

# Feed The Children, Inc. and Subsidiaries

Consolidated Financial Report  
06.30.2010

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## Independent Auditor's Report

To the Board of Directors  
Feed The Children, Inc.  
Oklahoma City, Oklahoma

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Feed The Children, Inc. and subsidiaries as of June 30, 2010, and the results of their activities and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, effective July 1, 2009 the Organization adopted the provisions of Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*, for its nonfinancial assets and liabilities. This standard, which was required to be accounted for prospectively, required a change in the method of estimating the fair value of gifts-in-kind contributions received after June 30, 2009, and impacts program expenses recognized as the related items are used. In addition, as described in Notes 1 and 11, Feed The Children Federation in Canada was deconsolidated during the year ended June 30, 2010.

*McGladrey & Pullen, LLP*

Jacksonville, Florida  
April 15, 2011

Feed The Children, Inc. and Subsidiaries

Consolidated Statement of Financial Position  
June 30, 2010

Assets

Cash and cash equivalents (Note 1)	\$ 2,153,858
Accounts receivable, net (Note 1)	817,755
Contributions receivable (primarily gifts-in-kind) (Note 2)	12,802,556
Investments (Note 3)	48,023,107
Inventory	71,782,297
Prepaid expenses and other assets	7,611,793
Note receivable – affiliate (Note 11)	2,403,106
Property and equipment, net (Notes 4 and 6)	36,156,314
<b>Total assets</b>	<b>\$ 181,750,786</b>

Liabilities and Net Assets

Accounts payable and accrued expenses	\$ 13,687,695
Annuities payable	262,869
Capital lease obligations (Note 5)	696,171
Notes payable (Note 6)	4,003,605
<b>Total liabilities</b>	<b>18,650,340</b>

Commitments and Contingencies (Notes 13 and 14)

Net assets:

Unrestricted:	
Available for ministry	18,462,525
Equity in property and equipment (Note 4)	31,456,538
Investment in donated inventory	69,361,109
	<u>119,280,172</u>
Temporarily restricted (Note 8)	43,820,274
<b>Total net assets</b>	<b>163,100,446</b>
<b>Total liabilities and net assets</b>	<b>\$ 181,750,786</b>

See Notes to Consolidated Financial Statements.

Feed The Children, Inc. and Subsidiaries

Consolidated Statement of Activities  
For the Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Total
<b>Support and Revenue:</b>			
Gifts-in-kind (Note 1)	\$ 408,506,268	\$ 23,001,817	\$ 431,508,085
Contributions	77,354,274	16,547,966	93,902,240
Donated services	-	133,076	133,076
Grants	21,375	88,517	109,892
Investment income (Note 3)	5,349,355	-	5,349,355
Loss on disposition of assets	(225,996)	-	(225,996)
Other revenues	1,500,932	-	1,500,932
	<u>492,506,208</u>	<u>39,771,376</u>	<u>532,277,584</u>
Net assets released from restrictions:			
Satisfaction of purpose restrictions	301,645,392	(301,645,392)	-
Satisfaction of time restrictions	8,527,767	(8,527,767)	-
<b>Total support and revenue</b>	<u>802,679,367</u>	<u>(270,401,783)</u>	<u>532,277,584</u>
Transportation service revenue (Note 1)	5,608,342	-	5,608,342
<b>Total revenue</b>	<u>808,287,709</u>	<u>(270,401,783)</u>	<u>537,885,926</u>
<b>Expenses:</b>			
Program services:			
Childcare, food and medical (Note 1)	617,025,207	-	617,025,207
Disaster relief	35,283,710	-	35,283,710
Education and community development	155,841,045	-	155,841,045
<b>Total program services</b>	<u>808,149,962</u>	<u>-</u>	<u>808,149,962</u>
Supporting activities:			
Fund-raising	53,761,721	-	53,761,721
Management and general	34,906,890	-	34,906,890
<b>Total supporting activities</b>	<u>88,668,611</u>	<u>-</u>	<u>88,668,611</u>
Transportation service expenses (Note 1)	5,063,371	-	5,063,371
<b>Total expenses</b>	<u>901,881,944</u>	<u>-</u>	<u>901,881,944</u>
Change in net assets	(93,594,235)	(270,401,783)	(363,996,018)
Net assets, beginning of year	215,154,202	314,222,057	529,376,259
Deconsolidation of Feed The Children Federation in Canada (Notes 1 and 11)	(2,279,795)	-	(2,279,795)
Net assets, end of year	<u>\$ 119,280,172</u>	<u>\$ 43,820,274</u>	<u>\$ 163,100,446</u>

See Notes to Consolidated Financial Statements.

