



WORLD NEIGHBORS

Inspiring People • Strengthening Communities

**Audited Financial Statements
June 30, 2009**

Inspiring People. Strengthening Communities.



WORLD NEIGHBORS

Inspiring People • Strengthening Communities

World Neighbors is presenting our audited financial statements for the fiscal year ending June 30, 2009. Readers will note that this was an extremely challenging year for the organization, given the global economic crisis and the widespread negative impact on all not-for-profits. World Neighbors was no exception to these realities.

We have been fortunate, however, in having a supportive and talented board of trustees, loyal donors, a highly skilled staff team and a proactive and positive organizational character. These elements allowed us to make tough decisions throughout the year that have enabled World Neighbors to emerge from this period with strength and confidence and poised to grow again.

All that we do is focused on our support and interaction with the hundreds of thousands of program beneficiaries who strive to better their communities in the poorest places on earth in Asia, Africa, Latin America and the Caribbean. Living out the remarkable legacy of Dr. John L. Peters, World Neighbors vision and mission continue as always - inspiring individuals and families to find their own solutions to the complex problems that they face. It is their strength, expertise and bravery that, in turn, inspire us each day. The financial concerns that we have tackled pale in comparison to the harsh day-to-day concerns in World Neighbors program areas. It is to their credit that triumphs and successes abound as we do this work in partnership with them.

To all of you who care deeply about World Neighbors, please be assured that this remarkable work goes forward every day. We are grateful to all who are part of these efforts.

Melanie Macdonald
President and Chief Executive Officer
The May Ayers Milburn Chair

OUR MISSION:

World Neighbors inspires people and strengthens communities to find lasting solutions to hunger, poverty and disease and to promote a healthy environment.

Audited Financial Statements

WORLD NEIGHBORS, INC.

JUNE 30, 2009

Independent Auditor's Report.....	1
Statement of Financial Position.....	2
Statement of Activities.....	3
Statement of Functional Expenses.....	4
Statement of Cash Flows.....	5
Notes to Financial Statements.....	6



Alan Behrens, CPA
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Timothy Havern, CPA

To the Board of Trustees
World Neighbors, Inc.

We have audited the accompanying statement of financial position of World Neighbors, Inc. (a nonprofit organization) as of June 30, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of World Neighbors, Inc. as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

HBC CPAs & Advisors

Yukon, Oklahoma
October 14, 2009

WORLD NEIGHBORS, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2009

ASSETS

Cash and cash equivalents	\$ 688,660
Contributions receivable, net	1,980,327
Investments	5,372,048
Investments held in trusts	973,079
Beneficial interest in remainder trusts	996,772
Land, building and equipment, net	377,724
Other investment assets	570,000
Beneficial interest in assets held by others	24,433
Other assets	80,117
	<hr/>
TOTAL ASSETS	\$ 11,063,160
	<hr/> <hr/>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable and other liabilities	174,200
Amounts payable under gift annuities	1,493,823
Amounts payable under split-interest trust agreements	267,204
Notes payable	574,000
	<hr/>
TOTAL LIABILITIES	2,509,227
	<hr/>

NET ASSETS

Unrestricted	1,288,794
Temporarily restricted	4,632,358
Permanently restricted	2,632,781
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TOTAL NET ASSETS	8,553,933
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TOTAL LIABILITIES AND NET ASSETS	\$ 11,063,160
	<hr/> <hr/>

See accompanying notes.

