

McGladrey & Pullen

Certified Public Accountants

Feed The Children, Inc. and Subsidiaries

Consolidated Financial Report
06.30.2009

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Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying consolidated statement of financial position of Feed The Children, Inc. and Subsidiaries as of June 30, 2009, and the related consolidated statements of activities 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 consolidated financial statements are free of material misstatements. 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 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, 2009, and the results of their activities and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Jacksonville, Florida
April 15, 2010

Feed The Children, Inc. and Subsidiaries

Consolidated Statement of Financial Position
June 30, 2009

Assets

Cash and cash equivalents	\$ 4,935,952
Accounts receivable, net	1,340,339
Contributions receivable (primarily gifts-in-kind) (Note 2)	282,389,245
Investments (Note 3)	49,019,023
Inventory, net of an allowance of \$794,337	149,372,099
Prepaid expenses and other assets	9,023,007
Property and equipment, net (Note 4)	46,021,575
Total assets	\$ 542,101,240

Liabilities and Net Assets

Accounts payable and accrued expenses	\$ 7,122,602
Annuities payable	276,736
Capital lease obligations (Note 5)	853,080
Notes payable (Note 6)	4,472,564
Total liabilities	12,724,982

Commitments and Contingencies (Notes 13 and 14)

Net assets:

Unrestricted:

Available for ministry	25,086,171
Equity in property and equipment (Note 4)	40,695,931
Investment in donated inventory	149,372,099

215,154,201

Temporarily restricted (Note 8)	314,222,057
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529,376,258

Total net assets

Total liabilities and net assets

\$ 542,101,240

See Notes to Consolidated Financial Statements.

Feed The Children, Inc. and Subsidiaries

Consolidated Statement of Activities
For the Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Total
Support and Revenue:			
Gifts-in-kind	\$ 800,632,046	\$ 276,600,694	\$ 1,077,232,740
Contributions	111,412,667	15,719,209	127,131,876
Donated services	208,041	-	208,041
Grants	225,915	-	225,915
Investment loss (Note 3)	(8,784,703)	-	(8,784,703)
Gain on disposition of assets	59,346	-	59,346
Other revenues	2,996,514	-	2,996,514
	<u>906,749,826</u>	<u>292,319,903</u>	<u>1,199,069,729</u>
Net assets released from restrictions:			
Satisfaction of purpose restrictions	360,935,204	(360,935,204)	-
Satisfaction of time restrictions	19,296,961	(19,296,961)	-
Total support and revenue	<u>1,286,981,991</u>	<u>(87,912,262)</u>	<u>1,199,069,729</u>
Transportation service revenue (Note 1)	5,731,911	-	5,731,911
Total revenue	<u>1,292,713,902</u>	<u>(87,912,262)</u>	<u>1,204,801,640</u>
Expenses:			
Program services:			
Childcare, food and medical	992,263,363	-	992,263,363
Disaster relief	14,105,982	-	14,105,982
Education and community development	163,180,583	-	163,180,583
Total program services	<u>1,169,549,928</u>	<u>-</u>	<u>1,169,549,928</u>
Supporting activities:			
Fund-raising	65,451,702	-	65,451,702
Management and general	25,088,083	-	25,088,083
Total supporting activities	<u>90,539,785</u>	<u>-</u>	<u>90,539,785</u>
Transportation service expenses (Note 1)	5,541,841	-	5,541,841
Total expenses	<u>1,265,631,554</u>	<u>-</u>	<u>1,265,631,554</u>
Change in net assets	27,082,348	(87,912,262)	(60,829,914)
Net assets, beginning of year	188,071,853	402,134,319	590,206,172
Net assets, end of year	<u>\$ 215,154,201</u>	<u>\$ 314,222,057</u>	<u>\$ 529,376,258</u>

See Notes to Consolidated Financial Statements.

