

# McGladrey & Pullen

Certified Public Accountants

## Feed The Children, Inc. and Subsidiaries

Consolidated Financial Report

06.30.2007

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# McGladrey & Pullen

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. ("FTC") and its subsidiaries as of June 30, 2007, 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 FTC'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 the 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 its subsidiaries as of June 30, 2007, and the results of their activities, functional expenses 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  
November 29, 2007

## Feed The Children, Inc. and Subsidiaries

### Consolidated Statement of Financial Position June 30, 2007

#### Assets

Cash and cash equivalents	\$ 6,791,128
Accounts receivable, net	1,177,760
Contributions receivable (primarily gifts-in-kind) (Note 3)	385,884,620
Investments (Note 4)	63,120,749
Inventory	57,946,960
Prepaid expenses and other assets	9,156,811
Property and equipment, net (Note 5)	41,049,914
<b>Total assets</b>	<b>\$ 565,127,942</b>

#### Liabilities and Net Assets

Accounts payable	\$ 3,178,409
Accrued liabilities	883,502
Annuities payable	468,330
Notes payable (Note 6)	3,218,644
Capital lease obligations (Note 7)	113,293
<b>Total liabilities</b>	<b>7,862,178</b>

#### Net assets:

Unrestricted:	
Available for ministry	52,960,393
Net investment in property and equipment (Note 5)	37,831,270
Investment in inventory	50,759,760
	<u>141,551,423</u>
Temporarily restricted (Note 9)	415,714,341
<b>Total net assets</b>	<b>557,265,764</b>
<b>Total liabilities and net assets</b>	<b>\$ 565,127,942</b>

See Notes to Consolidated Financial Statements.

Feed The Children, Inc. and Subsidiaries

Consolidated Statement of Activities  
For the Year Ended June 30, 2007

	Unrestricted	Temporarily Restricted	Total
<b>Support and Revenue:</b>			
Gifts-in-kind	\$ 431,188,397	\$ 392,021,225	\$ 823,209,622
Contributions	104,555,834	8,842,179	113,398,013
Donated services	201,334	-	201,334
Government grants	71,851	-	71,851
Investment income (Note 4)	9,146,363	-	9,146,363
Gain on disposition of assets	62,253	-	62,253
Other revenues	3,035,266	-	3,035,266
	<u>548,261,298</u>	<u>400,863,404</u>	<u>949,124,702</u>
<b>Net assets released from restrictions:</b>			
Satisfaction of purpose restrictions	2,631,135	(2,631,135)	-
Satisfaction of time restrictions	1,507,856	(1,507,856)	-
<b>Total support and revenue</b>	<u>552,400,289</u>	<u>396,724,413</u>	<u>949,124,702</u>
Transportation service revenue (Note 2)	6,021,318	-	6,021,318
<b>Total revenue</b>	<u>558,421,607</u>	<u>396,724,413</u>	<u>955,146,020</u>
<b>Expenses:</b>			
<b>Program services:</b>			
Childcare, food and medical	260,297,292	-	260,297,292
Disaster relief	770,975	-	770,975
Education and community development	198,062,427	-	198,062,427
<b>Total program services</b>	<u>459,130,694</u>	<u>-</u>	<u>459,130,694</u>
<b>Supporting activities:</b>			
Fund-raising	74,398,648	-	74,398,648
Management and general	14,087,346	-	14,087,346
<b>Total supporting activities</b>	<u>88,485,994</u>	<u>-</u>	<u>88,485,994</u>
Transportation service expenses (Note 2)	5,938,027	-	5,938,027
<b>Total expenses</b>	<u>553,554,715</u>	<u>-</u>	<u>553,554,715</u>
Change in net assets	4,866,892	396,724,413	401,591,305
Net assets, beginning of year	136,684,531	18,989,928	155,674,459
Net assets, end of year	<u>\$ 141,551,423</u>	<u>\$ 415,714,341</u>	<u>\$ 557,265,764</u>

See Notes to Consolidated Financial Statements.