WORLD NEIGHBORS, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES, GAINS AND OTHER SUPPORT				
Contributions	\$ 2,956,199	\$ 800,737	\$ 1,500	\$ 3,758,436
Special events	146,577	-	-	146,577
Direct overseas grants	-	1,584,586	-	1,584,586
Investment income	281,528	(262,027)	(17,604)	1,897
Net investment gains(losses)	(429,456)	(706,472)	(71,518)	(1,207,446)
Change in value of split-interest agreements	-	(141,125)	-	(141,125)
Other income	52,968	-	-	52,968
Losses on uncollectible pledges	(373,196)	-	-	(373,196)
Net assets released from restrictions and transfers	<u>2,977,433</u>	<u>(2,977,433)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES, GAINS AND OTHER SUPPORT	<u>\$ 5,612,053</u>	<u>\$(1,701,734)</u>	<u>\$ (87,622)</u>	<u>\$ 3,822,697</u>
EXPENSES				
Grants and program expenses	5,173,011	-	-	5,173,011
Public education	848,085	-	-	848,085
General and administrative	961,696	-	-	961,696
Fundraising	<u>1,204,605</u>	<u>-</u>	<u>-</u>	<u>1,204,605</u>
TOTAL EXPENSES	<u>8,187,397</u>	<u>-</u>	<u>-</u>	<u>8,187,397</u>
CHANGE IN NET ASSETS	<u>(2,575,344)</u>	<u>(1,701,734)</u>	<u>(87,622)</u>	<u>(4,364,700)</u>
NET ASSETS BEGINNING OF YEAR -RESTATED	2,734,017	5,589,051	4,595,565	12,918,633
RECLASSIFICATION FOR ADOPTION OF 117-1	<u>1,130,121</u>	<u>745,041</u>	<u>(1,875,162)</u>	<u>-</u>
RECLASSIFIED NET ASSETS AT BEGINNING OF YEAR	<u>3,864,138</u>	<u>6,334,092</u>	<u>2,720,403</u>	<u>12,918,633</u>
NET ASSETS END OF YEAR	<u>\$ 1,288,794</u>	<u>\$ 4,632,358</u>	<u>\$ 2,632,781</u>	<u>\$ 8,553,933</u>

See accompanying notes.

WORLD NEIGHBORS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2009

	Program Services			Supporting Services			Total
	Overseas Programs	Public Education	Total	General & Administrative	Fund Raising	Total	
Salaries and related expenses:							
Salaries	\$ 1,814,642	\$ 383,457	\$ 2,198,099	\$ 543,695	\$ 711,538	\$ 1,255,233	\$ 3,453,332
Benefits	247,747	64,028	311,775	104,958	148,035	252,993	564,768
	<u>2,062,389</u>	<u>447,485</u>	<u>2,509,874</u>	<u>648,653</u>	<u>859,573</u>	<u>1,508,226</u>	<u>4,018,100</u>
Overseas programs	2,298,258	-	2,298,258	-	-	-	2,298,258
Contract services	54,557	26,029	80,586	10,986	48,229	59,215	139,801
Legal and accounting services	53,930	19,675	73,605	53,157	24,928	78,085	151,690
Travel	272,932	83,234	356,166	36,922	68,006	104,928	461,094
Office supplies	47,463	16,195	63,658	23,308	10,279	33,587	97,245
Telephone	106,815	25,731	132,546	16,304	6,157	22,461	155,007
Postage	6,450	6,024	12,474	8,337	20,646	28,983	41,457
Rent and occupancy	129,118	40,813	169,931	23,213	28,084	51,297	221,228
Office equipment and software	8,680	3,634	12,314	10,451	17,947	28,398	40,712
Printing and publications	10,070	16,148	26,218	21,675	35,247	56,922	83,140
Miscellaneous	10,262	3,591	13,853	1,132	3,188	4,320	18,173
Depreciation	26,185	624	26,809	42,939	4,716	47,655	74,464
Dues	3,870	2,901	6,771	3,413	9,425	12,838	19,609
Training and meetings	5,236	1,914	7,150	2,305	1,949	4,254	11,404
Financial expenses	54,232	7,420	61,652	58,901	9,821	68,722	130,374
In-kind	22,564	146,667	169,231	-	56,410	56,410	225,641
Total expenses	<u>\$ 5,173,011</u>	<u>\$ 848,085</u>	<u>\$ 6,021,096</u>	<u>\$ 961,696</u>	<u>\$ 1,204,605</u>	<u>\$ 2,166,301</u>	<u>\$ 8,187,397</u>

See accompanying notes.

WORLD NEIGHBORS, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2009

OPERATING ACTIVITIES	
Changes in net assets	\$ (4,364,700)
Adjustment to reconcile change in net assets to net cash used in operating activities:	
Depreciation	74,464
Realized and unrealized gains on investments	1,207,446
Loss on uncollectible pledges receivable	(403,833)
Change in operating assets and liabilities:	
Contributions receivable	1,841,725
Investments held in trusts	134,514
Beneficial interest in trusts	(90,079)
Other assets	24,959
Beneficial interest in assets held by others	6,098
Accounts payable and accrued expenses	(524,903)
Amounts payable under charitable gift annuities	106,198
Obligations under split-interest agreements	(56,774)
NET CASH USED IN OPERATING ACTIVITIES	<u>(2,044,885)</u>
INVESTING ACTIVITIES	
Purchases of investments	(468,573)
Proceeds from sale of investments	1,907,344
Purchase of fixed assets	(65,525)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,373,246</u>
FINANCING ACTIVITIES	
Proceeds from notes payable	574,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>574,000</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(97,639)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>786,299</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 688,660</u></u>
SUPPLEMENTAL INFORMATION:	
Cash paid for interest	<u><u>\$ 10,360</u></u>

