

**WORLD NEIGHBORS, INC.**

**June 30, 2008**

Audited Financial Statements

WORLD NEIGHBORS, INC.

June 30, 2008

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Independent Auditors' Report

To the Board of Trustees  
World Neighbors, Inc.

We have audited the accompanying statement of financial position of World Neighbors, Inc. ("World Neighbors") as of June 30, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of World Neighbors' 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 the 2007 financial statements and, in our report, dated October 15, 2007; 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of World Neighbors internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2008, and the results of its activities and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*Cole & Reed P.C.*

Oklahoma City, Oklahoma  
October 28, 2008

WORD NEIGHBORS, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2008 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2007)

	2008	2007
ASSETS		
Cash and cash equivalents	\$ 786,299	\$ 1,609,149
Contributions receivable, net	3,418,219	1,625,213
Investments	7,939,790	9,319,147
Investments held in trusts	1,186,068	1,516,814
Beneficial interest in remainder trusts	760,973	808,801
Land, building, and equipment, net	386,663	393,036
Other investment assets	570,000	-
Beneficial interest in assets held by others	30,531	33,313
Other assets	105,076	79,684
	<u>15,183,619</u>	<u>15,385,157</u>
TOTAL ASSETS	<u>\$ 15,183,619</u>	<u>\$ 15,385,157</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and other liabilities	\$ 699,103	\$ 256,538
Amounts payable under gift annuities	1,387,625	1,208,527
Amounts payable under split-interest trust agreements	323,978	513,996
	<u>2,410,706</u>	<u>1,979,061</u>
TOTAL LIABILITIES	<u>2,410,706</u>	<u>1,979,061</u>
NET ASSETS		
Unrestricted	2,734,017	5,106,283
Temporarily restricted	5,443,331	4,095,528
Permanently restricted	4,595,565	4,204,285
	<u>12,772,913</u>	<u>13,406,096</u>
TOTAL NET ASSETS	<u>12,772,913</u>	<u>13,406,096</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 15,183,619</u>	<u>\$ 15,385,157</u>

See notes to financial statements.

WORLD NEIGHBORS, INC.

STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2008 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2007)

	2008			2007	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUES, GAINS AND OTHER SUPPORT					
Contributions	\$ 3,516,682	\$ 2,916,991	\$ 411,280	\$ 6,844,953	\$ 6,223,839
Special events	222,453	-	-	222,453	168,375
Direct overseas grants	-	2,196,478	-	2,196,478	2,088,524
Investment income	465,884	42,959	-	508,843	813,479
Net investment gains (losses)	(1,101,660)	(25,741)	-	(1,127,401)	497,385
Change in value of split-interest agreements	-	(92,102)	-	(92,102)	(2,876)
Other income	41,483	-	-	41,483	70,983
Losses on uncollectible pledges	(39,156)	-	(20,000)	(59,156)	(48,000)
Net assets released from restrictions	3,690,782	(3,690,782)	-	-	-
TOTAL REVENUES, GAINS AND OTHER SUPPORT	6,796,468	1,347,803	391,280	8,535,551	9,811,709
EXPENSES					
Grants and program services	5,860,422	-	-	5,860,422	5,296,646
Public education	888,353	-	-	888,353	647,973
General and administrative	1,023,942	-	-	1,023,942	987,333
Fundraising	1,396,017	-	-	1,396,017	1,153,750
TOTAL EXPENSES	9,168,734	-	-	9,168,734	8,085,702
CHANGE IN NET ASSETS	(2,372,266)	1,347,803	391,280	(633,183)	1,726,007
RECLASSIFIED NET ASSETS AT BEGINNING OF YEAR - NOTE K	5,106,283	4,095,528	4,204,285	13,406,096	11,680,089
NET ASSETS, END OF YEAR	\$ 2,734,017	\$ 5,443,331	\$ 4,595,565	\$ 12,772,913	\$13,406,096

See notes to financial statements.