Feed The Children, Inc. and Subsidiaries

Consolidated Statement of Functional Expenses  
For the Year Ended June 30, 2010

	Program Services				Supporting Activities			Transportation Service Expenses	Total Expenses
	Childcare, Food and Medical	Disaster Relief	Education and Community Development	Total Program Services	Fund- raising	Management and General	Total Supporting Activities		
Food and other necessities	\$ 596,261,628	\$ 33,432,378	\$ 149,068,895	\$ 778,762,901	\$ -	\$ -	\$ -	\$ -	\$ 778,762,901
Grants and other assistance	1,514,034	305,012	1,667,999	3,487,045	-	-	-	-	3,487,045
Shipping, handling and storage	1,076,886	144,546	50,186	1,271,618	-	901,099	901,099	-	2,172,717
Salaries and benefits	7,111,471	700,171	1,232,630	9,044,272	2,118,914	8,942,678	11,061,592	2,069,517	22,175,381
Contract services	617,592	57,312	102,842	777,746	587,392	329,258	916,650	482	1,694,878
Insurance	316,454	27,170	54,784	398,408	45,806	612,758	658,564	215,246	1,272,218
Travel	723,091	31,949	248,778	1,003,818	256,774	293,258	550,032	31,721	1,585,571
Supplies	732,804	19,380	45,266	797,450	62,553	255,101	317,654	19,548	1,134,652
Equipment expenses	226,110	7,748	12,514	246,372	15,025	261,884	276,909	9,313	532,594
Repair and maintenance	819,091	94,574	135,516	1,049,181	75,479	1,030,611	1,106,090	169,081	2,324,352
Printing	2,226	80	107	2,413	65	37,048	37,113	-	39,526
Telephone	208,324	19,825	27,672	255,821	35,911	242,331	278,242	11,342	545,405
Occupancy	563,626	42,623	58,026	664,275	29,791	606,282	636,073	16,147	1,316,495
Public relations	137,042	308	126,284	263,634	13,392	1,766,113	1,779,505	1,773	2,044,912
Office and other expense	356,385	19,809	54,698	430,892	887,272	1,619,150	2,506,422	35,431	2,972,745
Postage	231,735	28,722	47,612	308,069	126,693	950,528	1,077,221	11,589	1,396,879
Legal and accounting	102,796	2,713	15,153	120,662	11,256	8,317,487	8,328,743	28,265	8,477,670
Property and other taxes	109,805	9,000	12,644	131,449	43,900	122,527	166,427	12,707	310,583
Interest	78,087	7,099	16,226	101,412	-	76,415	76,415	101,411	279,238
Depreciation	2,252,673	214,733	340,819	2,808,225	242,836	1,434,956	1,677,792	636,116	5,122,133
Television and radio	2,279,211	-	2,251,405	4,530,616	16,708,099	3,989,548	20,697,647	-	25,228,263
Direct mail	-	-	-	-	19,705,062	-	19,705,062	-	19,705,062
Direct mail postage	-	-	-	-	10,600,663	-	10,600,663	-	10,600,663
Other fund-raising costs	-	-	-	-	2,194,838	-	2,194,838	-	2,194,838
Fuel and licensing	1,304,136	118,558	270,989	1,693,683	-	-	-	1,693,682	3,387,365
Rebranding	-	-	-	-	-	3,117,858	3,117,858	-	3,117,858
	<u>\$ 617,025,207</u>	<u>\$ 35,283,710</u>	<u>\$ 155,841,045</u>	<u>\$ 808,149,962</u>	<u>\$ 53,761,721</u>	<u>\$ 34,906,890</u>	<u>\$ 88,668,611</u>	<u>\$ 5,063,371</u>	<u>\$ 901,881,944</u>

See Notes to Consolidated Financial Statements.

Feed The Children, Inc. and Subsidiaries

Consolidated Statement of Cash Flows  
For the Year Ended June 30, 2010

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Cash Flows From Operating Activities	
Change in net assets	\$ (363,996,018)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	5,122,133
Loss on disposition of assets	225,996
Net realized and unrealized gain on investments	(3,981,571)
Foreign currency translation adjustment	365,572
Donated investments	(31,281)
Annuity actuarial change	27,080
Change in operating assets and liabilities:	
Accounts receivable	522,584
Contributions receivable	269,586,689
Inventory	77,080,335
Prepaid expenses and other assets	3,176,363
Accounts payable and accrued liabilities	6,812,574
<b>Net cash used in operating activities</b>	<u>(5,089,544)</u>
Cash Flows From Investing Activities	
Investments purchased	(25,607,730)
Proceeds from sales of investments	30,616,498
Proceeds from disposition of property and equipment	1,050,439
Purchases of property and equipment	(2,135,348)
Payments on note receivable - affiliate	38,962
<b>Net cash provided by investing activities</b>	<u>3,962,821</u>
Cash Flows From Financing Activities	
Payments on annuities	(40,947)
Principal payments on notes payable and capital lease obligations	(1,614,424)
<b>Net cash used in financing activities</b>	<u>(1,655,371)</u>
Net change in cash and cash equivalents	(2,782,094)
Cash and cash equivalents, beginning of year	<u>4,935,952</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,153,858</u></u>
Supplemental Disclosure of Cash Flow Information	
Cash paid for interest	<u><u>\$ 279,238</u></u>
Supplemental Disclosure of Noncash Investing and Financing Activities:	
Property and equipment financed through notes payable	<u><u>\$ 988,556</u></u>
Feed The Children Federation in Canada net assets deconsolidation (Notes 1 and 11)	<u><u>\$ 2,279,795</u></u>

See Notes to Consolidated Financial Statements.