See accompanying notes.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

NOTE A—ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

World Neighbors, Inc. (“World Neighbors”) is an international development organization striving to eliminate hunger, poverty, and disease in the most deprived rural villages in Asia, Africa, and Latin America. World Neighbors invests in people and their communities by training and inspiring them to create their own life-changing solutions through programs that combine agriculture, literacy, water, health, and environmental protection. Since 1951, more than 25 million people in 45 countries have transformed their lives with the support of World Neighbors. World Neighbors’ headquarters are in Oklahoma City, Oklahoma and seven field offices are located in Latin America and the Caribbean, Asia, and Africa which oversee the organization’s program work in Ecuador, Bolivia, Peru, Guatemala, Honduras, Nicaragua, Haiti, Nepal, India, Indonesia, East Timor, Philippines, Kenya, Tanzania, Burkina Faso, Mali, Niger, and Uganda.

Basis of Accounting: The financial statements of World Neighbors have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other assets and liabilities.

Basis of Presentation: Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions:

Unrestricted net assets: Net assets for which no donor has imposed a restriction that the assets be used for a specific purpose or held for a certain period of time.

Temporarily restricted net assets: Net assets subject to donor-imposed stipulations that may or will be met, either by actions of World Neighbors and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by World Neighbors. The donors of these assets permit World Neighbors to use all or part of the income earned on any related investments for general or specific purposes.

Contributions: Contributions, including unconditional promises to give, are recognized as revenues in the period received by World Neighbors. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Transfers of assets under conditional promises, which are received by World Neighbors prior to fulfilling these conditions, are recorded as a liability until the conditions are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at the date of gift.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS – Continued

JUNE 30, 2009

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Contributions—Continued: Contributions to be received after one year are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using Federal funds (risk-free) interest rates. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions. Contributions which are received and whose restrictions are met in the same period are recognized as temporarily restricted contribution revenue. When the donor restriction on these contributions is met and/or the implied time restriction has expired the net assets are released from restriction in the statement of activities.

Allowance is made for uncollectible contributions based upon management's judgment and analysis of the creditworthiness of the donors, past collection experience, and other relevant factors.

John L. Peters Society Founders pledges and bequest contributions are unrestricted for the operations of World Neighbors, unless specifically restricted by the donor. Endowment pledges received are permanently restricted to be invested as part of the World Neighbors endowment. Grants to programs received are temporarily restricted for support of specific programs.

Marketable Securities and Investment Income: Marketable securities are stated at fair value. Fair values are generally determined based on quoted market prices or estimates provided by external investment managers. Realized gains and losses on sales of marketable securities are computed on the first-in, first-out basis.

The majority of marketable securities are combined in a common investment pool and invested on the basis of a total return policy to provide income and improve opportunities to realize appreciation in investment values.

Income and gains on investments are reported as increases in permanently restricted net assets if the terms of the gift that gave rise to the investment or applicable laws require such amounts be added to permanent endowment principal. Income and gains are reported as increases in temporarily restricted net assets if the terms of the gift or applicable law impose restrictions on the use of the income and as increases in unrestricted net assets in all other cases.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS – Continued

JUNE 30, 2009

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Marketable Securities and Investment Income – Continued: Generally, losses on investments of restricted endowments reduce temporarily restricted net assets to the extent donor-imposed temporary restrictions on the net appreciation of investments have not been met before the loss occurs. Any remaining losses reduce unrestricted net assets. Subsequent investment gains are applied first to unrestricted net assets to the extent that losses have previously been recognized, and then to temporarily restricted net assets.

Cash and Cash Equivalents: Management considers highly liquid debt instruments readily convertible into cash to be cash equivalents, except for such instruments purchased with contributions with donor-imposed restrictions limiting their use to long-term purposes, which are classified as investments. The carrying amount approximates fair value.

