

FEED MY PEOPLE CHILDREN'S CHARITIES INC.

*CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT*

September 30, 2008

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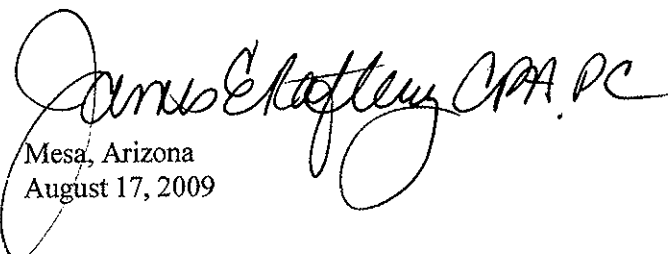
INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Feed My People Children's Charities, Inc.
Phoenix, Arizona

I have audited the accompanying consolidated statements of financial position of Feed My People Children's Charities, Inc for the nine months ended September 30, 2008 and the related consolidated statements of activities, functional expenses, and cash flows for the nine months then ended. These financial statements are the responsibility of FMPCC's management. My responsibility is to express an opinion on these financial statements based on my audit. I did not audit the financial statements of Feed My People International, Ltd (Philippine Branch), a subsidiary, which statements reflect total assets of \$87,855, and total support and revenues of \$355,483 for the nine months ended September 30, 2008. Those statements were audited by another auditor whose report has been furnished to me, and my opinion, insofar as it relates to the amounts included for the Philippine branch, is based solely on the report of the other auditor.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, based on my audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of Feed My People Children's Charities, Inc. for the nine months ended September 30, 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.


Mesa, Arizona
August 17, 2009

FEED MY PEOPLE CHILDREN'S CHARITIES INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
For the Nine Months Ended September 30, 2008

ASSETS

Current Assets

Cash	\$ 122,846
Grant and pledges receivable, net	45,097
Accounts receivable, net	11,002
Inventory	380,656
Total Current Assets	559,601

Property and Equipment

1,234,781

\$ 1,794,382

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts payable	\$ 41,515
Accrued expenses	18,439
Line of credit	195,282
Current portion of capital lease	763
Current portion of long-term debt	63,328
Total Current Liabilities	319,327

Long Term Liabilities

Long term debt, net of current portion	794,255
Capital lease, net of current portion	-
Total Long Term Liabilities	794,255

Net Assets

Unrestricted	680,800
	\$ 1,794,382

See accompanying notes to the financial statements

FEED MY PEOPLE CHILDREN'S CHARITIES INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Nine Months Ended September 30, 2008

Unrestricted Net Assets

Revenue, gains and other support	
Gifts-in-kind	\$ 21,500,485
Contributions	1,205,208
Rental income	38,928
Food Sales	59,020
Miscellaneous income	390
Interest income	534
Total Unrestricted Revenue, Gains, and Other Support	<u>22,804,565</u>

Expenses and Losses

Program services	22,560,183
Supporting services	131,387
Fundraising	78,162
Total Expenses	<u>22,769,732</u>

Other gains and losses

(Loss) on foreign currency translation	<u>(13,698)</u>
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Increase in Unrestricted Net Assets 21,135

Net Assets, beginning of year

659,665

Net Assets, end of year

\$ 680,800

See accompanying notes to the financial statements

FEED MY PEOPLE CHILDREN'S CHARITIES INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Nine Months Ended September 30, 2008

	Program Services	Supporting Services		Totals
		Management	Fundraising	
Programs				
Commodities	\$ 21,388,588	\$ -	\$ -	\$ 21,388,588
Direct Cash Support	363,046	-	-	363,046
	<u>21,751,634</u>	<u>-</u>	<u>-</u>	<u>21,751,634</u>
Support				
Salaries and wages	355,639	57,791	31,118	444,548
Vehicle expense	72,908	11,848	6,379	91,135
Depreciation	59,606	9,686	5,215	74,507
Interest	43,332	7,041	3,791	54,164
Philippine administrative expense	38,497	6,256	3,368	48,121
Utilities	30,188	4,906	2,641	37,735
Accounting fees	28,605	4,648	2,503	35,756
Outside services	28,407	4,616	2,486	35,509
Insurance	23,912	3,886	2,092	29,890
Payroll taxes	23,141	3,760	2,025	28,926
Equipment rental and maintenance	15,727	2,556	1,376	19,659
Employee benefits	14,904	2,422	1,304	18,630
Bad debt expense	11,387	1,850	996	14,233
Telephone	11,213	1,822	981	14,016
Travel, seminars, and conferences	10,280	1,671	900	12,851
Advertising	9,683	1,573	847	12,103
Supplies	9,457	1,537	828	11,822
Printing	7,603	1,235	665	9,503
Fundraising events	-	-	7,417	7,417
Leases and rentals	5,460	887	478	6,825
Pension plan contributions	4,591	746	402	5,739
Licenses and permits	1,326	215	116	1,657
Postage	1,051	171	92	1,314
Bank fees	711	115	62	888
Legal fees	551	89	48	688
Dues and subscriptions	370	60	32	462
	<u>808,549</u>	<u>131,387</u>	<u>78,162</u>	<u>1,018,098</u>
	<u>\$ 22,560,183</u>	<u>\$ 131,387</u>	<u>\$ 78,162</u>	<u>\$ 22,769,732</u>