WORLD NEIGHBORS, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2008

	Program Services			Supporting Services		
	Overseas Programs	Public		General and Administrative	Fund	
		Education	Total		Raising	Total
Salaries and related expenses:						
Salaries	\$ 1,423,060	\$ 359,177	\$ 1,782,237	\$ 537,437	\$ 761,062	\$ 1,298,499
Benefits	237,478	66,009	303,487	108,174	148,441	256,615
	<u>1,660,538</u>	<u>425,186</u>	<u>2,085,724</u>	<u>645,611</u>	<u>909,503</u>	<u>1,555,114</u>
Overseas programs	3,365,450	-	3,365,450	-	-	-
Contract services	78,308	35,885	114,193	56,546	74,187	130,733
Legal and accounting fees	20,642	11,302	31,944	40,047	25,120	65,167
Travel	292,300	85,898	378,198	56,682	56,444	113,126
Office supplies	51,026	24,458	75,484	22,061	21,628	43,689
Telephone	64,709	15,183	79,892	13,293	6,228	19,521
Postage	5,314	10,141	15,455	6,718	40,570	47,288
Rent and occupancy	110,705	35,028	145,733	18,782	26,527	45,309
Office equipment and software	11,021	2,654	13,675	3,914	7,127	11,041
Printing and publications	5,419	34,036	39,455	27,463	113,658	141,121
Miscellaneous	5,068	9,185	14,253	9,357	11,857	21,214
Depreciation	20,419	1,561	21,980	38,985	8,756	47,741
Dues	9,985	3,619	13,604	8,355	11,644	19,999
Training and meetings	87,761	24,011	111,772	6,656	4,948	11,604
Financial expenses	46,597	6,668	53,265	69,472	14,921	84,393
In-kind	25,160	163,538	188,698	-	62,899	62,899
Total expenses	<u>\$ 5,860,422</u>	<u>\$ 888,353</u>	<u>\$ 6,748,775</u>	<u>\$ 1,023,942</u>	<u>\$ 1,396,017</u>	<u>\$ 2,419,959</u>
						<u>\$ 9,168,734</u>

See notes to financial statements.

WORLD NEIGHBORS, INC.

STATEMENTS OF CASH FLOWS

YEAR ENDED JUNE 30, 2008 (WITH COMPARATIVE TOTALS FOR JUNE 30, 2007)

	2008	2007
OPERATING ACTIVITIES		
Change in net assets	\$ (633,183)	\$ 1,726,007
Adjustment to reconcile change in net assets to net cash used in operating activities:		
Depreciation	69,721	77,355
Realized and unrealized gains on investments	1,127,401	(497,385)
Actuarial loss on annuity obligations	-	2,876
Loss on uncollectible pledges receivable	59,156	48,000
Contributions restricted for long-term investment	(411,280)	(200,455)
Non-cash contributions	(918,153)	(387,161)
Change in operating assets and liabilities:		
Contributions receivable	(1,600,565)	(940,077)
Investments held in trusts	275,143	100,667
Beneficial interest in trusts	47,828	(58,791)
Other assets	(25,392)	34,582
Beneficial interest in assets held by others	2,782	2,338
Accounts payable and accrued expenses	442,565	85,328
Amounts payable under charitable gift annuities	179,098	50,944
Obligations under split-interest agreements	(190,018)	-
NET CASH USED IN OPERATING ACTIVITIES	(1,574,897)	44,228
INVESTING ACTIVITIES		
Purchases of investments	(742,199)	(1,261,694)
Proceeds from sale of investments	1,146,284	960,837
Proceeds from sale of land held for investment	-	593,195
Purchase of equipment	(63,318)	(92,591)
NET CASH PROVIDED BY INVESTING ACTIVITIES	340,767	199,747
FINANCING ACTIVITIES		
Contributions restricted for long-term investment	411,280	200,455
NET CASH PROVIDED BY FINANCING ACTIVITIES	411,280	200,455
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(822,850)	444,430
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,609,149	1,164,719
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 786,299</u>	<u>\$ 1,609,149</u>

See notes to financial statements.