Property, Plant and Equipment: Property, plant and equipment are stated at cost at acquisition or at fair value at the date of donation. Depreciation is based on the estimated useful life of the asset using the straight-line method. World Neighbors records impairments of its property, plant and equipment when it becomes probable that the carrying value of the assets will not be fully recovered over their estimated lives. Impairments are recorded to reduce the carrying value of the assets to their net realizable value determined by management based on facts and circumstances at the time of the determination. No property, plant or equipment impairments were recorded in the current year.

Beneficial Interest in Trusts: Beneficial interests in trusts represent the amounts held under irrevocable charitable remainder trusts agreements between donors and third party trustees. World Neighbors interest in these trusts is recorded at fair value. Fair value is based on the expected future cash receipts from the trusts or, in some cases, the fair value of the assets contributed to the trust. The amounts World Neighbors will ultimately realize could differ materially and significant fluctuations in fair values could occur from year to year.

Other Investment Assets: Other property investments are stated at cost at acquisition or at fair value on the contribution date, if donated and consist of real property or forms of real property interests donated to World Neighbors. No attempt is made by management to revalue the real property assets at subsequent dates prior to sale due to the prohibitive cost of obtaining periodic appraisals. However, management is of the opinion that any subsequent reevaluation would not have a significant impact on World Neighbors' statements of financial position or changes in its net assets. At June 30, 2009, other investment assets consist of donated resort property which must be held by World Neighbors for two years before it can be sold.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS – Continued

JUNE 30, 2009

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Split-Interest Agreements: World Neighbors split-interest agreements with donors consist of irrevocable charitable remainder trusts for which World Neighbors serves as trustee. Liabilities to the lead beneficiaries of these trusts are included in amounts payable under split-interest trust agreements in the statement of financial position. World Neighbors also administers numerous charitable gift annuities. Liabilities to the lead beneficiaries of these agreements are included in amounts payable under gift annuities in the statement of financial position.

Special Events: Special event revenues primarily relate to income raised at World Neighbors annual World Fest event through sponsorships and merchandise sales. Special event revenues were \$202,904 for the year ended June 30, 2009. Special event revenues are presented in the statement of activities net of related cost of goods sold of \$56,334.

Income Taxes: World Neighbors is generally exempt from federal and state income taxes under Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3). World Neighbors is subject to income tax on any unrelated business income under Internal Revenue Code Section 501(b).

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosed contingent assets and liabilities at the date of the financial statement. Actual results could differ from those estimates.

Significant estimates: Estimates that are particularly susceptible to significant change include the valuation of investments, investments held in trusts, and beneficial interests in remainder trusts, and contributions receivable. Investments and beneficial interests in general are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of marketable securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position. Significant fluctuations in fair values could occur from year to year and the amounts World Neighbors will ultimately realize could differ materially. Management's estimate of investments, beneficial interests, and contributions receivable is based on consideration of all relevant available information and an analysis of the collectibility of contributions receivable, which arise primarily from pledges, trusts and estates at the financial statement date.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS – Continued

JUNE 30, 2009

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Concentrations of Credit Risk: World Neighbors maintains cash in bank deposit accounts which, at times, may exceed federally insured limits. World Neighbors has not experienced any losses in such accounts. World Neighbors believes that it is not exposed to any significant credit risk on cash or cash equivalents maintained in U.S. financial institutions.

World Neighbors also maintains bank accounts in several countries in which it operates. The carrying amount of such cash was \$594,349 at June 30, 2009, and is included in cash and cash equivalents in the accompanying statements of financial position. World Neighbors has not experienced any losses in any overseas bank accounts.

Approximately 85% of the grants to programs receivable is due from two donors at June 30, 2009. Approximately 28% of World Neighbors' total contribution revenues were provided by three organizations for the years ended June 30, 2009.

Implementation of FSP FAS 117-1. In August 2008, The Financial Accounting Standards Board issued FASB Staff Position No. FAS 117-1, "Endowment of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UMPIFA). FSP FAS 117-1 also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of Oklahoma enacted UPMIFA effective November, 1, 2007, the provisions of which apply to endowment funds existing on or established after that date. The Organization has adopted FSP FAS 117-1 for the year ending June 30, 2009. The Board of Trustees has determined that the majority of the Organization's permanently restricted net assets meet the definition of endowment funds under UPMIFA. Based on the Organization's interpretation of UPMIFA, the Organization has reviewed all of its endowment funds and has made the following reclassifications approximately \$1,875,000 from permanently restricted net assets, \$745,000 to temporarily restricted net assets and \$1,130,000 to unrestricted net assets as of June 30, 2008.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS – Continued

JUNE 30, 2009

NOTE B – INVESTMENTS

World Neighbors investments are managed by investment managers and they are authorized to manage within a range for fixed income of 30 percent to 50 percent. At the end of the year, the overall allocation of World Neighbors' investments was 40 percent fixed income and 60 percent equities.