Feed The Children, Inc. and Subsidiaries

Consolidated Statement of Functional Expenses
For the Year Ended June 30, 2009

	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	\$ 971,261,665	\$ 13,107,887	\$ 155,454,946	\$ 1,139,824,498	\$ -	\$ -	\$ -	\$ -	\$ 1,139,824,498
Grants and other assistance	1,618,355	2,500	2,286,704	3,907,559	-	-	-	-	3,907,559
Shipping, handling and storage	1,478,219	9,751	184,862	1,672,832	-	117,259	117,259	-	1,790,091
Salaries and benefits	7,683,964	516,042	1,390,688	9,590,694	2,698,763	7,009,006	9,707,769	2,255,913	21,554,376
Contract services	506,237	22,414	116,095	644,746	1,060,952	1,604,255	2,665,207	9,904	3,319,857
Insurance	479,593	34,312	91,029	604,934	45,979	306,149	352,128	230,855	1,187,917
Travel	764,313	26,181	353,080	1,143,574	279,314	280,703	560,017	50,077	1,753,668
Supplies	565,002	9,624	46,490	621,116	87,210	343,384	430,594	19,273	1,070,983
Equipment expenses	234,035	6,596	30,055	270,686	43,554	295,781	339,335	10,511	620,532
Repair and maintenance	487,103	28,677	78,880	594,660	39,213	1,247,099	1,286,312	129,197	2,010,169
Printing	3,048	218	655	3,921	1,958	18,216	20,174	-	24,095
Telephone	209,234	13,128	36,654	259,016	4,602	247,262	251,864	13,932	524,812
Occupancy	521,538	20,529	58,416	600,483	43,496	712,738	756,234	17,949	1,374,666
Public relations	59,215	4,677	76,955	140,847	7,998	4,618,098	4,626,096	-	4,766,943
Office and other expense	409,049	9,662	17,522	436,233	1,727,139	2,904,727	4,631,866	8,555	5,076,654
Postage	443,140	32,015	95,148	570,303	280,492	1,140,075	1,420,567	13,092	2,003,962
Legal and accounting	44,502	735	70,718	115,955	6,077	1,742,997	1,749,074	11,511	1,876,540
Property and other taxes	129,063	3,841	10,679	143,583	75,386	107,883	183,269	8,904	335,756
Interest	101,805	10,312	23,180	135,297	-	66,767	66,767	164,443	366,507
Depreciation	1,935,060	127,037	342,335	2,404,432	253,736	2,281,266	2,535,002	675,967	5,615,401
Television and radio	2,146,107	-	2,146,107	4,292,214	27,771,088	44,418	27,815,506	-	32,107,720
Direct mail	-	-	-	-	18,800,348	-	18,800,348	-	18,800,348
Direct mail postage	-	-	-	-	9,074,701	-	9,074,701	-	9,074,701
Other fund-raising costs	-	-	-	-	3,149,696	-	3,149,696	-	3,149,696
Fuel and licensing	1,183,116	119,844	269,385	1,572,345	-	-	-	1,921,758	3,494,103
	<u>\$ 992,263,363</u>	<u>\$ 14,105,982</u>	<u>\$ 163,180,583</u>	<u>\$ 1,169,549,928</u>	<u>\$ 65,451,702</u>	<u>\$ 25,088,083</u>	<u>\$ 90,539,785</u>	<u>\$ 5,541,841</u>	<u>\$ 1,265,631,554</u>

See Notes to Consolidated Financial Statements.

