

**THE GIDEONS INTERNATIONAL
AND SUBSIDIARIES**

Consolidated Financial Statements

May 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

THE GIDEONS INTERNATIONAL AND SUBSIDIARIES

Table of Contents

| | <u>Page</u> |
|---|---------------|
| Independent Auditors' Report | 1 |
| Consolidated Financial Statements: | |
| Consolidated Statements of Financial Position | 2 - 3 |
| Consolidated Statements of Activities | 4 - 5 |
| Consolidated Statements of Cash Flows | 6 |
| Notes to the Consolidated Financial Statements | 7 - 18 |



LATTIMORE BLACK MORGAN & CAIN, PC
CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

**Executive Committee
The Gideons International**

We have audited the accompanying consolidated statements of financial position of The Gideons International and Subsidiaries (nonprofit organizations) as of May 31, 2010 and 2009, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 the Organization's 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Gideons International and Subsidiaries as of May 31, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Lattimore Black Morgan & Cain, PC

**Brentwood, Tennessee
July 6, 2010**

THE GIDEONS INTERNATIONAL AND SUBSIDIARIES

Consolidated Statements of Financial Position

May 31, 2010

| | Unrestricted | | | | Total |
|---|----------------------|----------------------|------------------------|------------------------|----------------------|
| | General | Board Designated | Temporarily Restricted | Permanently Restricted | |
| <u>Assets</u> | | | | | |
| Cash and cash equivalents | \$ 8,406,362 | \$ 711,773 | \$ 9,118,135 | \$ 594,577 | \$ 10,954,007 |
| Accounts receivable | 15,536 | - | 15,536 | - | 15,536 |
| Merchandise inventory | 922,523 | - | 922,523 | - | 922,523 |
| Prepaid expenses and deposits | 509,758 | - | 509,758 | - | 509,758 |
| Investments | 6,508,852 | 19,298,759 | 25,807,611 | 3,216,362 | 39,843,409 |
| Notes receivable | 51,591 | - | 51,591 | - | 51,591 |
| Cash surrender value of life insurance | 1,531,362 | - | 1,531,362 | - | 1,531,362 |
| Due from (to) other funds | 2,805,417 | - | 2,805,417 | - | - |
| Property and equipment, net | 11,049,473 | - | 11,049,473 | - | 11,049,473 |
| Total assets | \$ 31,800,874 | \$ 20,010,532 | \$ 51,811,406 | \$ 9,255,314 | \$ 64,877,659 |
| <u>Liabilities and Net Assets</u> | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 6,944,681 | - | \$ 6,944,681 | - | \$ 6,944,681 |
| Accrued payroll | 133,637 | - | 133,637 | - | 133,637 |
| Rebates due to state associations and auxiliary | 1,928,437 | - | 1,928,437 | - | 1,928,437 |
| Deferred convention funds | 125,675 | - | 125,675 | - | 125,675 |
| Post-retirement benefit obligations | 345,369 | - | 345,369 | - | 345,369 |
| Liability to nonqualified pension plan participants | - | 2,906,082 | 2,906,082 | - | 2,906,082 |
| Present value of future payments to donors and annuitants | - | - | - | 8,372,242 | 8,372,242 |
| Total liabilities | 9,477,799 | 2,906,082 | 12,383,881 | 8,372,242 | 20,756,123 |
| Commitments for the purchase of approximately 67,782,000 scriptures amounting to approximately \$75,380,000 | | | | | |
| Net assets | 22,323,075 | 17,104,450 | 39,427,525 | 883,072 | 44,121,536 |
| Total liabilities and net assets | \$ 31,800,874 | \$ 20,010,532 | \$ 51,811,406 | \$ 9,255,314 | \$ 64,877,659 |

See accompanying notes to the consolidated financial statements.