Investments in cash equivalent funds, debt and equity securities, and other investments, at fair value, consist of the following at June 30:

	Fair Value	Carrying Amount
Cash equivalent funds	\$ 342,753	\$ 342,753
Securities:		
Common and preferred stocks	3,070,186	3,070,186
Corporate bonds	1,954,109	1,954,109
Government agency	5,000	5,000
	<u>\$ 5,372,048</u>	<u>\$ 5,372,048</u>

Expenses relating to investment revenues, including custodial fees and investment advisory fees, amounted to \$51,005 for the year ended June 30, 2009, respectively, and have been netted against investment income in the statement of activities.

NOTE C—INVESTMENTS HELD IN TRUSTS

World Neighbors is the trustee of various trusts which are subject to the terms of trust agreements entered into with the donor. Investments held in trusts in cash equivalent funds and securities, at fair value, consist of the following at June 30, 2009:

Cash equivalent funds	\$ 44,901
Securities:	
Fixed income mutual funds	321,024
Equity mutual funds	228,691
Common and preferred stocks	378,463
	<u>\$ 973,079</u>

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS – Continued

JUNE 30, 2009

NOTE D- FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis at June 30, 2009 are as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Assets (Level 2)	Significant Unobservable Inputs (Level 3)
Investments	\$ 5,372,048	\$ 5,372,048	\$ -	\$ -
Investments held in trusts	973,079	973,079	-	-
Beneficial interests in remainder trusts	996,772	-	-	996,772
Beneficial interest in assets held by others	24,433	24,433	-	-
	<u>\$ 7,366,332</u>	<u>\$ 6,369,560</u>	<u>\$ -</u>	<u>\$ 996,772</u>

Fair values for investments, investments held in trust and beneficial interest in assets held by others are determined by reference to quoted market prices and other relevant information generated by market transactions. Fair value for beneficial interests in remainder trusts is determined by calculating the present value of the future distributions expected to be received, using published life expectancy tables and discounts ranging from 6.75% to 6.83%.

Assets measured at fair value on a recurring basis using significant unobservable inputs (level 3 inputs):

Beneficial interest in remainder trusts:	
July 1, 2008	\$896,767
Change in value in split interest agreement	214,007
Payment from remainder trust	<u>(114,002)</u>
June 30, 2009	<u>\$996,772</u>

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS – Continued

JUNE 30, 2009

NOTE D- FAIR VALUE MEASUREMENTS (continued)

The change in value of the split-interest agreements is reflected in the change in temporarily restricted net assets on the Statement of Activities. The net change is attributable to an unrealized gain on investments held in remainder trusts of \$379,490 and present value discount of \$(165,483).

As allowed by FSP FAS 157-2, the organization has deferred adopting the provisions of SFAS No. 157 for nonfinancial assets and liabilities that are not measured on a recurring basis.

NOTE E—CONTRIBUTIONS RECEIVABLE

Unconditional contributions receivable are expected to be collected as follows at June 30, 2009:

Receivable in less than one year	\$ 1,327,436
Receivable in one to five years	<u>1,273,343</u>
Gross contributions receivable	2,600,779
Less: Discount to present value	72,135
Less: Allowance for doubtful accounts	<u>548,317</u>
Net contributions receivable	<u><u>\$ 1,980,327</u></u>

Contributions receivable in more than one year are discounted at the applicable rate in effect at the time the pledge was made and range from 2.54% to 4.51% during 2009.

At June 30, 2009, John L. Peters Society Founders, bequests, and other contributions receivable in the amount of \$842,226 are unrestricted for the operations of World Neighbors. Grants to programs receivable in the amount of \$1,138,101, are temporarily restricted for support of specific programs.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS – Continued

JUNE 30, 2009

NOTE F—PROPERTY AND EQUIPMENT, NET

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

Land and buildings	\$ 559,489
Furniture and Equipment	223,271
Computers and software	362,344
Vehicles	103,821
	<u>1,248,925</u>
Less Accumulated depreciation	871,201
	<u>\$ 377,724</u>

NOTE G—BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

In previous years, World Neighbors transferred \$20,385 to the Oklahoma City Community Foundation, Inc. (the “Foundation”), and specified itself as the beneficiary of the funds. In accordance with the provisions of SFAS NO. 136, the statements of financial position as of June 30, 2009 include the beneficial interests in assets held by others of \$24,433. The statements of activities for the year ended June 30, 2009 include net investment activity of \$6,098. World Neighbors received distributions in 2009 related to these funds totaling \$1,495.