Feed The Children, Inc. and Subsidiaries

Consolidated Statement of Cash Flows
For the Year Ended June 30, 2009

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Cash Flows From Operating Activities	
Change in net assets	\$ (60,829,914)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	5,615,401
Gain on disposition of assets	(59,346)
Net realized and unrealized loss on investments	10,530,190
Donated investments	(5,076,389)
Donated property and equipment	(38,500)
Annuity actuarial change	31,047
Change in operating assets and liabilities:	
Accounts receivable	75,643
Contributions receivable	80,016,616
Inventory	(27,197,411)
Prepaid expenses and other assets	(1,682,380)
Accounts payable and accrued liabilities	617,190
Net cash provided by operating activities	<u>2,002,147</u>
Cash Flows From Investing Activities	
Investments purchased	(34,784,780)
Proceeds from sales of investments	41,598,476
Proceeds from disposition of property and equipment	73,787
Purchases of property and equipment	(6,989,370)
Net cash used in investing activities	<u>(101,887)</u>
Cash Flows From Financing Activities	
Payments on annuities	(177,800)
Proceeds from notes payable	694,000
Principal payments on notes payable and capital lease obligations	(1,445,402)
Net cash used in financing activities	<u>(929,202)</u>
Net change in cash and cash equivalents	971,058
Cash and cash equivalents, beginning of year	<u>3,964,894</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,935,952</u></u>
Supplemental Disclosure of Cash Flow Information	
Cash paid for interest	<u>\$ 358,952</u>
Supplemental Disclosure of Noncash Investing and Financing Activities:	
Property and equipment financed through capital lease	<u>\$ 878,334</u>
Property and equipment purchase included in accounts payable	<u>\$ 232,067</u>

See Notes to Consolidated Financial Statements.

Feed The Children, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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 Canadian affiliate, Feed The Children Federation in Canada ("FTC Canada"), 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. All entities in which FTC has a controlling financial interest, as defined in Statement of Position 94-3, *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.

Notes to Consolidated Financial Statements

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, 2009 is approximately \$6.3 million. The total revenue generated from these foreign affiliates was approximately \$19.7 million for the year ended June 30, 2009.

FTC follows Statement of Financial Accounting Standards ("SFAS") No. 117, *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, 2009 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.

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.

Notes to Consolidated Financial Statements

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

Cash and cash equivalents: FTC considers all highly liquid investments with an initial maturity of three months or less when purchased and not held with 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 \$53,578 as of June 30, 2009.

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.

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.

Notes to Consolidated Financial Statements

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

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 – 20
Transportation equipment and vehicles	5 – 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.

AICPA Statement of Position ("SOP") 98-1, *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 \$1.7 million of capitalized software costs as of June 30, 2009. \$.3 million of the total capitalized software has been charged to depreciation for the year ended June 30, 2009.

The carrying value of property and equipment is evaluated for impairment when an impairment is indicated in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

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.

Notes to Consolidated Financial Statements

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

Revenue recognition: FTC follows Statement of Financial Accounting Standards No. 116, *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.

FTC receives donations of food, medical supplies, clothing and other goods for use in its ministry programs. The fair value of the donated goods is based upon estimated wholesale value of gifts received which management believes is the best estimate of the selling price of the contributed inventory. 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 medicine which are restricted to certain international countries are generally valued based on the most recent *Red Book* value, adjusted for international pricing statistics and factors applicable to lesser-developed countries. 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.

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.

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.

Notes to Consolidated Financial Statements

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

Functional allocation of expenses and joint costs: FTC's financial statements are presented in accordance with SOP 98-2, *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, 2009, FTC incurred joint costs of approximately \$9,050,000 related to production and broadcasting activities that included a fund-raising appeal. Of those costs, approximately \$4,292,000 was allocated to program service expense, \$728,000 to fund-raising expense and \$4,030,000 to management and general expense.

Fair value: Effective July 1, 2008, FTC adopted SFAS No. 157 for its financial assets and liabilities. Fair values of investments are 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 adoption of the 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. 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.

Subsequent events: Management has evaluated subsequent events through April 15, 2010, which is the date the consolidated financial statements were available to be issued.

Recent accounting pronouncements: In June 2006, the FASB issued FASB Interpretation 48, *Accounting for Income Tax Uncertainties* ("FIN 48"). FIN 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. The recently issued literature also provides guidance on the de-recognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. FTC has elected this deferral and accordingly will be required to adopt FIN 48 in its fiscal year ending June 30, 2010. Prior to adoption of FIN 48, FTC will continue to evaluate its uncertain tax positions and related income tax contingencies under Statement No. 5, *Accounting for Contingencies*. SFAS No. 5 requires FTC to accrue for losses it believes are probable and can be reasonably estimated. Any differences between the amounts recognized in the statement of financial position prior to the adoption of FIN 48 and the amounts reported after adoption will be accounted for as a cumulative-effect adjustment recorded to the beginning balance of net assets. Management is currently assessing the impact of FIN 48 on its consolidated statements of financial position and activities and has not yet determined if the adoption of FIN 48 will have a material effect on its consolidated financial statements.

