



# WORLD NEIGHBORS

Inspiring People • Strengthening Communities

AUDITED FINANCIAL STATEMENTS

June 30, 2010

Audited Financial Statements

WORLD NEIGHBORS, INC.

JUNE 30, 2010

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Alan Behrens, CPA  
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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, 2010, 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. The prior year's summarized comparative information has been derived from 2009 financial statements and, in our report, dated October 14, 2009; we expressed our opinion that these financial statements were fairly presented in conformity with accounting principles generally accepted in the United States of America.

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, 2010, 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 20, 2010

WORLD NEIGHBORS, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2010 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2009)

ASSETS	2010	2009
Cash and cash equivalents	\$ 278,572	\$ 688,660
Contributions receivable, net	1,932,129	1,980,327
Investments	5,578,646	5,372,048
Investments held in trusts	1,067,114	973,079
Beneficial interest in remainder trusts	1,083,657	996,772
Other investment assets	-	570,000
Land, building and equipment, net	860,694	377,724
Beneficial interest in assets held by others	26,210	24,433
Other assets	55,822	80,117
<b>TOTAL ASSETS</b>	<b>\$ 10,882,844</b>	<b>\$ 11,063,160</b>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and other liabilities	\$ 260,037	\$ 174,200
Amounts payable under gift annuities	1,399,641	1,493,823
Amounts payable under split-interest trust agreements	271,158	267,204
Notes payable	958,289	574,000
<b>TOTAL LIABILITIES</b>	<b>2,889,125</b>	<b>2,509,227</b>
NET ASSETS		
Unrestricted	1,037,218	1,288,794
Temporarily restricted	4,220,356	4,632,358
Permanently restricted	2,736,145	2,632,781
<b>TOTAL NET ASSETS</b>	<b>7,993,719</b>	<b>8,553,933</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 10,882,844</b>	<b>\$ 11,063,160</b>

See accompanying notes.

WORLD NEIGHBORS, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2010 (WITH COMPARATIVE TOTALS FOR 2009)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2010	2009
<b>REVENUES, GAINS AND OTHER SUPPORT</b>					
Contributions	\$ 2,315,717	\$ 375,754	\$ 7,428	\$ 2,698,899	\$ 3,758,436
Special events	133,078	-	-	133,078	146,577
Direct overseas grants	-	2,193,319	-	2,193,319	1,584,586
Investment income	139,619	60,211	47,831	247,661	212,362
Net investment gains (losses)	296,990	211,913	97,265	606,168	(1,207,446)
Change in value of split-interest agreements	-	(129,902)	-	(129,902)	(351,590)
Other income	155,142	-	-	155,142	52,968
Losses on uncollectible pledges	(119,242)	-	-	(119,242)	(373,196)
Losses on foreign exchange transactions	-	(78,618)	-	(78,618)	-
Net assets released from restrictions and transfers	3,093,839	(3,044,679)	(49,160)	-	-
<b>TOTAL REVENUES, GAINS AND OTHER SUPPORT</b>	<b>6,015,143</b>	<b>(412,002)</b>	<b>103,364</b>	<b>5,706,505</b>	<b>3,822,697</b>
<b>EXPENSES</b>					
Grants and program expenses	4,132,169	-	-	4,132,169	5,173,011
Public education	498,774	-	-	498,774	848,085
General and administrative	721,634	-	-	721,634	961,696
Fundraising	914,142	-	-	914,142	1,204,605
<b>TOTAL EXPENSES</b>	<b>6,266,719</b>	<b>-</b>	<b>-</b>	<b>6,266,719</b>	<b>8,187,397</b>
<b>CHANGE IN NET ASSETS</b>	<b>(251,576)</b>	<b>(412,002)</b>	<b>103,364</b>	<b>(560,214)</b>	<b>(4,364,700)</b>
<b>NET ASSETS BEGINNING OF YEAR</b>	<b>1,288,794</b>	<b>4,632,358</b>	<b>2,632,781</b>	<b>8,553,933</b>	<b>12,918,633</b>
<b>NET ASSETS END OF YEAR</b>	<b>\$ 1,037,218</b>	<b>\$ 4,220,356</b>	<b>\$ 2,736,145</b>	<b>\$ 7,993,719</b>	<b>\$ 8,553,933</b>

See accompanying notes.