Feed The Children, Inc. and Subsidiaries

Consolidated Statement of Functional Expenses  
For the Year Ended June 30, 2007

	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	\$ 244,648,033	\$ 590,144	\$ 191,910,671	\$ 437,148,848	\$ -	\$ -	\$ -	\$ -	\$ 437,148,848
Grants and other assistance	1,821,374	16,888	2,034,128	3,872,390	-	8,994	8,994	-	3,881,384
Shipping, handling and storage	1,916,934	6,788	131,426	2,055,148	3,238	96,539	99,777	-	2,154,925
Salaries and benefits	4,644,720	96,975	1,537,599	6,279,294	1,998,917	4,068,596	6,067,513	2,308,620	14,655,427
Contract services	455,181	4,101	136,697	595,979	585,541	629,275	1,214,816	5,611	1,816,406
Insurance	325,949	954	125,730	452,633	-	428,648	428,648	237,568	1,118,849
Travel	1,305,763	18,043	190,832	1,514,638	266,912	171,963	438,875	46,212	1,999,725
Supplies	324,411	2,567	31,498	358,476	68,561	446,955	515,516	17,596	891,588
Equipment expenses	151,077	2,099	22,748	175,924	33,841	390,905	424,746	5,399	606,069
Repair and maintenance	274,760	703	91,089	366,552	47,639	313,165	360,804	159,879	887,235
Printing	13,596	6	547	14,149	557	15,404	15,961	-	30,110
Telephone	66,770	304	21,709	88,783	5,771	216,161	221,932	24,472	335,187
Occupancy	425,570	808	75,862	502,240	22,725	781,454	804,179	21,516	1,327,935
Public relations	128,417	1,009	35,466	164,892	55,942	318,473	374,415	28,921	568,228
Office and other expense	436,512	7,536	91,776	535,824	1,596,432	2,646,786	4,243,218	13,913	4,792,955
Postage	436,146	11,370	125,394	572,910	282,949	993,454	1,276,403	11,821	1,861,134
Legal and accounting	315,125	3,831	80,924	399,880	93,822	1,311,329	1,405,151	15,916	1,820,947
Property and other taxes	102,669	281	15,142	118,092	54,855	63,888	118,743	6,181	243,016
Interest	56,657	409	38,807	95,873	6,362	18,585	24,947	135,700	256,520
Depreciation	1,348,441	3,668	443,400	1,795,509	70,095	1,166,772	1,236,867	683,893	3,716,269
Television and radio	332,598	-	332,598	665,196	34,988,312	-	34,988,312	-	35,653,508
Direct mail	-	-	-	-	34,216,177	-	34,216,177	-	34,216,177
Fuel and licensing	766,589	2,491	588,384	1,357,464	-	-	-	2,214,809	3,572,273
	<u>\$ 260,297,292</u>	<u>\$ 770,975</u>	<u>\$ 198,062,427</u>	<u>\$ 459,130,694</u>	<u>\$ 74,398,648</u>	<u>\$ 14,087,346</u>	<u>\$ 88,485,994</u>	<u>\$ 5,938,027</u>	<u>\$ 553,554,715</u>

See Notes to Consolidated Financial Statements.

Feed The Children, Inc. and Subsidiaries

Consolidated Statement of Cash Flows  
For the Year Ended June 30, 2007

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Cash Flows From Operating Activities	
Changes in net assets	\$ 401,591,305
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	3,716,269
Gain on disposition of assets	(62,253)
Net realized and unrealized gains on investments	(7,389,931)
Donated investments	(707,411)
Annuity actuarial change	91,346
Change in operating assets and liabilities:	
Accounts receivable	548,853
Contributions receivable	(384,417,318)
Inventory	(4,083,216)
Prepaid expenses and other assets	(2,008,524)
Accounts payable and accrued liabilities	(2,915,157)
<b>Net cash provided by operating activities</b>	<u>4,363,963</u>
Cash Flows From Investing Activities	
Investments purchased	(41,003,188)
Proceeds from sales of investments	40,884,713
Proceeds from disposition of property and equipment	168,684
Purchases of property and equipment	(3,741,879)
<b>Net cash used by investing activities</b>	<u>(3,691,670)</u>
Cash Flows From Financing Activities	
Payments on annuities	(104,222)
Proceeds from notes payable	287,000
Principal payments on notes payable and capital lease obligations	(1,080,119)
<b>Net cash used by financing activities</b>	<u>(897,341)</u>
Net change in cash and cash equivalents	(225,048)
Cash and cash equivalents, beginning of year	<u>7,016,176</u>
Cash and cash equivalents, end of year	<u><u>\$ 6,791,128</u></u>
Supplemental Disclosure of Cash Flow Information	
Cash paid for interest	<u><u>\$ 218,870</u></u>
Supplemental Disclosure of Noncash Investing and Financing Information	
Equipment acquired through third party financing	<u><u>\$ 131,807</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 Basis of Presentation

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 several 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"), and its wholly-owned subsidiary, FTC Transportation, Inc. ("FTCT"). All entities 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 by other than ownership of majority voting interest, or controlled through a majority voting interest in 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

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**Note 1. Nature of Organization and Basis of Presentation (Continued)**

Effective July 1, 2005, FTC established control of one of its affiliates, Feed The Children Kenya. FTC-Kenya operates as a furtherance of FTC's operations in Kenya, Africa. The financial results of FTC-Kenya are included in the accompanying consolidated financial statements.