## Feed The Children, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Organization and Significant Accounting Policies

Nature of activities: Feed The Children, Inc. ("FTC") is an international Christian relief and humanitarian organization established as an Oklahoma nonprofit corporation on October 12, 1964. Its mission is to provide food, clothing, medical supplies and equipment, educational materials and other necessities to people lacking such essentials. Domestically, FTC services reach all 50 states, targeting areas of poverty in rural and urban environments.

FTC provides services throughout the United States and numerous countries abroad through the following programs:

Childcare, food and medical: FTC provides food, clothing and other basic necessities to needy children and their families. No child, family, shelter or partner organization is ever charged for the food, supplies and assistance they receive. FTC also secures desperately needed medical assistance and supplies for children worldwide. FTC medical teams travel to developing countries to help people who cannot afford, or who do not have access to, regular medical care.

Disaster relief: FTC provides emergency assistance to victims of natural and man-made disasters. FTC is often the first relief agency to reach the scene due to its dedicated fleet of semi-tractor trailers operated by FTC Transportation, Inc.

Education and community development: FTC develops sustainable long-term improvements in the quality of life for children and their families in poor or developing countries. FTC has helped construct fish hatcheries, build model farms and agricultural training centers, establish micro-loan programs and develop water sanitation projects.

Basis of presentation: The accompanying consolidated financial statements include the accounts of Feed The Children, Inc. ("FTC"), its Kenyan affiliate, Feed The Children Kenya ("FTC-Kenya"), its wholly-owned subsidiary, FTC Transportation, Inc. ("FTCT"), as well as Friends That Care Holding Co. Ltd. ("FTCHC"), a wholly-owned Kenyan Corporation. The accounts of its Canadian affiliate, Feed The Children Federation in Canada ("FTC Canada") are included through December 31, 2009, at which time the requirements for consolidation were no longer met, resulting in its deconsolidation from the accompanying consolidated financial statements (see Note 11 for further discussion). All entities in which FTC has a controlling financial interest, as defined in Accounting Standard Codification (ASC) Topic 958-810, *Reporting of Related Entities by Not-for-Profit Organizations*, issued by the American Institute of Certified Public Accountants, are consolidated in the accompanying financial statements. All significant intercompany balances and transactions have been eliminated. Certain FTC affiliates outside the United States are not included in the consolidated financial statements because they are not controlled through a majority ownership interest or by other than ownership of majority voting interest, or controlled through a majority voting interest in the board of the other entity.

FTCT was formed in 1986 to provide transportation services to FTC. As the core carrier for FTC, FTCT picks up in-kind contributions from corporate donors and transports them to one of six FTC regional distribution centers located in Ontario, California, Nashville, Tennessee, Oklahoma City, Oklahoma, Elkhart, Indiana, Houston, Texas and North Brunswick, New Jersey. FTCT also contracts with other third party shippers and brokers for transportation services to help defray its costs. The consolidated financial statements of FTC include the results of operations of FTCT.

Feed The Children Federation in Canada was established by FTC during the year ended June 30, 2005, and operates as a furtherance of FTC's operations in Canada. The financial results of FTC Canada are included in these consolidated financial statements for the six months ended December 31, 2009 (see Note 11).

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Organization and Significant Accounting Policies (Continued)**

Effective July 1, 2005, FTC established control of FTC-Kenya and FTCHC. FTC-Kenya operates as a furtherance of FTC's operations in Kenya, Africa. FTCHC was formed for the purpose of purchasing and holding land and property in Kenya as a furtherance of FTC's mission in that country. The financial results of FTC-Kenya and FTCHC are included in the accompanying consolidated financial statements.

Feed The Children-Tanzania ("FTC-Tanzania") was created by FTC in 2007 and operates as a furtherance of FTC's operations in Msasani Peninsula, Dar es Salaam, Tanzania. The financial results of FTC-Tanzania are not material and, thus, are not included in the accompanying consolidated financial statements.

The carrying amount of net assets of FTC's consolidated international affiliates at June 30, 2010 is approximately \$5.4 million. The total revenue generated from these foreign affiliates was approximately \$8.3 million for the year ended June 30, 2010.

FTC follows ASC Topic 958-205, *Financial Statements of Not-for-Profit Organizations*, which prescribes standards for external financial statements for all not-for-profit organizations. The statement requires the classification of an organization's net assets, its revenue and expenses, and gains and losses based on the existence or absence of donor-imposed restrictions. It requires the amounts for each of three classes of net assets (permanently restricted, temporarily restricted and unrestricted) to be displayed in a statement of financial position and that the amounts of the change in each of the three classes of net assets be displayed in a statement of activities. Unrestricted net assets are presently available for use by FTC at the discretion of the Board of Directors.