Feed The Children, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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

In February 2008, the FASB issued FASB Staff Position FAS No.157-2 ("FSP FAS No. 157-2") which amends SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157") by delaying the effective date of SFAS No. 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. FSP FAS No. 157-2 is effective for FTC beginning with its fiscal year ending June 30, 2010. FTC is in the process of evaluating the impact of FSP FAS 157-2 on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* ("SFAS No.168") which replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles* and establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied to nongovernmental entities in the preparation of financial statements in conformity with accounting principles generally accepted in the United States. SFAS No. 168 will be effective for FTC beginning with its fiscal year ending June 30, 2010. FTC is currently evaluating the impact of adopting SFAS No. 168 on its consolidated financial statements.

Note 2. Contributions Receivable and Concentrations

As of June 30, 2009, contributions receivable consist of pledges of cash and gifts-in-kind from corporate and individual donors. Unconditional promises to give as of June 30, 2009 are as follows:

Gifts-in-kind receivable, temporarily restricted	\$ 276,375,842
Pledges receivable, temporarily restricted	6,469,064
Less discounts to net present value	(455,661)
	<u>\$ 282,389,245</u>
Amount due in:	
Less than one year	\$ 281,351,628
One to five years	1,062,678
Five to 10 years	430,600
	<u>282,844,906</u>
Less discounts to net present value	(455,661)
	<u>\$ 282,389,245</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, 2009, one contribution of medicine for an international direct shipment transaction represented approximately 50% of total gift-in-kind revenues and the related receivable represented 97% of contributions receivable and 87% of temporarily restricted net assets at June 30, 2009. For the year ended June 30, 2009, the expense related to the donation of this one contribution of medicine, along with the donation of a similar contribution of medicine contributed to FTC in the prior fiscal year, represented 53% of total program services expenses.

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 loss: Investment loss is comprised of the following for the year ended June 30, 2009:

	Unrestricted
Interest and dividends	\$ 1,518,411
Net realized and unrealized losses	(10,530,190)
Other investment income	227,076
	<u>\$ (8,784,703)</u>

Investments: The following table summarizes investments measured at fair value on a recurring basis as of June 30, 2009, 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, 2009	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	\$ 26,962,437	\$ 26,962,437	\$ -	\$ -
Corporate bonds	1,690,598	1,591,103	99,495	-
Government and government backed securities	12,477,784	-	12,477,784	-
	<u>41,130,819</u>	<u>\$ 28,553,540</u>	<u>\$ 12,577,279</u>	<u>\$ -</u>
Other investments, at cost				
Money market accounts	2,510,431			
Certificates of deposit	755,349			
Key man life insurance policies	4,622,424			
	<u>\$ 49,019,023</u>			

Feed The Children, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 4. Property and Equipment

Property and equipment consists of the following as of June 30, 2009:

Land	\$ 10,395,176
Buildings and building improvements	38,524,592
Furniture, fixtures and equipment	12,294,450
Vehicles	1,081,420
Transportation equipment	8,739,817
	<u>71,035,455</u>
Less accumulated depreciation	(25,013,880)
	<u>\$ 46,021,575</u>

Net investment in property and equipment consists of the following as of June 30, 2009:

Property and equipment, net	\$ 46,021,575
Less: related debt (Notes 5 and 6)	(5,325,644)
	<u>\$ 40,695,931</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 \$29,278 as of and for the year ending June 30, 2009.