WORLD NEIGHBORS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2010 (WITH COMPARATIVE TOTALS FOR 2009)

	Program Services			Supporting Services			Total 2010	2009
	Overseas Programs	Public Education	Total	General & Administrative	Fund Raising	Total		
Salaries and related expenses:								
Salaries	\$ 1,049,349	\$ 195,614	\$ 1,244,963	\$ 382,046	\$ 468,131	\$ 850,177	\$ 2,095,140	\$ 3,453,332
Benefits	235,719	40,262	275,981	57,630	81,944	139,574	415,555	564,768
	<u>1,285,068</u>	<u>235,876</u>	<u>1,520,944</u>	<u>439,676</u>	<u>550,075</u>	<u>989,751</u>	<u>2,510,695</u>	<u>4,018,100</u>
Overseas programs	2,251,924	-	2,251,924	-	-	-	2,251,924	2,298,258
Contract services	32,182	20,007	52,189	16,964	80,160	97,124	149,313	139,801
Legal and accounting services	47,420	12,161	59,581	28,011	10,960	38,971	98,552	151,690
Travel	125,737	44,182	169,919	30,922	77,222	108,144	278,063	461,094
Office supplies	20,276	7,204	27,480	6,846	11,234	18,080	45,560	97,245
Telephone	41,827	9,145	50,972	16,878	5,593	22,471	73,443	155,007
Postage	3,716	3,705	7,421	6,078	17,048	23,126	30,547	41,457
Rent and occupancy	159,689	44,284	203,973	34,476	43,314	77,790	281,763	221,228
Office equipment and software	10,676	4,144	14,820	7,690	17,575	25,265	40,085	40,712
Printing and publications	14,515	9,812	24,327	3,967	31,674	35,641	59,968	83,140
Miscellaneous	5,451	1,292	6,743	6,447	2,284	8,731	15,474	18,173
Depreciation	40,408	1,074	41,482	53,536	6,681	60,217	101,699	74,464
Dues	6,411	2,678	9,089	7,486	7,913	15,399	24,488	19,609
Training and meetings	8,657	2,524	11,181	1,093	2,909	4,002	15,183	11,404
Financial expenses	63,868	7,452	71,320	61,564	13,641	75,205	146,525	130,374
In-kind	14,344	93,234	107,578	-	35,859	35,859	143,437	225,641
Total expenses	<u>\$ 4,132,169</u>	<u>\$ 498,774</u>	<u>\$ 4,630,943</u>	<u>\$ 721,634</u>	<u>\$ 914,142</u>	<u>\$ 1,635,776</u>	<u>\$ 6,266,719</u>	<u>\$ 8,187,397</u>

See accompanying notes.

WORLD NEIGHBORS, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2010 (WITH COMPARATIVE TOTALS FOR 2009)

OPERATING ACTIVITIES	2010	2009
Changes in net assets	\$ (560,214)	\$ (4,364,700)
Adjustment to reconcile change in net assets to net cash used in operating activities:		
Depreciation	101,699	74,464
Realized and unrealized gains on investments	(561,830)	1,207,446
Loss on uncollectible pledges receivable	119,242	403,833
Change in operating assets and liabilities:		
Contributions receivable	(71,044)	1,034,059
Investments held in trusts	(94,035)	134,514
Beneficial interest in trusts	(86,885)	(90,079)
Other assets	24,295	24,959
Beneficial interest in assets held by others	(1,777)	6,098
Accounts payable and accrued expenses	85,837	(524,903)
Amounts payable under charitable gift annuities	(94,182)	106,198
Obligations under split-interest agreements	3,954	(56,774)
NET CASH USED IN OPERATING ACTIVITIES	<u>(1,134,940)</u>	<u>(2,044,885)</u>
INVESTING ACTIVITIES		
Purchases of investments	(128,188)	(468,573)
Proceeds from sale of investments	483,420	1,907,344
Proceeds from sale of fixed assets	38,216	-
Purchase of fixed assets	(52,885)	(65,525)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>340,563</u>	<u>1,373,246</u>
FINANCING ACTIVITIES		
Proceeds from notes payable	384,289	574,000
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>384,289</u>	<u>574,000</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(410,088)	(97,639)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>688,660</u>	<u>786,299</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 278,572</u>	<u>\$ 688,660</u>
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	<u>\$ 71,023</u>	<u>\$ 10,360</u>

See accompanying notes.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

World Neighbors, Inc. (“World Neighbors” or “the Organization”) 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 is in Oklahoma City, Oklahoma with six field offices located in Latin America and the Caribbean, Asia and Africa which oversee the Organization’s program work in Bolivia, Peru, Guatemala, Honduras, Nicaragua, Haiti, Nepal, India, Indonesia, East Timor, Kenya, Tanzania, Burkina Faso, Mali, 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: The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Cash and Cash Equivalents: For the purposes of the Statement of Cash Flows, the Organization considers all highly liquid investments with an initial maturity of three months or less 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.