Income taxes: FTC has received a ruling from the Internal Revenue Service exempting it from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and has been classified as an organization other than a private foundation under Section 509(a). FTCT has sustained historical operating losses which have resulted in an operating loss carry forward which offset FTCT's year ended June 30, 2010 net income. Therefore, no provision for income taxes has been made in the consolidated financial statements. FTCT has cumulative operating losses which could generate a future income tax benefit. However, FTC has not recorded an asset for the income tax benefit since management has determined that it is more likely than not that the benefit will not be realized due to uncertainty with respect to future operating profits, if any.

The Financial Accounting Standards Board issued new guidance on accounting for uncertainty in income taxes. FTC adopted this new guidance for the year ended June 30, 2010. Management evaluated FTC's tax positions and concluded that the FTC had taken no uncertain tax positions that require recognition in the consolidated financial statements to comply with the provisions of this guidance. With few exceptions, FTC is not subject to income tax examinations by the U.S. federal, state or local tax authorities for fiscal years ending prior to June 30, 2007.

Interest and penalties associated with unrecognized tax benefits would be classified as management and general expense in the statement of activities.

Notes to Consolidated Financial Statements

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**Note 1. Nature of Organization and Significant Accounting Policies (Continued)**

A summary of FTC's significant accounting policies follows:

Accounting 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 reporting period. Actual results could differ from those estimates. The significant estimates used in FTC's consolidated financial statements include the valuation of gift-in-kind contributions and related inventory, the allocation of expenses on a functional basis to various program services and supporting activities, and the estimated useful lives of and the methods used to depreciate property and equipment.

Cash and cash equivalents: FTC considers all highly liquid investments with an initial maturity of three months or less when purchased and not held within the investment portfolio for investing purposes as cash equivalents. Cash and cash equivalents in the investment portfolio are not included in cash and cash equivalents as they are held for investment purposes.

Investments: FTC carries investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values based on a fair value hierarchy, as described in the "Fair Value" section of Note 1. Donated investments are recorded at fair market value at the date of donation and thereafter carried in accordance with the above policies. Interest, dividends and net realized and unrealized gains and losses are reflected as part of investment income and are included in the change in unrestricted net assets in the accompanying statement of activities, unless their use is temporarily or permanently restricted by donor stipulation. If any investment income was restricted by the donor in the current period and the restriction was met in the same period, then similar to the "Revenue Recognition" policy described below, that investment income would be classified as unrestricted support.

Realized and unrealized gains and losses on investments are recognized for changes in fair value between periods or when related securities are sold. Interest and dividends are recognized when earned.

Accounts receivable: Accounts receivable primarily consists of amounts due from third parties to whom transportation services were provided. General accounts receivable are carried at invoice amounts less an estimate made for doubtful receivables. FTCT maintains an allowance for estimated credit losses based upon its historical experience and specific customer collection issues that FTCT has identified. Accounts receivable is reported net of an allowance of \$51,438 as of June 30, 2010.

Contributions receivable: Unconditional promises to give cash are recorded at net present value, using discount rates that FTC believes market participants would require applicable to the year in which the promise is received. Amortization of the discounts related to pledges receivable are recognized over the period of the promise as contribution revenue. Unconditional promises to give FTC donations of food, medical supplies, clothing and other materials for use in its programs are recognized in the period that sufficient verifiable evidence exists documenting that a promise was made by the donor and received by FTC. Such gifts are recorded at their fair value as further described in Note 1 under "Revenue Recognition" below.

Notes to Consolidated Financial Statements

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**Note 1. Nature of Organization and Significant Accounting Policies (Continued)**

Inventory: Purchased inventory is recorded at the lower of cost or market. Donated inventory is initially recorded at the fair value of the donated goods at the date of donation based upon the estimated wholesale value of gifts received (as further described in Note 1 under "Revenue Recognition"). Subsequent to its initial recording, donated inventory is reported at the lower of cost or market. The inventory is for distribution to qualified organizations only, and is not available for sale. FTC records a loss for the decrease in value of any slow-moving inventory.

Prepaid expenses and other assets: Certain payments reflect costs applicable to future accounting periods. Prepaid expenses and other assets include certain prepaid media costs which are expensed by FTC upon airing.

Property and equipment: Property and equipment is comprised of land, buildings, furniture, fixtures, equipment, transportation equipment, vehicles and leasehold improvements and is stated at cost or, if donated, at approximate fair value on the date of donation.

Depreciation is computed by the straight-line method over the following estimated useful lives of the assets:

	Years
Buildings and building improvements	5 – 40
Transportation equipment and vehicles	3 – 7
Furniture, fixtures and equipment	3 – 5

Leasehold improvements are depreciated over the shorter of their estimated useful lives or terms of the underlying lease. Gifts of property are presented as unrestricted support unless explicit donor restrictions specify how the donated assets must be used. Property donated with restrictions regarding their use and contributions of cash to acquire property are reported as restricted support. Absent any donor stipulations about how long these assets must be maintained, these restrictions expire when the asset is acquired and a reclassification is made from temporarily restricted net assets to unrestricted net assets at that time.