## NOTES TO FINANCIAL STATEMENTS

### WORLD NEIGHBORS, INC

June 30, 2008

#### 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, 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.



## NOTES TO FINANCIAL STATEMENTS--Continued

### WORLD NEIGHBORS, INC

June 30, 2008

#### 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 and bequest contributions receivable are unrestricted for the operations of World Neighbors, unless specifically restricted by the donor. Endowment pledges receivable are permanently restricted to be invested as part of the World Neighbors endowment. Grants to programs receivable 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.

## NOTES TO FINANCIAL STATEMENTS--Continued

### WORLD NEIGHBORS, INC

June 30, 2008

## 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 2008 or 2007.

Beneficial Interests 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 re-evaluations would not have a significant impact on World Neighbors' statements of financial position or changes in its net assets. At June 30, 2008, other investment assets consist of donated resort property which must be held by World Neighbors for two years before it can be sold.

## NOTES TO FINANCIAL STATEMENTS--Continued

### WORLD NEIGHBORS, INC

June 30, 2008

#### 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 \$286,172 and \$276,709 for the years ended June 30, 2008 and 2007, respectively. Special event revenues are presented in the statement of activities net of related cost of goods sold of \$63,719 and \$108,334 for the years ended June 30, 2008 and 2007, respectively.

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.

## NOTES TO FINANCIAL STATEMENTS--Continued

### WORLD NEIGHBORS, INC

June 30, 2008

#### 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 \$485,816 and \$586,565 at June 30, 2008 and 2007, respectively, 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 35% and 40% of the John L. Peters Society Founders receivable reflected in the statements of financial position are due from one donor at June 30, 2008 and 2007, respectively. Approximately 73% of the grants to programs receivable is due from two donors at June 30, 2008 and approximately 80% of the grants to programs receivable is due from one organization at June 30, 2007. Approximately 24% and 34% of World Neighbors' total contribution revenues were provided by three organizations for the years ended June 30, 2008 and 2007, respectively.

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, 2007, 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.

# NOTES TO FINANCIAL STATEMENTS--Continued

## WORLD NEIGHBORS, INC

June 30, 2008

### NOTE B--INVESTMENTS

World Neighbors' investment policy dictates that the overall allocation of its investments shall be fixed income 40% and equities 60%. In June 2008, World Neighbors elected to replace one of its investment managers with two new managers and therefore, liquidated all of the assets in the accounts managed by the former manager. The funds were reinvested by the new managers in July 2008 in accordance with World Neighbors' investment policy.

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

	2008	2007
Cash equivalent funds	\$ 7,698,471	\$ 152,976
Securities:		
Common and preferred stocks	-	3,565,949
Corporate bonds	-	108,313
Fixed income mutual funds	107,650	3,126,370
Equity mutual funds	128,219	1,967,419
Government agency	5,000	5,000
Real estate	-	390,763
Limited partnerships	450	2,357
	<u>\$ 7,939,790</u>	<u>\$ 9,319,147</u>

Expenses relating to investment revenues, including custodial fees and investment advisory fees, amounted to \$40,935 and \$37,666 for the years ended June 30, 2008 and 2007, respectively, and have been netted against investment income in the statement of activities.

## NOTES TO FINANCIAL STATEMENTS--Continued

### WORLD NEIGHBORS, INC

June 30, 2008

#### 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:

	2008	2007
Cash equivalent funds	\$ 792,923	\$ 24,339
Securities:		
Fixed income mutual funds	145,332	795,415
Equity mutual funds	225,303	331,385
Real estate	-	14,257
Corporate bonds	22,510	37,812
Common and preferred stocks	-	313,606
	<u>\$ 1,186,068</u>	<u>\$ 1,516,814</u>

In June 2008, World Neighbors elected to replace one of its investment managers with two new managers and therefore, liquidated all of the assets in the accounts managed by the former manager. The funds were reinvested by the new managers in July 2008.