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

Year Ending	
June 30,	
2010	\$ 203,670
2011	203,670
2012	203,670
2013	203,670
2014	169,725
Total minimum lease payments	<u>984,405</u>
Less interest portion	131,325
Present value of minimum lease payments	<u>853,080</u>
Less current portion	156,910
Long-term capital lease obligation, net of current portion	<u>\$ 696,170</u>

Feed The Children, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 6. Notes Payable

The following is a summary of notes payable as of June 30, 2009:

FTCT bank note payable of \$1,909,500, collateralized by certain investment assets of FTC and certain property and equipment of FTCT, maturing August 10, 2011, guaranteed by FTC, principal and interest payable monthly, 6.50% as of June 30, 2009.	\$ 814,963
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, 2009.	225,315
FTCT notes payable to Daimler Chrysler totaling \$3,722,784, collateralized by certain transportation equipment of FTCT, maturity dates ranging from August 15, 2012 to June 25, 2012, principal and interest payable monthly, interest ranging from 4.99% to principal and interest payable monthly, interest ranging from 6.35% as of June 30, 2009.	2,761,321
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, 2009.	209,695
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, 2009.	461,270
	<u>\$ 4,472,564</u>

Future maturities of notes payable as of June 30, 2009 are as follows:

Year Ending	
June 30,	
2010	\$ 1,299,601
2011	1,369,648
2012	1,013,238
2013	653,936
2014	136,141
	<u>\$ 4,472,564</u>

Feed The Children, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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 \$1,309,201 and was included in other revenues for the year ended June 30, 2009.

Future minimum rents to be received under these operating leases that have remaining terms in excess of one year as of June 30, 2009 are as follows:

Year Ending June 30, 2010	\$ 346,393
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Note 8. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of:

Purpose restrictions	\$ 31,607,960
Time restrictions	8,527,767
Purpose and time restrictions	274,086,330
	<u>\$ 314,222,057</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, 2009 (see Note 3).

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, 2009.

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, 2009, FTC's contribution to the 403(b) plan was \$142,701 and FTCT's contribution to the 401(k) plan was \$38,078.

Feed The Children, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 11. Related Party Transactions

FTC provides financial support and donates food, medicine, clothing and other materials to its international affiliates in 4 continents and in 16 countries. These affiliates act in furtherance of FTC's mission. During the year ended June 30, 2009, total support provided to international affiliates not included in FTC's consolidated financial statements was approximately \$3.9 million.

During the year ended June 30, 2009, FTC paid \$1.5 million to a religious organization whose lead pastor is the brother of an individual who was serving as a member of the replacement Board of Directors (see Note 15). This replacement Board member was also employed by the religious organization.

Note 12. Concentration of Credit Risk

FTC maintains cash balances at several financial institutions, which at times, may exceed federally-insured limits. However, of these, all of the domestic financial institutions are 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, are fully guaranteed by the FDIC for the entire amount in each account. Coverage under the TAGP is in addition to and separate from the \$250,000 of coverage available under general deposit insurance rules. FTC held \$3,073,303 in interest bearing funds not covered by TAGP at year end, as well as \$566,624 in foreign financial institutions, which also are not covered. The total cash and cash equivalents balance deemed at risk at June 30, 2009 was \$3,639,926. Beginning January 1, 2010, this program was discontinued, which effectively left FTC's uninsured domestic bank balances at approximately \$6,020,000 as of January 1, 2010.

Note 13. Commitments

The Company has entered into employment contracts with certain officers for terms of service through July 31, 2011. Aggregate compensation payable under the contracts is \$475,000, as follows:

Year Ending June 30,	
2010	\$ 258,333
2011	200,000
2012	16,667
	<u>\$ 475,000</u>

On July 28, 2009, FTC entered into a compensation agreement with its then-President who was a co-founder of the Organization ("former President") and FTC's other co-founder commencing August 1, 2009 through July 31, 2011. This compensation arrangement provided for extensions for one year periods from and after August 1, 2011 upon mutual agreement of the founders and FTC's Board of Directors. On November 6, 2009, the former President was terminated which effectively canceled any further commitment to him subsequent to his termination date. See Note 15 for further discussion of the termination.