ASC Topic 350-40, *Accounting for the Costs of Computer Software Developed for or Obtained for Internal Use*, requires capitalization of certain costs incurred in connection with developing or obtaining internal use software. Property and equipment includes approximately \$1.1 million of capitalized software costs as of June 30, 2010, net of accumulated depreciation of approximately \$.6 million. Approximately \$.3 million of the total capitalized software has been charged to depreciation for the year ended June 30, 2010.

FTC evaluates the recoverability of property and equipment if circumstances indicate impairment has occurred. If such analysis indicates that the carrying value of these assets is not recoverable, the carrying value of such assets is reduced to fair value.

Notes to Consolidated Financial Statements

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**Note 1. Nature of Organization and Significant Accounting Policies (Continued)**

Annuities payable: FTC maintains a gift annuity program whereby donors may contribute assets to FTC in exchange for the right to receive a fixed dollar annual return during their lifetimes. This transaction provides for a portion of the transfer to be considered a charitable contribution for income tax purposes. The difference between the amount provided for the annuity contract and the discounted liability for future payments, determined on an actuarial basis, is recognized as donation income at the date of the gift if FTC is the ultimate beneficiary, or as a liability if another charity is the beneficiary. Upon the death of the annuitant, income distributions cease. The actuarial liability for annuities payable is calculated annually using published mortality rate tables adopted by the Internal Revenue Service at an assumed rate of return of 5.8%. Resulting actuarial gain or loss is recorded as a component of the change in value of annuities and reported in other revenue in the consolidated statements of activities. Assets funding gift annuities are included in investments in the consolidated statement of financial position.

Fair value: FTC adopted SFAS 157, *Fair Value Measurements* (ASC Topic 820-10) for its financial assets and liabilities on July 1, 2008 and on July 1, 2009 for its nonfinancial assets and liabilities. The adoption of this standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined based on a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value which are as follows:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. Level 3 assets include investments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Revenue recognition: FTC follows ASC Topic 958-605, *Accounting for Contributions Received and Contributions Made*. Cash and gift-in-kind contributions are received from individuals as well as domestic and multi-national organizations. These contributions, including unconditional promises, are recognized as revenues when the donor's unconditional commitment is received. All 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. When a temporary restriction expires, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. However, if a restriction is fulfilled in the time period in which the contribution is received, FTC reports the support as unrestricted.

Permanently restricted support are amounts received that are stipulated by the donor to be maintained permanently. FTC has not received any permanently restricted support.

Conditional promises to give are recognized only when the conditions on which they depend are substantially met.

**Notes to Consolidated Financial Statements**

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**Note 1. Nature of Organization and Significant Accounting Policies (Continued)**

FTC receives donations of food, medical supplies, clothing and other goods for use in its ministry programs. These donations are recorded at their estimated fair value based upon FTC's estimate of the wholesale values that would be received for selling the goods in their principal market, considering their condition and utility for use at the time the goods are donated. Several methodologies are used in the determination of estimated wholesale value, including values provided by the donor, published industry pricing guides, internally-researched values, and internal average values for like-kind items.

Donations of gifts-in-kind that are legally allowed to be used in the United States are valued at their estimated wholesale value in the United States, determined as discussed above.

Donations of gifts-in-kind restricted from use in the United States (currently limited to certain pharmaceutical donations) are valued based upon the estimated wholesale market value of the items within the countries that represents the principal market of use. The estimated wholesale value of these donations is obtained from market price data compiled from wholesale commercial transactions within this non-United States principal market.

Regardless of the methodology, the condition and utility for use of the donated materials is taken into account for valuation purposes. Donated inventories received with restrictions, such as the provision that they cannot be distributed within the United States, are considered to have purpose restrictions and are therefore reported as restricted contributions.

As discussed above, FTC adopted SFAS No.157 for its nonfinancial assets and liabilities as of the beginning of its fiscal year ended June 30, 2010. FTC receives donations of deworming pharmaceuticals for use in its international programs, which are restricted from use in the United States. Due to the significant difference in prices between pharmaceuticals in the United States and in FTC's principal market for the use of deworming medication, the adoption of this new standard had a material effect on the recognized gift-in-kind revenues and FTC's international pharmaceutical donations restricted from use in the United States. Program expenses are affected as the related items are used.

The provisions of SFAS No. 157 are required to be adopted prospectively as of the beginning of the fiscal year; retrospective application is not allowed. During fiscal 2010 approximately \$23 million of related contributions of deworming pharmaceuticals were recognized under this new standard. During 2009, under the accounting standards that were required to be used at that time, FTC recognized contributions of deworming pharmaceuticals of approximately \$544 million. Had the provisions of SFAS No. 157 been applied at that time, and had the 2009 contributions been valued at the same amount per dose as the 2010 contributions, 2009 contributions of deworming medication would have been recognized at approximately \$21 million.