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.

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.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Contributions - Continued: 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.

Donated Assets: Donated marketable securities and other noncash donations are recorded as contributions at their fair values at the date of donation.

Expense Allocation: The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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. Realized and unrealized gains and losses from securities in the investment pool are allocated monthly to the individual endowments based on the relationship of the market value of each endowment to the total market value of the investment pool, as adjusted for additions to or deductions from those accounts.

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

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES – Continued

Marketable Securities and Investment Income – Continued: 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.

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.

Property, Plant and Equipment: Acquisitions of property, plant and equipment in excess of \$1,000 are capitalized. 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 interest 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 Statement of Financial Position or changes in its net assets. At June 30, 2009, other investment assets consisted of donated resort property which must be held by World Neighbors for two years before it can be sold. These properties were placed in operations during the current year. Currently, they are being utilized as rental properties and carried on the Statement of Financial Position as operating assets in property, plant and equipment.

Advertising costs: All costs associated with advertising are expensed as incurred.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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 WorldFest event through sponsorships and merchandise sales. Special event revenues were \$182,924 and \$202,904 for the years ended June 30, 2010 and 2009, respectively. Special event revenues are presented in the Statement of Activities net of related cost of goods sold of \$49,846 and \$56,327 for the years ended June 30, 2010 and 2009, respectively.

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, beneficial interest in remainder trusts and contributions receivable. Investments and beneficial interest, 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 interest 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

JUNE 30, 2010

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 \$176,372 and \$594,349 at June 30, 2010 and 2009, respectively, and is included in cash and cash equivalents in the accompanying Statement of Financial Position.

In April 2010, World Neighbors elected to close down the Honduras operations as part of the organizational restructuring. At the present time, the Organization does not have any field staff in Honduras. The signatories on the accounts are no longer employed by the Organization making it difficult to obtain any information on these accounts. At year-end, management estimates the balance in these accounts to be approximately \$71,450. These accounts are reported as cash and cash equivalents in the Statement of Financial Position as of June 30, 2010. World Neighbors has not experienced any losses in any overseas bank accounts in the past. Management is confident that these funds will be restored to World Neighbors.

Approximately 81% of the grants to programs receivable is due from three donors at June 30, 2010. Approximately 25% of World Neighbors total contribution revenues were provided by two donors for the year ended June 30, 2010.

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 year ended June 30, 2009.

Prior Year Information: The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with World Neighbors financial statements for the year ended June 30, 2009, from which the summarized information was derived. Certain reclassifications of prior year comparative totals have been made in order to conform to the current year presentation.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE B - CONTRIBUTIONS RECEIVABLE

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

	<u>2010</u>	<u>2009</u>
Receivable in less than one year	\$ 1,384,383	\$ 1,327,436
Receivable in one to five years	<u>867,126</u>	<u>1,273,343</u>
Gross contributions receivable	2,251,509	2,600,779
Less: Discount to present value	(78,067)	(72,135)
Less: Allowance for doubtful accounts	<u>(241,313)</u>	<u>(548,317)</u>
Net contributions receivable	<u>\$ 1,932,129</u>	<u>\$ 1,980,327</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 2010 and 2009.

At June 30, 2010, John L. Peters Society Founders, bequests and other contributions receivable in the amount of \$808,869 are unrestricted for the operations of World Neighbors. Grants to programs receivable in the amount of \$1,123,260, are temporarily restricted for support of specific programs.

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.