THE GIDEONS INTERNATIONAL AND SUBSIDIARIES

Consolidated Statements of Financial Position

May 31, 2009

| Assets | Unrestricted | | | | | |
|---|----------------------|----------------------|----------------------|------------------------|------------------------|----------------------|
| | General | Board Designated | Total | Temporarily Restricted | Permanently Restricted | Total |
| Cash and cash equivalents | \$ 5,712,788 | \$ 2,996,097 | \$ 8,708,885 | \$ 1,458,341 | \$ 917,568 | \$ 11,084,794 |
| Accounts receivable | 120,940 | - | 120,940 | - | - | 120,940 |
| Merchandise inventory | 1,194,654 | - | 1,194,654 | - | - | 1,194,654 |
| Prepaid expenses and deposits | 499,147 | - | 499,147 | - | - | 499,147 |
| Investments | 11,290,988 | 20,785,384 | 32,076,372 | 9,322,273 | 2,763,214 | 44,161,859 |
| Notes receivable | 37,757 | - | 37,757 | - | - | 37,757 |
| Cash surrender value of life insurance | 1,314,284 | - | 1,314,284 | - | - | 1,314,284 |
| Due from (to) other funds | 4,511,969 | (2,000,000) | 2,511,969 | (2,511,969) | - | - |
| Property and equipment, net | 9,589,124 | - | 9,589,124 | - | - | 9,589,124 |
| Total assets | \$ 34,271,651 | \$ 21,781,481 | \$ 56,053,132 | \$ 8,268,645 | \$ 3,680,782 | \$ 68,002,559 |
| Liabilities and Net Assets | | | | | | |
| Liabilities: | | | | | | |
| Accounts payable | \$ 5,985,356 | \$ - | \$ 5,985,356 | \$ - | \$ - | \$ 5,985,356 |
| Accrued payroll | 114,943 | - | 114,943 | - | - | 114,943 |
| Rebates due to state associations and auxiliary | 1,937,960 | - | 1,937,960 | - | - | 1,937,960 |
| Deferred convention funds | 170,059 | - | 170,059 | - | - | 170,059 |
| Post-retirement benefit obligations | 342,224 | - | 342,224 | - | - | 342,224 |
| Liability to nonqualified pension plan participants | - | 2,994,661 | 2,994,661 | - | - | 2,994,661 |
| Present value of future payments to donors and annuitants | - | - | - | 8,291,291 | - | 8,291,291 |
| Total liabilities | 8,550,542 | 2,994,661 | 11,545,203 | 8,291,291 | - | 19,836,494 |
| Commitments for the purchase of approximately 73,613,000 scriptures amounting to approximately \$78,124,000 | | | | | | |
| Net assets | 25,721,109 | 18,786,820 | 44,507,929 | (22,646) | 3,680,782 | 48,166,065 |
| Total liabilities and net assets | \$ 34,271,651 | \$ 21,781,481 | \$ 56,053,132 | \$ 8,268,645 | \$ 3,680,782 | \$ 68,002,559 |

See accompanying notes to the consolidated financial statements.

THE GIDEONS INTERNATIONAL AND SUBSIDIARIES

Consolidated Statements of Activities

Year ended May 31, 2010

| | Unrestricted | | | |
|--|---------------------------|---------------------------|----------------------|----------------------|
| | General | Board Designated | Total | Total |
| | Temporarily Restricted | Permanently Restricted | Total | Total |
| Revenues and gains: | | | | |
| Contributions | \$ 116,034,313 | \$ - | \$ 116,034,313 | \$ 116,153,633 |
| Dues income | 4,463,429 | - | 4,463,429 | 4,463,429 |
| Investment income | 2,340,332 | 1,659,999 | 4,000,331 | 4,784,156 |
| Merchandise sales, net of cost of merchandise sold of \$2,722,114 | 181,706 | - | 181,706 | 181,706 |
| Other income | <u>5,736,412</u> | - | <u>5,736,412</u> | <u>5,736,412</u> |
| Total revenue and gains | 128,756,192 | 1,659,999 | 130,416,191 | 131,319,336 |
| Net assets released from restrictions - satisfaction of time restrictions | <u>33,167</u> | - | <u>33,167</u> | - |
| Total revenues, gains and net assets released from restrictions | <u>128,789,359</u> | <u>1,659,999</u> | <u>130,449,358</u> | <u>131,319,336</u> |
| Expenses and losses: | | | | |
| Scripture purchases and distribution | 120,899,158 | - | 120,899,158 | 120,899,158 |
| Management and general | 4,975,325 | - | 4,975,325 | 4,975,325 |
| Membership services | 7,941,461 | - | 7,941,461 | 7,941,461 |
| Fund raising | 1,582,020 | - | 1,582,020 | 1,582,020 |
| Actuarial adjustment on annuity obligations and payments to donors | - | - | - | (165,897) |
| Nonqualified pension plan expense | - | 131,798 | 131,798 | 131,798 |
| Total expenses and losses | <u>135,397,964</u> | <u>131,798</u> | <u>135,529,762</u> | <u>135,363,865</u> |
| Increase (decrease) in net assets | (6,608,605) | 1,528,201 | (5,080,404) | 130,157 |
| Transfers | 3,210,571 | (3,210,571) | - | - |
| Net assets at beginning of year | <u>25,721,109</u> | <u>18,786,820</u> | <u>44,507,929</u> | <u>48,166,065</u> |
| Net assets at end of year | <u>\$ 22,323,075</u> | <u>\$ 17,104,450</u> | <u>\$ 39,427,525</u> | <u>\$ 44,121,536</u> |

See accompanying notes to the consolidated financial statements.