#### NOTE D--CONTRIBUTIONS RECEIVABLE

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

	2008	2007
Receivable in less than one year	\$ 1,798,373	\$ 649,712
Receivable in one to five years	1,867,253	1,195,873
Gross contributions receivable	3,665,626	1,845,585
Less: Discount to present value	102,924	172,372
Less: Allowance for doubtful accounts	144,483	48,000
Net contributions receivable	<u>\$ 3,418,219</u>	<u>\$ 1,625,213</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 3.34% to 4.91% during 2008 and 4.51% to 4.96% during 2007.

## NOTES TO FINANCIAL STATEMENTS--Continued

### WORLD NEIGHBORS, INC

June 30, 2008

#### NOTE D--CONTRIBUTIONS RECEIVABLE--Continued

At June 30, 2008 and 2007, John L. Peters Society Founders, bequests, and other contributions receivable in the amount of \$1,617,809 and \$500,618, respectively, are unrestricted for the operations of World Neighbors. At June 30, 2007, endowment pledges receivable in the amount of \$36,795 are permanently restricted to be invested as part of the World Neighbors endowment. There were no endowment pledges receivable at June 30, 2008. Grants to programs receivable in the amount of \$1,800,410 and \$1,087,800 at June 30, 2008 and 2007, respectively, are temporarily restricted for support of specific programs.

#### NOTE E--PROPERTY AND EQUIPMENT, NET

Property and equipment consists of the following at June 30:

	2008	2007
Land and buildings	\$ 559,489	\$ 559,490
Furniture and equipment	210,878	198,460
Computers and software	346,584	294,551
Vehicles	66,449	66,449
	1,183,400	1,118,950
Less: Accumulated depreciation	796,737	725,914
	<u>\$ 386,663</u>	<u>\$ 393,036</u>

#### NOTE F--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, 2008 and 2007 include the beneficial interest in assets held by others of \$30,531 and \$33,313. The statements of activities for the year ended June 30, 2008 and 2007 include net investment activity of \$2,782 and \$2,338, respectively. World Neighbors received distributions in 2008 and 2007 related to these funds totaling \$1,641 and \$1,596, respectively.

## NOTES TO FINANCIAL STATEMENTS--Continued

### WORLD NEIGHBORS, INC

June 30, 2008

#### NOTE F--BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS--Continued

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. The Foundation also maintains legal ownership of the funds. However, SFAS No. 136 requires that World Neighbors reflect its beneficial interest in these assets in its financial statements.

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, 2008 and 2007, World Neighbors received \$44,273 and \$42,940, respectively, from the funds. At June 30, 2008 and 2007, the fair value of the funds was approximately \$824,000 and \$896,000. World Neighbors has no remainder interest in the corpus of these funds.

#### NOTE G--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 percentage of salary. Total pension expense was approximately \$113,000 and \$73,000 for the years ended June 30, 2008 and 2007, respectively.

#### NOTE H--RESTRICTED NET ASSETS

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

	2008	2007
Planned giving fund	\$ 1,464,944	\$ 1,546,155
John L. Peters fund pledges receivable	1,242,162	284,804
Grants restricted for various purposes	2,511,989	2,012,555
Russell fund for maintenance and operations of headquarters	122,612	133,350
Gary Wang fund to benefit people of Nepal	101,624	118,664
Total Temporarily Restricted Net Assets	<u>\$ 5,443,331</u>	<u>\$ 4,095,528</u>