NOTE C – 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.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE C – INVESTMENTS – Continued

Securities:

Common and preferred stocks	1,534,817	1,523,130
Government agency	-	5,000
Fixed income mutual funds	2,478,719	1,955,861
Equity mutual funds	1,429,312	1,545,186
Total investments	<u>\$ 5,578,646</u>	<u>\$ 5,372,048</u>

The following schedule summarizes the investment income and its classification in the Statement of Activities for the year ending June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends & interest	\$ 44,619	\$ 59,323	\$ 66,376	\$ 170,318
Investment fees	(14,100)	(9,112)	(18,545)	(41,757)
Investment income from funds & endowments	109,100	10,000	-	119,100
	<u>\$ 139,619</u>	<u>\$ 60,211</u>	<u>\$ 47,831</u>	<u>\$ 247,661</u>

Statement of Activities for the year ending June 30, 2009

Dividends & interest	\$ 50,277	\$ 132,381	\$ 11,706	\$ 194,364
Investment fees	(11,161)	(18,181)	(1,663)	(31,005)
Investment income from funds & endowments	20,530	28,473	-	49,003
	<u>\$ 59,646</u>	<u>\$ 142,673</u>	<u>\$ 10,043</u>	<u>\$ 212,362</u>

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE D - 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:

	2010	2009
Cash equivalent funds	\$ 33,270	\$ 44,901
Corporate bonds	45,805	-
Fixed income mutual funds	471,597	322,041
Equity mutual funds	516,442	606,137
	<u>\$ 1,067,114</u>	<u>\$ 973,079</u>

NOTE E - SPLIT INTEREST AGREEMENTS

Assets recorded under split interest agreements administered by the Organization are recognized in the Organization's financial statements under various captions at June 30:

	2010	2009
Cash	\$ 23,375	\$ 5,333
Investments	1,108,218	1,151,824
Investments held in trusts	617,104	585,079
Total assets held under split interest agreements	<u>\$ 1,748,697</u>	<u>\$ 1,742,236</u>
Amounts payable under gift annuities	\$ 1,399,641	\$ 1,493,823
Amounts payable under split-interest trust agreements	271,158	267,204
Total liabilities under split-interest agreements	<u>\$ 1,670,799</u>	<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 years ended June 30, 2010 and 2009 was approximately \$28,000 and \$30,000, respectively. 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 revaluations 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 6.57% to 7%, based on the date of the contribution, were used in these calculations.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE E - SPLIT INTEREST AGREEMENTS - Continued

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 \$1,083,657 and \$996,772 at June 30, 2010 and 2009, respectively.

NOTE F - FAIR VALUE MEASUREMENTS

Fair values of assets measured on a recurring basis are as follows:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)
June 30, 2010			
Common and preferred stocks	\$ 1,534,817	\$ 1,534,817	\$ -
Fixed income mutual funds	2,478,719	2,478,719	-
Equity mutual funds	1,429,312	1,429,312	-
Investments held in trusts	1,067,114	1,067,114	-
Beneficial interest in remainder trusts	1,083,657	-	1,083,657
Beneficial interest in assets held by others	26,210	-	26,210
	<u>\$ 7,619,829</u>	<u>\$ 6,509,962</u>	<u>\$ 1,109,867</u>
June 30, 2009			
Common and preferred stocks	\$ 1,523,130	\$ 1,523,130	\$ -
Fixed income mutual funds	1,955,861	1,955,861	-
Equity mutual funds	1,545,186	1,545,186	-
Investments held in trusts	973,079	973,079	-
Beneficial interest in remainder trusts	996,772	-	996,772
Beneficial interest in assets held by others	24,433	-	24,433
	<u>\$ 7,018,461</u>	<u>\$ 5,997,256</u>	<u>\$ 1,021,205</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 interest in remainder trusts is

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE F - FAIR VALUE MEASUREMENTS - Continued

determined by calculating the present value of the future distributions expected to be received, using published life expectancy tables and discount rates ranging from 6.75% to 6.83%. Fair values for beneficial interest in assets held by others represents the present value of future distributions to be received.

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

	Beneficial Interest in Remainder Trusts	Assets Held by Others	Fair Value
June 30, 2008	\$ 896,767	\$ 30,531	\$ 927,298
Change in value in split interest agreements	214,007	-	214,007
Payments from remainder trust	(114,002)	-	(114,002)
Change in value and settlements (net)	<u>-</u>	<u>(6,098)</u>	<u>(6,098)</u>
June 30, 2009	<u>996,772</u>	<u>24,433</u>	<u>1,021,205</u>
Additions	27,936	-	27,936
Change in value in split interest agreements	175,211	-	175,211
Payments from remainder trust	(116,262)	-	(116,262)
Change in value and settlements (net)	<u>-</u>	<u>1,777</u>	<u>1,777</u>
June 30, 2010	<u><u>\$ 1,083,657</u></u>	<u><u>\$ 26,210</u></u>	<u><u>\$ 1,109,867</u></u>