THE GIDEONS INTERNATIONAL AND SUBSIDIARIES

Consolidated Statements of Activities

Year ended May 31, 2009

| | Unrestricted | | | |
|---|----------------|------------------|----------------|----------------|
| | General | Board Designated | Total | Total |
| Revenues and gains: | | | | |
| Contributions | \$ 119,586,989 | - | \$ 119,586,989 | \$ 119,757,432 |
| Dues income | 4,506,475 | - | 4,506,475 | 4,506,475 |
| Investment income (loss) | (4,281,943) | (2,321,251) | (6,603,194) | (7,736,781) |
| Merchandise sales, net of cost of merchandise sold of \$2,964,884 | 310,166 | - | 310,166 | 310,166 |
| Other income | 5,715,451 | - | 5,715,451 | 5,715,451 |
| Total revenue and gains | 125,837,138 | (2,321,251) | 123,515,887 | 122,552,743 |
| Net assets released from restrictions - satisfaction of time restrictions | 18,648 | - | 18,648 | - |
| Total revenues, gains and net assets released from restrictions | 125,855,786 | (2,321,251) | 123,534,535 | 122,552,743 |
| Expenses and losses: | | | | |
| Scripture purchases and distribution | 117,828,733 | - | 117,828,733 | 117,828,733 |
| Management and general | 5,252,287 | - | 5,252,287 | 5,252,287 |
| Membership services | 8,898,223 | - | 8,898,223 | 8,898,223 |
| Fund raising | 1,648,822 | - | 1,648,822 | 1,648,822 |
| Actuarial adjustment on annuity obligations and payments to donors | - | - | - | (401,318) |
| Nonqualified pension plan expense | - | 148,305 | 148,305 | 148,305 |
| Total expenses and losses | 133,628,065 | 148,305 | 133,776,370 | 133,375,052 |
| Increase (decrease) in net assets | (7,772,279) | (2,469,556) | (10,241,835) | (10,822,309) |
| Transfers | 3,603,121 | (3,603,121) | - | - |
| Net assets at beginning of year | 29,890,267 | 24,859,497 | 54,749,764 | 58,988,374 |
| Net assets at end of year | \$ 25,721,109 | \$ 18,786,820 | \$ 44,507,929 | \$ 48,166,065 |

See accompanying notes to the consolidated financial statements.

THE GIDEONS INTERNATIONAL AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended May 31, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|--|----------------------|----------------------|
| Cash flows from operating activities: | | |
| Decrease in net assets | \$ (4,044,529) | \$ (10,822,309) |
| Adjustments to reconcile decrease in net assets to net cash and cash equivalents used by operating activities: | | |
| Depreciation | 977,751 | 880,543 |
| Loss on sale of property and equipment | 47,520 | 1,341 |
| Net (gain) loss on investments | (4,238,520) | 8,388,556 |
| Support restricted for endowment purposes | 119,320 | 170,443 |
| (Increase) decrease in operating assets: | | |
| Accounts receivable | 105,404 | 42,875 |
| Merchandise inventory | 272,131 | (131,087) |
| Prepaid expenses and deposits | (10,611) | 208,937 |
| Notes receivable | (13,834) | (3,133) |
| Cash surrender value of life insurance | (217,078) | (65,463) |
| Increase (decrease) in operating liabilities: | | |
| Accounts payable | 959,325 | (760,326) |
| Rebates due to state associations and auxiliary | (9,523) | (30,198) |
| Post-retirement benefit obligations | 3,145 | 2,335 |
| Liability to nonqualified pension plan participants | (88,579) | (50,660) |
| Present value of future payments to donors and annuitants | (38,901) | 66,757 |
| Other liabilities | (25,690) | (21,482) |
| Total adjustments | <u>(2,158,140)</u> | <u>8,699,438</u> |
| Net cash and cash equivalents used by operating activities | <u>(6,202,669)</u> | <u>(2,122,871)</u> |
| Cash flows from investing activities: | | |
| Payments to purchase property and equipment | (2,493,000) | (2,049,598) |
| Proceeds from sale of property and equipment | 7,380 | 19,511 |
| Proceeds from investment transactions | 27,301,954 | 47,935,237 |
| Payments to purchase investments | (18,625,132) | (48,948,280) |
| Net cash and cash equivalents provided (used) by investing activities | <u>6,191,202</u> | <u>(3,043,130)</u> |
| Cash flows from financing activities - collection of endowment support | <u>(119,320)</u> | <u>(170,443)</u> |
| Net decrease in cash and cash equivalents | <u>(130,787)</u> | <u>(5,336,444)</u> |
| Cash and cash equivalents at beginning of year | <u>11,084,794</u> | <u>16,421,238</u> |
| Cash and cash equivalents at end of year | <u>\$ 10,954,007</u> | <u>\$ 11,084,794</u> |