FTC follows Statement of Financial Accounting Standards 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) 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 sustained a net loss for the year ended June 30, 2007 and therefore, no provision for income taxes has been made in the consolidated financial statements. FTCT has cumulative operating losses which could generate an 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.

**Note 2. Significant Accounting Policies**

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, the valuation of 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 with the investment portfolio for investing purposes as cash equivalents. Cash and cash equivalents in the investment portfolio is not included in cash and cash equivalents as it is held for investing purposes. FTC maintains cash balances at several financial institutions, which at times, may exceed federally-insured limits. FTC has not experienced any losses and believes it is not exposed to any significant risk with respect to cash and cash equivalents.

Investments: FTC carries investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values based on quoted market prices. Donated investments are recorded at fair 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.

## Feed The Children, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 2. Significant Accounting Policies (Continued)

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 amount less an estimate made for doubtful receivables. Accounts receivable is shown net of an allowance of \$309 as of June 30, 2007.

Contributions receivable: Unconditional promises to give cash are recorded at net present value, using risk-free interest rates applicable to the years in which the promises are 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 described under "Revenue Recognition" below.

Inventory: Purchased inventory is stated at the lower of cost or market. Donated inventory is stated at fair value of the donated materials based upon estimated wholesale value of gifts received. The inventory is for distribution to qualified organizations only, and is not available for sale. FTC records a loss for the decrease in estimated fair value of 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 completion of program production and its release to broadcasting networks.

Property and equipment: Property and equipment is comprised of land, building, furniture, fixtures, equipment, transportation equipment, vehicles and leasehold improvements and is stated at cost or, if donated, at approximate fair value at the date of donation. Depreciation is computed by the straight-line method over the following estimated useful lives of the assets:

	<u>Years</u>
Buildings and building improvements	20
Transportation, equipment and vehicles	5 – 7
Furniture, fixtures and equipment	3 – 5

Leasehold improvements are depreciated over the terms of the 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.

The carrying value of property, plant and equipment are evaluated annually for impairments or when an impairment is indicated in accordance with SFAS 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Notes to Consolidated Financial Statements

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**Note 2. 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.

Contributions: 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.

Revenue recognition: FTC receives donations of food, medical supplies, clothing and other materials for use in its ministry programs. Such gifts are recorded at their estimated fair value at the date of donation. The fair value of the donated materials is based upon estimated wholesale value of gifts received. Several methodologies are used in the determination of estimated wholesale value, including values provided by the donor, published industry pricing guides and internal average values for like-kind items. 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. Amounts used during the year are included in program services expense in the consolidated statement of activities. Amounts remaining at year end are included in inventory in the consolidated statement of financial position.

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.

Certain projects of FTC are assisted by grants from the United States Agency for International Development. Revenues from grants are 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.

## Feed The Children, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 2. Significant Accounting Policies (Continued)

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

Functional allocation of expenses and joint costs: FTC's financial statements are presented in accordance with Statement of Position 98-2 ("SOP"), *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 time records and on estimates made by FTC's management. For the year ended June 30, 2007, FTC incurred joint costs of approximately \$885,000 related to production and broadcasting activities that included a fund-raising appeal. Of those costs, \$665,000 was allocated to program services expense, \$144,000 to fund-raising expense and \$76,000 to management and general expense.

#### Note 3. Contributions Receivable and Concentrations

As of June 30, 2007, contributions receivable consist of pledges of cash and gifts-in-kind from corporate and individual donors. Unconditional promises to give as of June 30, 2007 are as follows:

Gifts-in-kind receivable, temporarily restricted	\$ 384,528,659
Pledges receivable, temporarily restricted	1,368,639
Less discounts to net present value	(12,678)
	<u>\$ 385,884,620</u>
Amount due in:	
Less than one year	\$ 385,748,110
One to five years	149,188
	<u>385,897,298</u>
Less discounts to net present value	(12,678)
	<u>\$ 385,884,620</u>

For the year ended June 30, 2007, one promise to contribute medicine internationally to FTC represented approximately 99% of the total contribution receivable balance and 48% of gift-in-kind revenue.

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.

## Feed The Children, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 4. Investments and Investment Income

FTC held the following investments as of June 30, 2007:

Money market accounts	\$ 9,336,697
Certificates of deposit	1,673,500
Equity securities and mutual funds	36,048,372
Corporate bonds	1,871,789
Government and government backed securities	10,647,583
Key man life insurance policies	3,542,808
	<u>\$ 63,120,749</u>

Investment income is comprised of the following for the year ended June 30, 2007:

	Unrestricted
Interest and dividends	\$ 1,688,218
Net realized and unrealized gains and losses	7,389,931
Other investment income	68,214
	<u>\$ 9,146,363</u>

The investments of FTC are exposed to market and credit risks. Thus, it is at least reasonably possible that changes in these risks in the near term could materially affect the investment balance and amounts reported in the consolidated financial statements.