Annually, distributions from the funds are paid to World Neighbors according to the Foundation’s spending policy. The Foundation maintains variance power over these funds. Variance power assures donors that if the charitable purpose of their contribution becomes impractical or impossible, the distributions will be directed to similar purposes in the community.

In addition to the funds discussed above, the Foundation maintains other funds that have been contributed by various donors to the Foundation for the benefit of World Neighbors. These funds are not included as assets of World Neighbors. The earnings from these funds are paid to World Neighbors each year. For the year ended June 30, 2009, World Neighbors received \$40,817. At June 30, 2009, the fair market value of the funds was approximately \$668,000. World Neighbors has no remainder interest in the corpus of these funds.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS – Continued

JUNE 30, 2009

NOTE H—RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following at June 30, 2009:

Planned giving fund	\$ 894,449
Pledges for restricted purposes	765,037
Grants restricted for various purposes	1,909,288
Russell fund for maintenance and operations of headquarters	95,169
Assets transferred to and held by others	24,433
Executive chair	577,221
MC Foundation	226,514
Gary Wang fund to benefit people of Nepal	77,608
Other	62,639
Total Temporarily Restricted Net Assets	<u>\$ 4,632,358</u>

Permanently restricted net assets consist of the following at June 30, 2009:

Special endowment - general support	\$ 417,274
Overseas Partnership - overseas programs	689,579
World Neighbors - general support	892,389
International programs charitable endowment	268,781
Total Endowment Funds	<u>\$ 2,268,023</u>
Munds charitable trust - general support	362,258
Smith charitable trust - general support	2,500
Total Perpetual Trusts	<u>364,758</u>
Total Permanently Restricted Net Assets	<u>\$ 2,632,781</u>

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS – Continued

JUNE 30, 2009

NOTE I-DEFINED CONTRIBUTION PENSION PLAN

World Neighbors has a defined contribution (money purchase) pension plan covering substantially all employees. Employee contributions are matched by World Neighbors based on a percent of salary. Total pension expense was approximately \$112,000 for the year ended June 30, 2009.

NOTE J—SPLIT INTEREST AGREEMENTS

Assets recorded under split interest agreements administered by the Foundation are recognized in the Foundation's financial statements under various captions as follows:

Cash	\$ 5,333
Investments	1,151,824
Investments held in trusts	<u>590,412</u>
Total assets held under split interest agreements	<u>\$ 1,747,569</u>
Amounts payable under gift annuities	\$ 1,493,823
Amounts payable under split-interest trust agreements	<u>267,204</u>
Total liabilities under split-interest agreements	<u>\$ 1,761,027</u>

Assets received under these agreements are recorded at fair value and in the appropriate net asset category. Related contributions per the agreements are recognized as contribution revenue and are equal to the present value of future benefits to be received by the World Neighbors over the term of the agreements. Contribution revenue recognized under split interest agreements for the year ended June 30, 2009 was approximately \$30,000. Liabilities have been established for those split-interest agreements for which World Neighbors is the trustee or for which World Neighbors is obligated to an annuitant under a charitable gift annuity. During the term of these agreements, changes in the value of the split-interest agreements are recognized in the statement of activities based on accretion of the discounted amount of the contribution, and reevaluations of the expected future benefits (payments to be received (paid) by World Neighbors (beneficiaries), based on changes in life expectancy and other assumptions. Discount rates ranging from 3.8% to 9.7% based on the date of the contribution where used in these calculations.

In addition, to the above split-interest agreements, World Neighbors is also the beneficiary of several charitable remainder trusts in which it is not the trustee. World Neighbors' beneficial interest in these assets was \$996,772 at June 30, 2009.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS – Continued

JUNE 30, 2009

NOTE K – OPERATING LEASES

The Organization has two noncancelable operating leases for office copiers that expire in May 2011. Those leases require that Organization pay all executory costs such as taxes, maintenance, and insurance. Rental expenses for those leases were \$10,282 for the year ended June 30, 2009.