See accompanying notes to the consolidated financial statements.

THE GIDEONS INTERNATIONAL AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

May 31, 2010 and 2009

(1) Nature of activities

The Gideons International and Subsidiaries (collectively, the "Organization") are worldwide nonprofit organizations with their headquarters located in Nashville, Tennessee. The objective of the Organization is to win others for the Lord, Jesus Christ, through the association of Christian business and professional men for service, the personal testimony and personal work by individual Gideons, and the placing of the Bible or portions thereof, in hotels, hospitals, schools, institutions, and also through the distribution of same for personal use. The Organization is supported primarily through donor contributions, membership dues, and investment income.

(2) Summary of significant accounting policies

(a) Accounting codification

On June 29, 2009, the Financial Accounting Standards Board ("FASB") issued *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*, which is effective for periods ending after September 15, 2009 and makes the FASB *Accounting Standards Codification* ("ASC") the sole source of authoritative accounting technical literature for nongovernmental entities in the United States of America.

(b) Principles of consolidation

These consolidated financial statements include the accounts of The Gideons International and its wholly-owned subsidiaries, GenWon and TGI Global (collectively, the "Organization"). All significant intercompany accounts and transactions have been eliminated.

(c) Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates based on management's knowledge and experience. Due to their prospective nature, actual results could differ from those estimates.

(d) Financial statement presentation

The financial statements of the Organization are presented on the accrual basis. The Organization follows the standards of accounting and reporting prescribed for nonprofit organizations. These financial statements include those assets and liabilities under direct control of the Organization and those revenues received by the Organization plus worldwide contributions reported to Nashville as having been spent for scriptures and administration by National Associations of The Gideons International. All material intercompany accounts and transactions are eliminated from the financial statements.

THE GIDEONS INTERNATIONAL AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

May 31, 2010 and 2009

(e) Financial reporting

Generally accepted accounting principles require that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. A description of the three net asset categories follows:

- (1) Unrestricted net assets consist of the Administrative Fund, Scripture Funds, Capital Fund, Health Insurance Fund, General Fund, and the Cabinet Projects Fund.

Board designated net assets are unrestricted but have been designated for specific projects by the Board. They consist of the Weston Funds, Special Scripture Funds and the Self-Insured Retirement accounts.

Donor-imposed restrictions met in the same reporting period in which the contribution is received are reported as increases in unrestricted net assets.

The costs of Testaments and Bibles shipped are charged to the requesting state or local camps or to the appropriate Scripture Fund. Administrative expenses are charged to the Administrative Fund.

It is the Organization's policy to transfer the excess of Administrative Fund revenue over Administrative Fund expenses to various Scripture Funds and, in some years, to other unrestricted funds.

- (2) Temporarily restricted net assets consist of the following:

Annuity Fund:

The Organization enters into agreements whereby a donor transfers funds to the Organization and in return the donor is guaranteed a stipulated periodic payment throughout his or her lifetime. Unrestricted contribution revenue is recognized in the period in which the contract is executed to the extent that the fair market value of the assets received exceeds the present value of the future expected payments to the donor. Certain of the annuity agreements are insured through the purchase of commercial annuity contracts in which the insurance company agrees to pay the donor the amount guaranteed by the Organization. The investment in these insured annuity contracts is reflected in the accompanying consolidated financial statements at the present value of expected future payments to the insured annuitants.

Annuity obligations are recorded at the present value of the future expected payments to donors based upon applicable federal discount rates and life expectancies of annuitants as prescribed by the Internal Revenue Code.