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 \$273,457 and \$379,490 for 2010 and 2009, respectively, and present value discount of \$(98,246) and \$(165,483) for 2010 and 2009, respectively.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE G - PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at June 30:

	<u>2010</u>	<u>2009</u>
Land and buildings	\$ 1,091,173	\$ 559,489
Furniture and equipment	224,307	223,271
Computers and software	363,780	362,344
Vehicles	154,334	103,821
	<u>1,833,594</u>	<u>1,248,925</u>
Less Accumulated depreciation	<u>(972,900)</u>	<u>(871,201)</u>
	<u>\$ 860,694</u>	<u>\$ 377,724</u>

NOTE H - 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. The Statement of Financial Position as of June 30, 2010 and 2009 include the beneficial interests in assets held by others of \$26,210 and \$24,433, respectively. The Statement of Activities for the years ended June 30, 2010 and 2009 include net investment activity of \$3,125 and \$6,098, respectively. World Neighbors received distributions in 2010 and 2009 related to these funds totaling \$1,348 and \$1,495, respectively.

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 years ended June 30, 2010 and 2009, World Neighbors received \$36,900 and \$40,817, respectively, from these funds. At June 30, 2010 and 2009, the fair market value of the funds was approximately \$718,000 and \$668,000, respectively. World Neighbors has no remainder interest in the corpus of these funds.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE I – OPERATING LEASES

The Organization has two non-cancelable operating leases for office copiers that expire in May 2011. Those leases require that the Organization pay all executory costs such as taxes, maintenance and insurance. Rental expenses for those leases were \$10,282 for the years ended June 30, 2010 and 2009.

Future minimum lease payments, under operating leases that have remaining terms in excess of one year, as of June 30, 2010 and 2009 are:

	<u>2010</u>	<u>2009</u>
Year ending June 30:		
2010	\$ -	\$ 10,282
2011	9,425	9,425
	<u>\$ 9,425</u>	<u>\$ 19,707</u>

NOTE J - NOTES PAYABLE

World Neighbors has secured a revolving line of credit with a financial institution. The revolving line of credit has an interest rate of 4% with a maturity date of June 2011. The line of credit, with a carrying value of approximately \$960,000 and \$340,000 as of June 30, 2010 and 2009, respectively, is secured by a managed investment account maintained at the financial institution. The managed account had a fair market value of approximately \$1,780,500 and \$1,718,000 as of June 30, 2010 and 2009, respectively. The line of credit limit is \$1,200,000. At June 30, 2009, a second line of credit was outstanding with an interest rate maximum of 7% and minimum of 5%. The rate in effect at June 30, 2009 was 5% and the agreement expired on August 15, 2009. The line of credit, with a carrying value of approximately \$0 and \$230,000 at June 30, 2010 and 2009, respectively, was secured by real estate, World Neighbors Headquarters (“Headquarters”). Headquarters was appraised in March 2008 at an estimated fair value of \$725,000. The line of credit limit is \$550,000. Due to the short maturities of these notes the carrying value approximates fair value.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE K - RESTRICTED NET ASSETS

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

	<u>2010</u>	<u>2009</u>
Planned giving fund	\$ 1,043,555	\$ 894,449
Pledges for restricted purposes	957,151	765,037
Grants restricted for various purposes	1,032,187	1,909,288
Russell fund for maintenance and operations of headquarters	99,583	95,169
Assets transferred to and held by others	26,210	24,433
Executive chair	609,901	577,221
MC Foundation	241,909	226,514
Gary Wang fund to benefit people of Nepal	77,221	77,608
Herlin	70,000	-
Other	62,639	62,639
Total Temporarily Restricted Net Assets	<u>\$ 4,220,356</u>	<u>\$ 4,632,358</u>

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

Special endowment-general support	\$ 448,939	\$ 417,274
Overseas partnership-overseas programs	688,265	689,579
World Neighbors-general support	931,579	892,389
International programs charitable endowment	268,834	268,781
Total Endowment Funds	<u>2,337,617</u>	<u>2,268,023</u>
Munds charitable trust-general support	395,249	362,258
Smith charitable trust-general support	3,279	2,500
Total Perpetual Trusts	<u>398,528</u>	<u>364,758</u>
Total Permanently Restricted Net Assets	<u>\$ 2,736,145</u>	<u>\$ 2,632,781</u>