See accompanying notes to the financial statements

FEED MY PEOPLE CHILDREN'S CHARITIES INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2008

<i>Cash Flows from Operating Activities:</i>	
Cash received from grants and donors	\$ 1,242,576
Cash paid to suppliers and employees	(1,535,884)
Rental income	38,928
Interest income	534
Miscellaneous income	390
Interest expense	<u>(25,689)</u>
Net Cash (Used) By Operating Activities	(279,145)
 <i>Cash Flows from Investing Activities:</i>	
Purchases of property & equipment	<u>(9,966)</u>
Net Cash (Used) By Investing Activities	(9,966)
 <i>Cash Flows from Financing Activities:</i>	
Proceeds from line of credit	50,000
Notes receivable	8,022
Payments on notes and loans	<u>(55,171)</u>
Net Cash Provided By Financing Activities	<u>2,851</u>
Net (Decrease) In Cash and Cash Equivalents	(286,260)
<i>Beginning Cash and Cash Equivalents</i>	<u>409,106</u>
<i>Ending Cash and Cash Equivalents</i>	<u><u>\$ 122,846</u></u>

See accompanying notes to the financial statements

***Reconciliation of Changes in Net Assets to Net Cash (Used)
by Operating Activities:***

Increase in net assets	\$ 48,531
Adjustments to reconcile change in net assets to net cash (used) by operating activities:	
Depreciation	74,507
Loss on foreign currency translation	(13,698)
(Increase) Decrease in operating assets	
Grant and pledges receivable, net	(18,573)
Miscellaneous receivable	(3,079)
Inventory	(202,249)
(Decrease) in operating liabilities	
Accounts payable	(142,574)
Accrued expenses	(22,010)
	<hr/>
Net Cash (Used) By Operating Activities	<u>\$ (279,145)</u>

Non Cash Transactions

Support - Gift-in-kind and commodities	\$ 21,500,485
Program expense - Gift-in-kind and commodities	\$ (21,298,236)

See accompanying notes to the financial statements

FEED MY PEOPLE CHILDREN'S CHARITIES INC.
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In accordance with the American Institute of Certified Public Accountants industry audit guide, Audits of Voluntary Health and Welfare Organizations, Feed My People Children's Charities Inc. reports adhere to the following accounting policies:

Corporate Organization

Feed My People Children's Charities Inc. is a non-profit organization incorporated November 24, 1987 in the State of Oklahoma. On May 6, 1999, Feed My People Children's Charities Inc. changed their name from Feed My People International Ltd. to Feed My People Children's Charities Inc. Feed My People Children's Charities Inc. participates in the U.S. A.I.D. (Agency for International Development) program as a Private Voluntary Organization. During 1993, Feed My People Children's Charities Inc. was awarded full status as a Cooperating Sponsor in the PL480 Title II program of U.S.A.I.D. Also, Feed My People Children's Charities Inc. is a member of Children's Charities of America.

Feed My People Children's Charities Inc. is a worldwide development and relief organization that provides aid in the form of food, medical supplies, and emergency relief services to reduce human suffering as a result of hunger, poverty, disease, war, natural disasters and other circumstances creating widespread human need.

Feed My People Children's Charities Inc. builds and operates child survival centers, schools, orphanages, medical clinics and development programs in Asia and Africa. It also operates over 180 food projects, which addresses the rural hunger needs in Northern Arizona and throughout the United States. A large percentage of these food projects serve Native Americans.

International

Feed My People Children's Charities Inc. maintains ongoing programs for developing self-sustaining livelihood projects and nutritional training for mothers in Manila and the Bicol region of the Philippines. Relief programs that provide clothing, toys, and household items are provided in an ongoing effort to assist some of the poorest areas of Mexico.

Domestic

Toys for Children is a seasonal program that provides toys to the neediest children on American Indian Reservations and throughout the United States.

The 3000 Club, is a program that provides a network for individuals and companies devoted to feeding hungry persons throughout Arizona and the United States.