THE GIDEONS INTERNATIONAL AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

May 31, 2010 and 2009

Charitable Remainder Unitrust Fund:

The Organization enters into trust agreements with donors whereby the donor irrevocably transfers assets at fair market value to a trust naming the Organization as residual beneficiary. Temporarily restricted contribution revenue is recognized in the period in which the trust is established to the extent that the fair market value of the assets received exceeds the present value of the future expected payments to the donor or beneficiary. The Organization will pay to the donor or the beneficiary during the donor's (beneficiary's) life a unitrust amount equal to a stipulated percentage of the net fair market value of the trust assets, valued as of the first day of each calendar year. Any income of the trust for a calendar year in excess of the unitrust amount is added to the trust principal. Upon the death of the donor (beneficiary), the remaining principal is released to unrestricted net assets.

Sarah F. Szekely Fund:

The Organization was named as a beneficiary of the estate of Sarah F. Szekely upon her death in 1990. The Organization may use, in any manner deemed best by the Organization, all of the income plus two percent of the principal each year. The fund must remain in existence for a period of fifty years. Any assets remaining at the end of the fifty-year period may be used in any manner deemed best by the Organization.

(3) Permanently restricted net assets consist of the following:

Endowment Fund:

A portion of life membership dues and all permanently restricted contributions received constitute the Endowment Fund. Such funds are invested in marketable securities. Income from the investments is used for administrative expenses and is recorded directly in the Administrative Fund.

THE GIDEONS INTERNATIONAL AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

May 31, 2010 and 2009

Special Scripture Endowment Fund:

Contributions received for the Special Scripture Endowment Fund are invested in marketable securities. Income from the investments is used for the purchase of Scriptures and is recorded as investment income in the Scripture Fund, except in instances where the donor has required a portion of the income be added to principal.

The Organization has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring that the Organization classify as permanently restricted net assets (a) the original value of donor-restricted gifts to the endowments, (b) the original value of subsequent donor-restricted gifts to the endowments, and (c) accumulations (interest, dividends, capital gain/loss) to the endowments until such time as amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate donor-restricted endowment funds:

- The purposes of the Organization and the donor-restricted endowment funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- The investment policies of the Organization
- The spending rules adopted by the Finance Committee of the International Cabinet

The Organization's investment policy for endowments in summary is as follows:

- Time horizon is infinite
- Asset allocation is set as follows:
 - Large or mid-sized capitalization stocks (target 40%, minimum 25%, and maximum 45%)
 - Small capitalization stocks (target 10%, minimum 5%, and maximum 15%)
 - International (target 15%, minimum 5%, and maximum 20%)
 - Obligations of the United States government and its agencies (target 12.5%, minimum 15%, and maximum 45%)
 - Corporate bonds (target 12.5%, minimum 10%, and maximum 35%)
 - Real estate (target 5%, minimum 0%, and maximum 15%)
 - Cash equivalents (target 5%, minimum 0%, and maximum 100%)
- Expected annual rate of return of approximately 8% - 10%
- Risk tolerance is set to achieve long-term investment objectives and is set to accept interim market fluctuations
- Investment performance will be reviewed annually with comparison made to various market indices

THE GIDEONS INTERNATIONAL AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

May 31, 2010 and 2009

(f) Cash and cash equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of six months or less to be cash equivalents. Cash equivalents consist primarily of U.S. Treasury bills, repurchase agreements, and commercial paper with original maturities of six months or less.

(g) Investments

Investments in marketable and debt securities are valued at their fair values in the statements of financial position. Investment income shown in the statements of activities includes interest, dividends, and realized and unrealized gains and losses, net of investment expenses. Investment income that is restricted by the donor is reported as increases in unrestricted net assets if the restrictions are met or expire in the year in which the investment income is recognized.

(h) Merchandise inventory

Inventory of merchandise held for sale to members is valued at the lower of cost or market, with cost determined under the first-in, first-out method.

(i) Property and equipment

Land, buildings, equipment and vehicles purchased by the Organization are stated at cost. Donated assets are recorded at their estimated fair market values at the date of donation. Expenditures that substantially increase the useful lives of existing property and equipment are capitalized, while expenditures for maintenance, repairs and minor improvements are expensed as incurred. Depreciation of physical properties is calculated on the straight-line method over the estimated useful life of the asset. Annual depreciation is charged to unrestricted expense.

(j) Realization of Long-lived assets

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

(k) Revenue Recognition

Contributions and other revenue are generally recognized at the time of receipt.

(l) Income taxes

The Organization is exempt from federal, state and local income taxes under Internal Revenue Code section 501(c)(3) and accordingly, no provision for income taxes is included in the financial statements.

THE GIDEONS INTERNATIONAL AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

May 31, 2010 and 2009

(m) Shipping and handling costs

Shipping and handling costs are included in the cost of merchandise sold and scripture purchases.