Feed The Children, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 13. Commitments (Continued)

The former President signed an Agency Letter of Representation ("Agency Letter") with its largest media vendor to purchase media, creative production, and other media services on FTC's behalf. The disputed Agency Letter contains a noncancelable term. The total amount paid to this vendor, which was included in fund-raising expense for the year ended June 30, 2009, was approximately \$25 million. FTC's legal counsel has filed a declaratory judgment action in the U.S. District Court asking the court to determine the validity of certain terms contained within the Agency Letter.

FTC has also entered into various other long-term contracts with vendors to provide promotion, advertising, consulting, and program development services. These contracts expire at various dates through 2012 and represent total commitments of \$2,286,000 as follows:

Year Ending June 30,	
2010	\$ 1,532,900
2011	590,200
2012	162,900
	<u>\$ 2,286,000</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 financial statements.

Note 15. Subsequent Events

Board of Directors Control Issues:

In December 2008, a dispute over the control of the Organization arose wherein certain directors, including the founder who was also FTC's President took the position that five of seven voting directors and one non-voting director of FTC's Board of Directors were removed from the Board and replaced by five new voting members. Shortly thereafter, four members of FTC's senior management, including its chief operating officer, chief financial officer, head of internal audit, and in-house legal counsel, were removed. The board members that had been informed they had been removed promptly filed a lawsuit in January 2009, pursuant to which the District Court of Oklahoma County temporarily voided the installation of the replacement board, and reinstated the original board, subject to a final ruling on the lawsuit. Subsequently, the reinstated board resumed meeting and the four senior management employees returned to work in April 2009. In August 2009 the lawsuit was settled by FTC's Board of Directors under a confidential settlement agreement with the then-President and FTC's co-founder.

Notes to Consolidated Financial Statements

Note 15. Subsequent Events (Continued)

On November 6, 2009, the Board of Directors terminated the employment of the then-President and his name and likeness were subsequently removed from all of FTC's publicly-disseminated materials. The now-former President subsequently sued FTC for wrongful termination. FTC is vigorously defending its position and has filed 11 counterclaims against the former President. In March 2010, the former President's Board term expired, and he was not re-elected to the Board of Directors. As such he is no longer an employee of FTC, or a member of the Board of Directors.

The former President has sued FTC to have the Court appoint a receiver to oversee FTC's affairs. FTC has vigorously opposed any attempt to appoint a receiver. Subsequently, a motion was filed by the Oklahoma Attorney General to intervene in the dispute, which was supported by the Board of Directors. On April 7, 2010, the Attorney General was granted a motion to intervene in the action and investigate the substance behind various allegations and counter allegations. While this investigation is pending, the receivership issue has been stayed by the Court, FTC will continue normal operations, and the former President has been made a nominal party to the litigation. FTC welcomes the Attorney General's involvement and has been cooperating fully. The outcome of this pending lawsuit has not yet been determined. However, in the opinion of management and FTC's legal counsel, this litigation is not expected to have a material adverse effect on FTC's financial position or activities.

Feed The Children Federation in Canada:

Subsequent to June 30, 2009, FTC did not re-elect two members of its Board of Directors who were also members of Feed The Children Federation in Canada's ("FTC Canada") Board of Directors. As a result, the conditions required by generally accepted accounting principles for consolidation of FTC Canada may no longer be met, and FTC will likely de-consolidate FTC Canada from its consolidated financial statements as of and for the year ended June 30, 2010. As of June 30, 2009, FTC Canada's statement of financial position includes assets of \$6,769,000, liabilities of \$4,982,000, and unrestricted net assets of \$1,787,000. FTC Canada's liabilities as of June 30, 2009 include \$4,862,000 due to FTC which is eliminated in the accompanying consolidated statement of financial position. For the year ended June 30, 2009, FTC Canada's statement of activities includes revenues of \$12,977,000 and expenses of \$12,031,000. 2009 revenues include \$3,985,000 of gifts-in-kind donated from FTC and expenses include \$26,000 granted to FTC-Kenya, of which both of these amounts have been eliminated in the accompanying consolidated statement of activities.