FTC receives many volunteer hours from a variety of skilled personnel such as doctors, nurses and other specialists. The value of these donated services that meets the criteria for recognition is reported as donated services in the accompanying consolidated statement of activities. The corresponding expense is included in grants and other services in the Childcare, Food and Medical program.

## Feed The Children, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

From time-to-time, certain projects of FTC are assisted by grants from the United States Agency for International Development. Revenues from grants are deemed earned and recognized in the statement of activities when expenditures are made for the purposes specified. Grant funds that have been received but have not yet been expended for the purposes specified are reported as deferred revenue.

Transportation service revenue represents commercial transportation revenue of FTCT from third parties and is recognized upon completion of delivery. Transportation service expenses represent operational expenses incurred by FTCT to generate commercial transportation revenue from third parties.

Advertising: Advertising and promotional costs related to direct mail expenses are expensed as incurred. Advertising and promotional costs related to television and radio expenses are expensed upon completion of program production and its release to broadcasting networks.

Functional allocation of expenses and joint costs: FTC's financial statements are presented in accordance with ASC Topic 958-720, *Accounting for Costs of Activities of Not-for-Profit Organizations and State and Local Government Entities That Include Fund-Raising*. Expenses by function have been allocated among program and supporting services classifications on the basis of direct cost allocations, employee time records and indirect cost allocation estimates made by FTC's management. For the year ended June 30, 2010, FTC incurred joint costs of approximately \$11,705,400 related to production and broadcasting activities that included a fund-raising appeal. Of those costs, approximately \$4,581,700 was allocated to program service expense, \$1,249,600 to fund-raising expense and \$5,874,100 to management and general expense.

Subsequent events: Management has evaluated subsequent events through April 15, 2011, which is the date the consolidated financial statements were available to be issued.

#### Note 2. Contributions Receivable and Concentrations

As of June 30, 2010, contributions receivable consist of pledges of cash and gifts-in-kind from corporate and individual donors. Unconditional promises to give as of June 30, 2010 are as follows:

Gifts-in-kind receivable, temporarily restricted	\$ 11,393,035
Pledges receivable, temporarily restricted	1,447,249
Less discounts to net present value	(37,728)
	<u>\$ 12,802,556</u>
Amount due in:	
Less than one year	\$ 12,678,301
One to five years	152,347
Five to 10 years	9,636
	<u>12,840,284</u>
Less discounts to net present value	(37,728)
	<u>\$ 12,802,556</u>

Feed The Children, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

**Note 2. Contributions Receivable and Concentrations (Continued)**

For the year ended June 30, 2010, one contribution of medicine for an international direct shipment transaction represented approximately 99% of temporarily restricted gift-in-kind revenues and the related receivable represented 75% of contributions receivable and 22% of temporarily restricted net assets at June 30, 2010.

All amounts are considered fully collectible during the subsequent fiscal year and management has not recorded an allowance for estimated uncollectible promises. Accretion of the discount is included in contributions.

**Note 3. Investments**

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

	Unrestricted
Interest and dividends	\$ 1,322,800
Net realized and unrealized losses	3,981,572
Other investment income	44,983
	<u>\$ 5,349,355</u>

Investments: The following table summarizes investments measured at fair value on a recurring basis as of June 30, 2010, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value and other investment holdings reported at cost:

	Balance as of June 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments, at Fair Value				
Equity securities and mutual funds	\$ 27,024,581	\$ 27,024,581	\$ -	\$ -
Corporate bonds	2,046,223	1,946,238	99,985	-
Government and government backed securities	11,157,033	-	11,157,033	-
	<u>40,227,837</u>	<u>\$ 28,970,819</u>	<u>\$ 11,257,018</u>	<u>\$ -</u>
Other investments, at cost				
Money market accounts	2,203,728			
Certificates of deposit	466,120			
Key man life insurance policies	5,125,422			
	<u>\$ 48,023,107</u>			

There are no significant concentrations of market or credit risk other than as disclosed above.

Feed The Children, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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**Note 4. Property and Equipment**

Property and equipment consists of the following as of June 30, 2010:

Land and land improvements	\$ 5,444,458
Buildings and building improvements	35,771,777
Furniture, fixtures and equipment	12,838,811
Vehicles	1,301,200
Transportation equipment	9,423,091
	<u>64,779,337</u>
Less accumulated depreciation	(28,623,023)
	<u><u>\$ 36,156,314</u></u>

Net investment in property and equipment consists of the following as of June 30, 2010:

Property and equipment, net	\$ 36,156,314
Less: related debt (Notes 5 and 6)	(4,699,776)
	<u><u>\$ 31,456,538</u></u>

**Note 5. Capital Lease Obligation**

FTC leases certain computer equipment under a capital lease arrangement which expires in April 2014. The leased assets have been capitalized and are included in furniture, fixtures and equipment in the amount of \$878,334 with accumulated depreciation and depreciation expense of \$204,945 as of and for the year ending June 30, 2010.

