	-	187,297
Global real estate	239,905	-	-	239,905
International portfolio	857,341	-	-	857,341
Total equity funds	1,284,543	-	-	1,284,543
Fixed income:				
Intermediate duration portfolio	1,343,008	-	-	1,343,008
Total investments valued at fair value	5,602,147	-	-	5,602,147
Donated inventory	-	-	9,201,741	9,201,741
Total assets valued at fair value	$ 5,602,147	$ -	$ 9,201,741	$ 14,803,888

NOTE 5 - FAIR VALUE MEASUREMENTS (CONTINUED)

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:

	Donated Inventory	
	2012	2011
Beginning of year	$ 9,201,741	$ 13,062,240
Contributions received	46,924,630	59,845,420
Inventory received and promised for distribution	-	1,579,200
Distribution of previously promised inventory	(1,579,200)	-
Donated inventory distributed in programs	(45,123,435)	(65,285,119)
End of year	$ 9,423,736	$ 9,201,741

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	2012	2011
Land	$ 238,800	$ 238,800
Building and improvements	3,198,378	3,123,993
Vehicles	205,986	242,486
Equipment	132,932	132,704
Furniture and fixtures	140,147	171,479
	3,916,243	3,909,462
Less: accumulated depreciation	(422,423)	(271,120)
	$ 3,493,820	$ 3,638,342

NOTE 7 - INVESTMENT MARGIN LOAN

As of June 30, 2012, the Organization had an outstanding investment margin loan against its brokerage account in the amount of $1,980,000. The interest rate on the margin loan is 2.5% per annum on the average monthly outstanding balance.

NOTE 8 - LINES OF CREDIT

In November 2010, the Organization obtained an unsecured line of credit in the amount of $100,000. The interest rate was based on the U.S. Prime rate, not to fall below 5%. The balance at June 30, 2011 was $93,078. This line of credit was paid off in September 2011 when the Organization refinanced certain notes payable. In September 2011, the Organization obtained a line of credit in the amount of $500,000 that was secured by the real estate in the headquarters and warehouse facilities. The interest rate is based on the U.S. Prime rate (3.25% at June 30, 2012). The outstanding balance on the line of credit at June 30, 2012 was $466,011. The line of credit matured in September 2012 and was paid in full on November 28, 2012.

NOTE 9 - NOTES PAYABLE

Notes payable consisted of the following at June 30:

	2012	2011
Note payable to a bank for purchase of the headquarters facility in January 2010 in the original principal amount of $813,650. Monthly principal and interest payments of $5,638 with interest at the rate of 5.51%.	$ -	$ 780,506
Note payable to a bank for purchase of a warehouse facility in Wadley, Alabama in May 2011. Monthly interest and principal payments of $11,737 with interest at the rate of 5.85%.	-	1,646,700
Note payable to a bank to refinance the purchase of the headquarters facility and warehouse facility in Wadley, Alabama in September 2011 in the principal amount of $2,500,000. Monthly interest principal payments of $16,250 are scheduled through and September 2021. The rate of interest is 4.75% per annum.	2,443,261	-
Note payable to a bank for the 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.	29,140	46,417
Note payable for the purchase of a vehicle. This note was refinanced in September 2011 for $27,000 and requires monthly principal and interest payments of $795 through September 2014. The rate of interest is 3.25% and is collateralized by the vehicle.	20,446	27,983
Total notes payable	$ 2,492,847	$ 2,501,606

NOTE 9 - NOTES PAYABLE (CONTINUED)

The notes payable for the headquarters facility and the warehouse facility were refinanced and consolidated into a $2.5 million note in September 2011. The note is collateralized by the real estate of both facilities, and requires a specified cash flow coverage ratio. The Organization was not in compliance with the cash flow coverage ratio as of June 30, 2012.

Annual principal maturities of notes payable are as follows:

Year ending June 30,	
2013	$ 107,982
2014	104,947
2015	90,947
2016	93,123
2017	97,644
Thereafter	1,998,204
	$ 2,492,847

Total interest expense on all indebtedness, including the investment margin loan and the line of credit, for the year ended June 30, 2012 amounted to $159,950 ($74,170 in 2011).

NOTE 10 - EMPLOYEE BENEFIT PLAN

The Organization has a Section 401(k) Safe Harbor plan which covers substantially all employees upon completion of three 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's contributions and investment earnings on those balances. Total contributions by the Organization amounted to $91,174 for the year ended June 30, 2012 ($106,648 in 2011) and are reported in employee benefits expense in the Consolidated Statement of Functional Expenses.

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, 2012.

NOTE 11 - 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, 2012, the Organization's cash was fully insured.

Investments are subject to market risk, the risk inherent in a fluctuating market. The broker/dealer custodian of the Organization'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 $250,000 in cash held for the purpose of securities transactions, and not for the purpose of earning interest. In the event of 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.

Donated shoes, clothing and other relief items and micro-enterprise program fees are subject to concentration risk.

During 2012, the Organization:

- Received 11% of its shoe donations from one shoe manufacturer.
- Received 42% of its clothing donations from two manufacturers.
- Received 49% of the other relief supplies from one manufacturer.
- Utilized 3 distribution partners to distribute 89% of its shoe and clothing distributions.
- Received micro-enterprise programs fees from two companies that represent 79% of total micro-enterprise programs fees.

During 2011, the Organization:

- Received 19% of its shoe donations from one shoe manufacturer.
- Received 46% of its clothing donations from two manufacturers.
- Received 57% of the other relief supplies from one of its distribution partners.
- Utilized two distribution partners to distribute 33% of its shoe and clothing distributions.
- Received micro-enterprise programs fees from three companies that represent 93% of total micro-enterprise programs fees.

NOTE 12 - COMMITMENTS, CONTINGENCIES AND SUBSEQUENT EVENTS

The Organization 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 the Organization.

On April 1, 2012, S4S entered into a separation agreement to terminate the former CEO's employment contract. The total financial obligation to the Organization pursuant to this agreement is $406,250 and is reported as salary expense in the 2012 Consolidated Statement of Activities. At June 30, 2012, $300,000 of this amount was included in accounts payable and accrued expenses. Subsequent to June 30, 2012, two other key employees' were terminated, resulting in an additional financial obligation to the Organization under these employment contracts of approximately $237,000. These amounts will be reported in the 2013 Consolidated Statement of Activities.

The Organization is involved in various legal proceedings, claims and litigation arising in the normal course of business. In the opinion of management, after consultation with legal counsel, the ultimate resolution of such matters will not have a material adverse effect on the Organization's financial position.