Future minimum lease payments under operating leases that have remaining terms in excess of one year as of June 30, 2009, are:

Year ending June 30:

2010	\$10,282
2011	<u>9,425</u>
	<u>\$19,707</u>

NOTE L—COMMITMENTS AND CONTINGENCIES

World Neighbors has secured variable rate revolving lines of credit with two financial institutions. One of these lines of credit has an interest rate maximum of 7% and minimum of 5%. The rate in effect at June 30, 2009 was 5% and the agreement expires on August 15, 2009. The line of credit is secured by real estate, World Neighbors' Headquarters ("Headquarters"), with a carrying value of approximately \$230,000 at June 30, 2009. Headquarters was appraised in March 2008 at an estimated fair value of \$725,000. The line of credit limit is \$550,000. The second revolving line of credit has an interest rate of 4% with a maturity date of May 2010. The line of credit, with a carrying value of approximately \$340,000, is secured by a managed investment account maintained at the financial institution. The managed account had a fair market value of approximately \$1,718,000 as of June 30, 2009. The line of credit limit is \$650,000. Due to the short maturities of these notes the carrying value approximates fair value.

NOTE M- DONOR DESIGNATED ENDOWMENTS

The Organization's endowment consists of approximately 6 individual funds established for a variety of purposes. Its endowments include donor-restricted funds to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS – Continued

JUNE 30, 2009

NOTE M- DONOR DESIGNATED ENDOWMENTS (continued)

The Board of Trustees of the Organization has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds in the absence of explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) the Organization's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Organization has adopted investment and spending policies, approved by the board of Trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Therefore, the Organization expects its endowment assets, over time, to produce an average minimum rate of return of 5% annually. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The Organization has a policy of appropriating for distribution each year 5% of its endowment fund's average value of the prior 20 quarters through the calendar year-end preceding the fiscal year in which the distributions is planned. In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Organization expects the current spending policy to allow its endowment funds to grow at a nominal average rate of 5% annually. This is consistent with the Organization's objective to maintain the purchasing power

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS – Continued

JUNE 30, 2009

NOTE M- DONOR DESIGNATED ENDOWMENTS (continued)

of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Funds with Deficiencies. From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$125,684 in 2 individual endowments as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board.

Endowment Net Asset Composition by Type of Fund as of June 30, 2009 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (125,684)	\$ 4,632,313	\$ 2,632,826	\$ 7,139,455

Changes in endowment net assets as of June 30, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets beginning of the year- restated	\$ -	\$ 5,589,051	\$ 4,595,565	\$ 10,184,616
Reclassification for FAS 117-1	-	745,041	(1,875,162)	(1,130,121)
Endowment net assets restated	-	6,334,092	2,720,403	9,054,495
Contributions	-	800,737	1,500	802,237
Direct overseas grants	-	1,584,586	-	1,584,586
Investment income	(125,684)	(262,072)	(17,559)	(405,315)
Change in value split interest agreements	-	(141,125)	-	(141,125)
Net appreciation (depreciation)	-	(706,472)	(71,518)	(777,990)
Amounts appropriated for expenditures	-	(2,977,433)	-	(2,977,433)
	<u>\$ (125,684)</u>	<u>\$ 4,632,313</u>	<u>\$ 2,632,826</u>	<u>\$ 7,139,455</u>

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS – Continued

JUNE 30, 2009

NOTE N – RESTATEMENT OF NET ASSETS

World Neighbors is a remainder beneficiary to an outside managed trust. For a number of years, the organization did not receive any financial reporting from the trustee. In the current year, an accounting of the trust's assets was provided. World Neighbors has increased temporarily restricted net assets by approximately \$145,000 to account for the increase in the asset values for prior years' activities that were previously unrecorded.

NOTE O- STRATEGIC PLAN

Like many not-for-profits across the U.S., World Neighbors has felt the effects of the current economic climate since 2007. As a result, we experienced a substantial drop in our incoming donations and financial support from individual donors and grantors as well as significant losses in our investments.

In order for World Neighbors to continue its life-changing work across the globe, we undertook a substantial restructuring process during 2008/09 to ensure the longer term financial sustainability of the organization. The costs of this restructuring were absorbed into fiscal year 2008/09 but place World Neighbors in a strong position for 2009/10 and beyond.

World Neighbors continues its remarkable work in 15 countries in Asia, Africa, Latin America and the Caribbean, touching the lives of over 500,000 beneficiaries each year.