Future minimum lease payments under this noncancelable capital lease are as follows:

Year Ending	
June 30,	
2011	\$ 203,670
2012	203,670
2013	203,670
2014	169,725
Total minimum lease payments	<u>780,735</u>
Less interest portion	<u>84,564</u>
Present value of minimum lease payments	696,171
Less current portion	166,555
Long-term capital lease obligation, net of current portion	<u><u>\$ 529,616</u></u>

Feed The Children, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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**Note 6. Notes Payable**

The following is a summary of notes payable as of June 30, 2010:

FTCT bank note payable of \$1,909,500, collateralized by certain investment assets of FTC and certain property and equipment of FTCT, maturing April 10, 2011, guaranteed by FTC, principal and interest payable monthly, 6.5% as of June 30, 2010.	\$ 336,035
FTCT bank note payable of \$312,940, collateralized by certain property and equipment of FTCT, maturing July 25, 2013, guaranteed by FTC, principal and interest payable monthly, 3.75% as of June 30, 2010.	163,481
FTCT notes payable to Daimler Chrysler totaling \$4,711,340, collateralized by certain transportation equipment of FTCT, maturity dates ranging from August 15, 2012 to July 10, 2015, principal and interest payable monthly, interest ranging from 4.75% to 6.35% as of June 30, 2010.	2,973,533
FTCT bank note payable of \$226,000, collateralized by certain property and equipment of FTCT, maturing July 31, 2014, guaranteed by FTC, principal and interest payable monthly, 6.25% as of June 30, 2010.	152,953
FTCT bank note payable of \$468,000, collateralized by certain property and equipment of FTCT, maturing June 5, 2014, principal and interest payable monthly, 5.98% as of June 30, 2010.	377,603
	<u>\$ 4,003,605</u>

Future maturities of notes payable as of June 30, 2010 are as follows:

Year Ending	
June 30,	
2011	\$ 1,436,462
2012	1,178,648
2013	847,548
2014	318,398
2015	205,708
Thereafter	16,841
	<u>\$ 4,003,605</u>

## Feed The Children, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 7. Operating Leases

FTC leases excess warehouse space at three of its locations. These leases expire at various dates through 2010. Rental income from these leases was \$381,129 and was included in other revenues for the year ended June 30, 2010. Future minimum rents to be received under these operating leases do not have remaining terms in excess of one year as of June 30, 2010.

Operating lease expense included in the consolidated statement of functional expenses for the year ended June 30, 2010 was \$127,085.

#### Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of:

Childcare, food and medical programs, domestic	\$ 586,182
Childcare, food and medical programs, international	27,693,831
Disaster relief programs, domestic	2,216
Disaster relief programs, international	7,498
Education and community development programs, international	306,803
Total – purpose restrictions	<u>28,596,530</u>
Time-restricted, undistributed inventory	2,421,188
Time-restricted, gifts-in-kind receivable	12,802,556
Total – time restrictions	<u>15,223,744</u>
	<u>\$ 43,820,274</u>

Restricted net assets are released from donor restrictions by incurring expenditures satisfying the purpose or time restrictions specified by donors.

#### Note 9. Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables, and accounts payable approximates fair value due to the short term nature of these instruments.

Investments: The fair values of investments are estimated generally based on quoted market prices for identical or similar assets at June 30, 2010 (see Note 3).

Note receivable – affiliate: The carrying value of the note receivable approximates fair value as the discount rate applied approximates market rates.

Notes payable: Interest on notes payable is primarily payable at fixed rates. FTC estimates that the carrying amount of the notes payable would not differ materially from fair value because those financial instruments bear interest at rates which are close to available current market rates at June 30, 2010.

**Notes to Consolidated Financial Statements**

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**Note 10. Employee Benefits**

FTC provides retirement benefits under two separate qualified defined contribution plans under applicable provisions of the Internal Revenue Code. The plans cover all full-time employees and part-time employees that meet plan requirements. FTC and FTCT have two separate qualified defined contribution plans; a 403(b) plan and a 401(k) plan for eligible employees. FTC matches employee contributions in accordance with the provisions of each plan. For the year ended June 30, 2010, FTC's contribution to the 403(b) plan was \$245,843 and FTCT's contribution to the 401(k) plan was \$42,152.

**Note 11. Related Party Transactions**

Affiliate support:

FTC provides financial support and donates food, medicine, clothing and other materials to its international affiliates. These affiliates act in furtherance of FTC's mission. During the year ended June 30, 2010, total support provided to international affiliates not included in FTC's consolidated financial statements was approximately \$6.8 million.