Borderland Food Bank operations were taken over by FMPCC on October 1, 2007. Borderland prioritizes the desperate food needs of poverty level boys and girls in the United States, including American Indian children, whose families are recipients of our supplemental food program. In addition, national and regional food drive collection and distribution programs provided nearly 7.5 million pounds of food to needy individuals and families for the nine months ended September 30, 2008.

FEED MY PEOPLE CHILDREN'S CHARITIES INC.
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

The Northern Arizona Food Bank, operated by FMPCC, prioritizes the desperate food needs of poverty level boys and girls in the United States, including American Indian children, whose families are recipients of our supplemental food program. In addition, national and regional food drive collection and distribution programs provided over 2 million pounds of food to needy individuals and families for the nine months ended September 30, 2008.

Volunteers are an essential part of making the programs successful. FMPCC is grateful for the thousands of hours of volunteer work provided by local church groups, college students, and employees of the corporate community.

Fair Values of Financial Instruments

The estimated fair values of the Organization's financial instruments are as follows:

	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and Short-Term Investments	\$ 122,846	\$ 122,846
Grant and Pledges Receivable	\$ 45,097	\$ 45,097
Long-Term Debt	\$ 794,255	\$ 794,255

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and Short-Term Investments- The carrying amount approximates fair value because of the short maturities of those investments.

Grants and Pledges Receivable- Receivables are carried at net realizable value, which equals the principal outstanding less an allowance for uncollectible balances and the costs of collecting accounts.

Long-Term Debt- The fair values of long-term debt are based on quoted market prices for the same or similar issues or on the current rates offered to the Organization for debt of the remaining maturities.

The Organization estimates that the fair value of all financial instruments at September 30, 2008, does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying Consolidated Statements of Financial Position.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-For-Profit Organizations. Under SFAS No. 117, 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. There were no temporarily or permanently restricted net assets in 2008.

FEED MY PEOPLE CHILDREN'S CHARITIES INC.
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Revenue Recognition

Grants restricted by the donor, grantor, or other outside party for particular operating purposes are deemed to be earned and reported as revenues of the current restricted fund when the Organization has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet expended are reported as temporarily restricted deferred revenue. There were no temporarily restricted assets for the nine months ended September 30, 2008.

Consolidated Financial Statements

The financial statement includes the accounts of the Organization and its Philippine Branch. All significant intercompany transactions and accruals are eliminated. Aggregate foreign currency translation (loss) for the nine months ended September 30, 2008 was \$(13,698).

Gifts in Kind

Donated materials and investments are recorded at estimated fair market value when received \$1.50/lb for produce and all other food items. Total donated food materials received for the nine months ended September 30, 2008 was \$21,500,485. During the year ended September 30, 2008 Feed My People's Children's Charities, Inc. distributed approximately 9.5 million pounds of donated food, respectively to member agencies (and other food banks). The distributed food is valued at \$1.50 per pound which amounts to \$14,324,288 for the nine months ended September 30, 2008. The value of donated food on hand at September 30, 2008 is \$380,656 and is reported on the statement of financial position in accordance with the provisions of SFAS No.136 *Transfers of Assets to a Not-for-Profit Organization or a Charitable Trust That Raises or Holds Contributions for Others*, which require the Food Bank to record the value of donated food as inventory and revenue when the Food Bank has unilateral power to redirect the transfer of the food to another beneficiary.

Income Tax

Feed My People Children's Charities Inc., is a publicly supported nonprofit organization as defined in the Internal Revenue Code Section 501(c) (3) and therefore is exempt from federal and state income tax.

Property and Equipment

The Organization capitalizes all expenditures for property and equipment that materially prolong the useful life of an asset. Property and equipment acquisitions are recorded at cost, except for donated items which are recorded at the fair market value when received. Depreciation is computed primarily on a straight-line method ranging from five to thirty-nine years. Depreciation was \$74,507 for the nine months ended September 30, 2008.

Cash and Cash Equivalents

For purposes of the statement of cash flows, Feed My People Children's Charities Inc. considers all short term debt securities purchased with an initial maturity of three months or less to be cash equivalents.

FEED MY PEOPLE CHILDREN'S CHARITIES INC.
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Allocation of Expenses

The cost of providing the programs and other activities has been summarized on a functional basis in the statement of activity. Accordingly, certain costs have been allocated between the program and support services benefited as estimated by the Organization's management.

Advertising Costs

The Organization expenses advertising costs as they are incurred. Advertising costs for the nine months ended September 30, 2008 was \$12,103.

NOTE B - GRANTS AND PLEDGES RECEIVABLE

Grants and pledges receivable consisted of the following for the nine months ended September 30:

	2008
Children's Charities of America Pledges	\$ 60,129
Less 25% Shrinkage	<u>(15,032)</u>
	<u>\$ 45,097</u>

The allowance for shrinkage is an estimate based on historical performance, federation estimates and projection of trends.