# NOTES TO FINANCIAL STATEMENTS--Continued

## WORLD NEIGHBORS, INC

June 30, 2008

### NOTE H--RESTRICTED NET ASSETS--Continued

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

	2008	2007
Special endowment - general support	\$ 596,107	\$ 596,107
Overseas partnership - overseas programs	873,279	873,279
World Neighbors - general support	1,343,349	1,343,349
Executive endowment chair	725,778	334,498
International programs charitable endowment	263,517	263,517
MC Endowment - general support	277,565	277,565
Total Endowment Funds	4,079,595	3,688,315
Munds charitable trust - general support	503,217	503,217
Smith charitable trust - general support	12,753	12,753
Total Perpetual Trusts	515,970	515,970
Total Permanently Restricted Net Assets	\$ 4,595,565	\$ 4,204,285

### NOTE I—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:

	June 30	
	2008	2007
Cash	\$ 5,333	\$ 1,540
Investments	1,389,717	1,107,445
Investments held in trusts	725,705	1,000,848
Total assets held under split interest agreements	\$ 2,120,755	\$ 2,109,833
Amounts payable under gift annuities	\$ 1,387,625	\$ 1,208,527
Amounts payable under split-interest trust agreements	323,978	513,996
Total liabilities under split-interest agreements	\$ 1,711,603	\$ 1,722,523

## NOTES TO FINANCIAL STATEMENTS--Continued

### WORLD NEIGHBORS, INC

June 30, 2008

#### NOTE I--SPLIT INTEREST AGREEMENTS--Continued

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, 2008 and 2007 was approximately \$253,000 and \$220,000, 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 3.8% to 6.8% based on the date of the contribution were 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 \$760,973 and \$808,801 at June 30, 2008 and 2007, respectively.

#### NOTE J--COMMITMENTS AND CONTINGENCIES

World Neighbors has secured a variable rate revolving line of credit in the amount of \$550,000. The line of credit has an interest rate maximum of 7% and minimum of 5%. The rate in effect at June 30, 2008 was 5% and the agreement expires on April 15, 2009. The line of credit is secured by real estate, World Neighbors' Headquarters ("Headquarters"), with a carrying value of approximately \$244,000 at June 30, 2008. Headquarters was appraised in March 2008 at an estimated fair value of \$725,000.

#### NOTE K--RECLASSIFICATION OF NET ASSETS

In 2008, World Neighbors performed an evaluation of their net asset classifications of all funds managed and held by World Neighbors. World Neighbors reviewed donor restrictions, fund agreements, and other relevant information to determine the proper net asset classification of each fund. Performance of this evaluation and review resulted in an increase in unrestricted net assets of \$2,986,871 and a decrease in temporarily restricted net assets of \$2,986,871 as of July 1, 2007. Total net assets did not change.

## NOTES TO FINANCIAL STATEMENTS--Continued

### WORLD NEIGHBORS, INC

June 30, 2008

#### NOTE L--RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 provides guidance on application of fair value measurement objectives required in existing Generally Accepted Accounting Principles ("GAAP") literature to ensure consistency and comparability. Additionally, SFAS 157 requires additional disclosures on the fair value measurements used. SFAS 157 is effective for fiscal years beginning after November 15, 2007. World Neighbors is currently evaluating the impact of adopting SFAS 157 on its financial statements.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Fair Value Measurements* ("SFAS 159"). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings. SFAS 159 does not affect any existing accounting literature that requires certain assets and liabilities to be carried at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. World Neighbors is currently evaluating the impact of adopting SFAS 159 on its financial statements.

In August 2008, the FASB issued Staff Position FAS 117-1, *Endowments 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*. This FASB Staff Position ("FSP") provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). This FSP also improves 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. World Neighbors is currently evaluating the impact of adopting this FSP on its financial statements.

#### NOTE M--SUBSEQUENT EVENTS

Subsequent to year-end, the credit and liquidity crisis in the United States and throughout the global financial system has resulted in substantial volatility in financial markets and the banking system. These and other economic events have had a significant adverse impact on investment portfolios. As a result, World Neighbors' investments have likely incurred a significant decline in fair value since June 30, 2008.