Deconsolidation of Feed The Children Federation in Canada:

During fiscal 2010, FTC did not re-elect two members of its Board of Directors who were also members of FTC Canada's board of directors. As a result, the conditions required by generally accepted accounting principles for consolidation of FTC Canada were no longer met, and FTC deconsolidated FTC Canada from its consolidated financial statements effective January 1, 2010. As such, FTC has included the results of operations of FTC Canada for the six months ended December 31, 2009. As of December 31, 2009, FTC Canada's statement of financial position included assets of \$5,334,916, liabilities of \$3,055,121, and unrestricted net assets of \$2,279,795. For the six months ended December 31, 2009, the statement of activities included revenues of \$7,000,101 and expenses of \$6,507,228.

Note receivable – affiliate:

As of June 30, 2010, FTC has recorded an unsecured, uncollateralized, non-interest bearing note receivable due from its affiliate, FTC Canada for \$4,362,185 (\$2,403,106 net of present value discount). Payments of \$10,000 (Canadian) are due monthly through October 2025 when the note matures and the remaining balance becomes due.

**Note 12. Concentration of Credit Risk**

FTC maintains cash balances at several financial institutions, which at times, may exceed federally-insured limits. However, all of these domestic financial institutions were participating in the Federal Deposit Insurance Corporation's ("FDIC") Transaction Account Guarantee Program ("TAGP") through December 31, 2009, whereby all non-interest bearing transaction accounts, including business checking accounts, were fully guaranteed by the FDIC for the entire amount in each account. Coverage under TAGP was in addition to and separate from the \$250,000 of coverage available under general deposit insurance rules. Beginning January 1, 2010, FTC's domestic financial institutions opted out of TAGP, which effectively left total uninsured cash of \$1,493,080 as of June 30, 2010, including \$717,961 held in foreign bank accounts not covered by either FDIC or TAGP.

Effective December 31, 2010, FTC's domestic financial institutions were automatically enrolled in the FDIC's Dodd Frank provision, which essentially replaced the terms of TAGP noted above. No losses have been incurred on uninsured bank balances to date.

## Feed The Children, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 13. Commitments

FTC has entered into various long-term contracts with vendors to provide promotion, advertising, consulting, and program development services. These contracts expire at various dates through December 2012 and represent total commitments of \$4,963,256 as follows:

Year Ending		
June 30,		
2011	\$	3,365,193
2012		1,598,063
	\$	<u>4,963,256</u>

#### Note 14. Contingencies

FTC is a defendant in various legal matters that management considers to be ordinary and routine, and incidental to the normal business conducted by FTC. In the opinion of FTC's management, based on the advice of legal counsel, these matters will not result in judgments which in the aggregate would have a material adverse effect on FTC's consolidated statement of financial position.

#### Note 15. Subsequent Events

Dispute with former president: On November 6, 2009, FTC terminated the employment of its then-president, and his name and likeness were subsequently removed from all of FTC's publicly-disseminated materials at a cost of \$3,117,858, which is included in rebranding expense in the consolidated statement of functional expenses. The former president subsequently sued FTC for wrongful termination. In March 2010, the former president's Board term expired, and he was not re-elected to the Board of Directors. On January 28, 2011, the lawsuit was resolved under a confidential agreement with the former president. The amount accrued as of June 30, 2010 was adequate to provide for this agreement and the related expense is included in management and general expense in the consolidated statement of functional expenses.

During the fiscal year, the former president also sued seeking to have a receiver appointed for FTC. The Oklahoma Attorney General subsequently intervened in the action. The court determined that the former president had no standing to file the lawsuit and ordered the former president dismissed from the action and held the receivership issue in abeyance pending the Attorney General's investigation. The Attorney General subsequently dismissed the suit without prejudice on December 10, 2010.

As a result of the above, coupled with the departure of the other co-founder, the two original founders of FTC are no longer associated with the Organization. Since the co-founders departure, the Organization has taken significant steps to repair and enhance its brand. Those steps include the hiring of an Interim President, with more than 30 years experience in non-profit leadership, to oversee the hiring of a permanent CEO and President, Board development and strategic initiatives. The Board has also enlisted a national search firm to help recruit qualified candidates for the CEO.

**Notes to Consolidated Financial Statements**

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**Note 15. Subsequent Events (Continued)**

Media vendor dispute: Subsequent to year end, FTC entered into a confidential settlement agreement related to a dispute with a media vendor regarding certain terms contained within an Agency Letter of Representation signed by FTC's former president. A new service agreement was signed which became effective January 1, 2011 and includes a binding service agreement through December 31, 2012 with guaranteed minimum payment terms. The amount accrued as of June 30, 2010 was adequate to provide for the amounts not related to future services, and the related expense is included in legal and accounting expense in the consolidated statement of functional expenses.

April 19, 2011

**Confidential**

Christy Tharp, Chief Financial Officer  
Feed The Children, Inc.  
333 N Meridian  
Oklahoma City, OK 73137

Dear Ms. Tharp:

Enclosed you will find seventy-five (75) bound copies of the Financial Report of Feed The Children, Inc. as of June 30, 2010.

If you have received a preliminary draft of this report, please destroy all such copies if they have not been returned to us.

Very truly yours,

McGLADREY & PULLEN, LLP

*Carrie A. DeRosa*