#### Note 5. Property and Equipment

Property and equipment consists of the following as of June 30, 2007:

Land	\$ 7,001,070
Buildings and building improvements	37,450,491
Furniture, fixtures and equipment	7,927,230
Vehicles	678,969
Transportation equipment	7,049,853
	<u>60,107,613</u>
Less accumulated depreciation	<u>(19,057,699)</u>
	<u>\$ 41,049,914</u>

Net investment in property and equipment consists of the following:

Property and equipment, net	\$ 41,049,914
Less: related debt	(3,218,644)
	<u>\$ 37,831,270</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, 2007:

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, 2007	\$ 1,633,082
FTCT bank note payable of \$1,800,000, collateralized by certain investment assets of FTC, maturing September 14, 2008, principal and interest payable monthly at 30 day LIBOR (5.32% as of June 30, 2007) plus 2.5%.	502,447
FTCT bank note payable of \$1,500,000, collateralized by certain property, plant and equipment, maturing December 1, 2009, guaranteed by FTC, principal and interest payable monthly, 4.65% as of June 30, 2007.	664,305
FTCT bank note payable of \$123,000, collateralized by certain fixed assets, maturing June 20, 2008, principal and interest payable monthly, 6.25% as of June 30, 2007.	43,356
FTCT bank note payable of \$287,000, collateralized by certain fixed assets, maturing August 25, 2012, principal and interest payable monthly, 7.25% as of June 30, 2007.	287,000
FTC noninterest bearing installment note payable collateralized by related equipment, maturing March 2, 2008.	88,454
	<u>\$ 3,218,644</u>

Future maturities of notes payable as of June 30, 2007 are as follows:

Year Ending June 30,	
2008	\$ 1,232,909
2009	887,040
2010	458,155
2011	489,750
2012	140,493
Thereafter	10,297
	<u>\$ 3,218,644</u>

## Feed The Children, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 7. Capital Leases

FTCT leases transportation equipment under capital lease arrangements which expire during the fiscal year ending 2008. The leased assets have been capitalized and are included in transportation equipment in the amount of \$370,025 with depreciation expense of \$51,717 for the year ended June 30, 2007 and accumulated depreciation of \$267,242 as of June 30, 2007. At June 30, 2007, future minimum lease payments are as follows:

Year Ending June 30, 2008	\$ 116,702
Less interest portion	(3,409)
Present value of capital lease obligations	<u>\$ 113,293</u>

#### Note 8. Operating Leases

FTC, as lessee, has several operating leases, primarily for various forms of office equipment that expire at various dates through 2009. Rent expense for these leases was for the year ending June 30, 2007.

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2007 are as follows:

Year Ending June 30,	
2008	\$ 171,879
2009	85,940
	<u>\$ 257,819</u>

FTC leases excess warehouse space at three of its locations. These leases expire at various dates through 2012. Rental income from these leases was \$1,156,887 and was included in other revenues for the year ended June 30, 2007.

Future minimum rents to be received under these operating leases that have remaining terms in excess of one year as of June 30, 2007 are as follows:

Year Ending June 30,	
2008	\$ 1,115,214
2009	655,578
2010	14,954
2011	3,954
2012	1,977
	<u>\$ 1,791,677</u>

## Feed The Children, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

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#### Note 9. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of:

Purpose restrictions	\$ 407,171,180
Time restrictions	8,543,161
	<u>\$ 415,714,341</u>

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

#### Note 10. Fair Value of Financial Instruments

The carrying amounts of financial instruments, including 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 based on quoted market prices at June 30, 2007.

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 current market rates as of June 30, 2007.

#### Note 11. Employee Benefits

FTC provides retirement benefits under two separate qualified defined contribution plans under applicable provisions of the Internal Revenue Code. The plans cover substantially all full-time employees. FTC and FTCT have two separate qualified defined contribution plans a 403(b) plan and a 401(k) plan for eligible employees. Participation in the 401(k) plan is open to all employees who have completed one year of service and worked over 1,000 hours in that time period. FTC matches employee contributions in accordance with the provisions of each plan. For the year ended June 30, 2007, FTC's contribution to both plans was \$169,727.

#### Note 12. Related Party Transactions

FTC provides financial support and donates food, medicine, clothing and other materials to its international affiliates in 3 continents and in 17 countries. These affiliates act in furtherance of FTC's mission. During fiscal year ended June 30, 2007, total support provided to affiliates not included in FTC's consolidated financial statements approximated \$9 million.

#### Note 13. 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 legal counsel, these matters will not result in judgments which in the aggregate would have a material adverse effect on FTC's financial statements.