NOTE C - INVENTORY

Inventory consisted primarily of food commodity items. Valuation was based upon cost, predetermined amounts set by grantors, or at \$1.50/lb. for produce and all other food items, which is the industry standard for food banks. All other non-food inventory items were valued at wholesale prices. Prices were verified through multiple outside sources. Non-food inventory consisted of paper products, office supplies and school supplies. Inventory for the nine months ended September 30, 2008 was \$380,656 (Food items, \$370,029, and Non-Food items, \$10,627).

NOTE D - RELATED PARTY TRANSACTIONS

Because of common management, personnel, officers and directors/trustees, the Don Stewart Association (DSA), and Feed My People Children's Charities Inc. are considered related entities. During the nine months ended September 30, 2008, respectively, the following transactions occurred respectively between the entities:

FEED MY PEOPLE CHILDREN'S CHARITIES INC.
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE D - RELATED PARTY TRANSACTIONS (CONT'D)

Volunteer Services and Facilities

DSA has contributed a significant amount of volunteer time and related facilities. No valuation has been placed on this because an accurate amount of time could not be established.

Donations

In 2008, DSA donated food and clothing valued at \$2,772,654 as well as monetary support in the amount of \$424,800 to Feed My People Children's Charities Inc.

NOTE E - CONCENTRATION OF CREDIT RISK

DSA has provided \$424,800 in monetary support and \$2,772,654 in gift-in-kind support in the form of commodities and supplies for relief aid to Feed My People Children's Charities Inc. for the year ended September 30, 2008, respectively. In 2008, DSA's contributions represent 14%.

NOTE F - EMPLOYEE BENEFIT PLAN

The Organization has a 401(k) contribution plan which is available to all its employees. Matching contributions by the Organization are discretionary. In the current and prior year the Organization matched 25% of all 401(k) contributions. As of September 30, 2008 and 2007 the Organization contributed \$5,739 and \$6,727, respectively.

NOTE G - LONG TERM DEBT

Long-term debt consisted of the following at September 30, 2008,

Note payable in monthly installment amount of \$3,651, including interest at a new rate of 5.85% per annum and maturity date of May 2013, secured by real estate.	\$ 180,964
Note payable in monthly installments of \$6,331, including interest at a rate of 7.1% per annum and a maturity date of November 2022, secured by real estate.	676,619
	857,583
Less current maturities	(63,328)
Total long term debt	\$ 794,255

The following are maturities of long-term debt for each of the next five years:

Year	
2009	\$ 63,328
2010	67,520
2011	71,988
2012	76,759
2013	65,012
Thereafter	512,976
	\$ 857,583

FEED MY PEOPLE CHILDREN'S CHARITIES INC.
CONSOLIDATED NOTES TO FINANCIAL STATEMENTS
September 30, 2008

NOTE G - LONG TERM DEBT(CONT'D)

Interest expense for the year nine months ended September 30, 2008, was \$54,164.

NOTE H - REVOLVING LINE OF CREDIT

The Organization has a \$200,000 revolving line of credit. Bank advances on the credit line are payable on demand and carry an interest rate of .5% over prime (5.5% at September 30, 2008). The credit line is secured by substantially all assets of the Organization. As of September 30, 2008, the balance was \$195,282.

NOTE I - COMPENSATED ABSENCES

The Organization has not accounted for compensated absences because currently it cannot be reasonably estimated, but believes the amount to be immaterial.

NOTE J - SIGNIFICANT ACCOUNTING ESTIMATES

The Organization participates in the Combined Federal Campaign (CFC) and Independent Charities of America (ICA) in which federal employees are eligible to participate by selecting one or more charitable organizations to receive donations as a payroll deduction from the employee's compensation. The amount of pledges to eventually be collected is an estimate. The Organization estimates shrinkage of approximately 25% from what was pledged to what is eventually collected. Based on the history of the Organization of CFC and ICA, management believes this reduction reasonably states the true net value of what it will receive. While it is at least reasonably possible that the estimate will change materially in the near term, no estimate can be made of the range of additional adjustments that is possible.

NOTE K - COMMITMENTS

The Organization leases equipment under a five year non-cancelable operating lease that expires January 2009. Total lease expense for the year nine months September 30, 2008 was \$3,588.

Minimum future annual lease payments under this operating lease is as follows:

Year	
2009	\$ 763

NOTE L - FISCAL YEAR CHANGE

Effective the calendar year beginning January 1, 2008, the Company will change from a fiscal year end of December 31 to September 30. A nine-month fiscal transition period from January 1, 2008, through September 30, 2008, precedes the start of the new calendar-year cycle.