NOTE L - DONOR DESIGNATED ENDOWMENTS

The Organization's endowment consists of approximately six 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 of the United States of America ("GAAP"), 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

JUNE 30, 2010

NOTE L - DONOR DESIGNATED ENDOWMENTS - Continued

*Interpretation of Relevant Law.* The Organization has interpreted the Uniform Prudent Management of Institutional Fund Act (UPMIFA) as requiring the preservation of the purchasing power of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Therefore, the Organization classifies as permanently restricted net assets 1) original value of endowed gifts, 2) any subsequent gifts and 3) any accumulations to the permanent endowment made in accordance with the direction of the donor gift instrument.

*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 distribution 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 of the endowment assets as well as to provide additional real growth, though 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 Organization to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$88,023 and \$125,684 in two individual endowments as of June 30, 2010 and 2009, respectively. 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 of Trustees.

WORLD NEIGHBORS, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE L - DONOR DESIGNATED ENDOWMENTS - Continued

Endowment Net Asset Composition by Type of Fund as of June 30, 2010 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ (88,023)	\$ 4,220,356	\$ 2,736,145	\$ 6,868,478

Changes in endowment net assets as of June 30, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Contributions	-	375,754	7,428	383,182
Direct overseas grants	-	2,193,319	-	2,193,319
Investment income	-	60,211	47,831	108,042
Change in value split interest agreements	-	(129,902)	-	(129,902)
Losses on foreign exchange	-	(78,618)	-	(78,618)
Net appreciation	37,661	211,913	97,265	346,839
Amounts appropriated for expenditures	-	(3,044,679)	(49,160)	(3,093,839)
Net changes	<u>\$ 37,661</u>	<u>\$ (412,002)</u>	<u>\$ 103,364</u>	<u>\$ (270,977)</u>

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)	\$ 4,632,358	\$ 2,632,781	\$ 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>
Contributions	-	800,737	1,500	802,237
Direct overseas grants	-	1,584,586	-	1,584,586
Investment income	(125,684)	142,673	10,043	27,032
Change in value split interest agreements	-	(351,590)	-	(351,590)
Net depreciation	-	(706,472)	(71,518)	(777,990)
Amounts appropriated for expenditures	-	(3,171,713)	(27,602)	(3,199,315)
Net changes	<u>\$ (125,684)</u>	<u>\$ (1,701,779)</u>	<u>\$ (87,577)</u>	<u>\$ (1,915,040)</u>

## WORLD NEIGHBORS, INC.

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

#### NOTE M - INCOME TAXES

World Neighbors is exempt from income taxes under Section 501(c) (3) of the Internal Revenue Code.

World Neighbors evaluates and accounts for their uncertain tax positions, if any, in accordance with current accounting guidance, including the Organization's tax position as a tax-exempt not-for-profit entity. Through the Organization's evaluation of its uncertain tax positions, management has determined no uncertain tax positions exist as of June 30, 2010 and 2009 which would require the Organization to record a liability for the uncertain tax positions in its financial statements.

#### NOTE N - 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 at the discretion of the Board of Trustees based on a percent of covered salary. The amount of covered salary decreased substantially resulting in lower pension cost in the current year. Total pension expense was approximately \$29,860 and \$112,000 for the years ended June 30, 2010 and 2009, respectively.

#### NOTE O - SUBSEQUENT EVENTS

Subsequent events were evaluated through October 20, 2010, which is the date the financial statements were available to be issued.

#### NOTE P - STRATEGIC PLAN

Like many not-for-profits across the United States of America, the effects of the current economic climate since 2007 continued to impact negatively on World Neighbors contributions. As a result, World Neighbors did not experience any significant increase in the contributions received from individual donors and grantors this year. However, the investment markets rebounded this year and the Organization was able to recoup some of the losses experienced in previous periods.

In order for World Neighbors to continue its life-changing work across the globe, the Organization undertook another restructuring process during fiscal year 2009/10 to ensure the longer term financial sustainability of the Organization. The costs of this restructuring were absorbed into fiscal year 2009/10 but places World Neighbors in a strong position for fiscal year 2010/11 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.