(n) Events occurring after reporting date

The Company has evaluated events and transactions that occurred between May 31, 2010 and July 6, 2010, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

(3) Concentration of risks

The Organization generally maintains cash and cash equivalents at financial institutions in excess of the federally insured amount. The Organization has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk related to cash and cash equivalents.

Cash equivalents include repurchase agreements which consist of overnight investments collateralized by U.S. government securities.

The Organization utilizes various investment instruments. Investment securities, 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 investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

(4) Investments

A summary of the cost and fair values of investments as of May 31, 2010 and 2009 is as follows:

| | <u>2010</u> | | |
|--|----------------------|----------------------|------------------------------|
| | <u>Cost</u> | <u>Fair Value</u> | <u>Unrealized Gain(Loss)</u> |
| Mutual funds | \$ 16,446,536 | \$ 14,415,950 | \$ (2,030,586) |
| Corporate stocks | 4,763,332 | 4,777,507 | 14,175 |
| Obligations of the United States government and its agencies | 8,957,354 | 9,836,468 | 879,114 |
| Corporate bonds | 5,059,375 | 5,331,217 | 271,842 |
| Certificates of deposit | 100,000 | 100,000 | - |
| Annuity contracts | <u>5,382,267</u> | <u>5,382,267</u> | <u>-</u> |
| | <u>\$ 40,708,864</u> | <u>\$ 39,843,409</u> | <u>\$ (865,455)</u> |

THE GIDEONS INTERNATIONAL AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

May 31, 2010 and 2009

| | | <u>2009</u> | |
|---|----------------------|----------------------|------------------------------|
| | <u>Cost</u> | <u>Fair Value</u> | <u>Unrealized Gain(Loss)</u> |
| Mutual funds | \$ 18,947,189 | \$ 13,710,804 | \$ (5,236,385) |
| Corporate stocks | 7,903,841 | 6,770,599 | (1,133,242) |
| Obligations of the United States government and its agencies | 11,335,218 | 11,516,626 | 181,408 |
| Corporate bonds | 7,017,626 | 6,801,415 | (216,211) |
| Certificates of deposit | 100,000 | 100,000 | - |
| Annuity contracts | <u>5,262,415</u> | <u>5,262,415</u> | <u>-</u> |
| | <u>\$ 50,566,289</u> | <u>\$ 44,161,859</u> | <u>\$ (6,404,430)</u> |

The following schedule summarizes the investment income in the statements of activities for the years ended May 31, 2010 and 2009:

| | <u>2010</u> | <u>2009</u> |
|--------------------------------|---------------------|-----------------------|
| Interest and dividend income | \$ 781,800 | \$ 891,002 |
| Net gain (loss) on investments | 4,238,520 | (8,388,556) |
| Investment expenses | <u>(236,164)</u> | <u>(239,227)</u> |
| | <u>\$ 4,784,156</u> | <u>\$ (7,736,781)</u> |

(5) Fair value measurements

The Organization values assets in accordance with the fair value standard. The standard clarifies the definition of fair value, establishes a framework for measuring fair value and expands the disclosures for fair value measurement. The framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

THE GIDEONS INTERNATIONAL AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

May 31, 2010 and 2009

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for asset measurement measured at fair value. There have been no changes in the methodologies used at May 31, 2010 and 2009.

- (i) *Corporate bonds and U.S. government obligations:* Valued using observable inputs including benchmark yields, reported trades, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency.
- (ii) *Common stocks:* Valued at the closing price reported on the active market on which the individual securities are traded.
- (iii) *Mutual funds:* Valued at the net asset value of shares held by the Organization at year end in an active market.
- (iv) *Annuity contracts:* Valued based on the estimated present value of future cash flows.
- (v) *Life insurance policies:* Valued at the cash surrender value of the life insurance policies which approximates fair value.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization's management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

THE GIDEONS INTERNATIONAL AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

May 31, 2010 and 2009

The following table sets forth by level, within the fair value hierarchy, the Organization's financial assets and liabilities at fair value as of May 31, 2010 and 2009:

**Fair Value Measurements as of
May 31, 2010 using the following inputs**

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------------|----------------------|---------------------|----------------------|
| Investments: | | | | |
| Mutual funds: | | | | |
| Index funds | \$ 4,576,711 | \$ - | \$ - | \$ 4,576,711 |
| Balanced Funds | 1,214,672 | - | - | 1,214,672 |
| Growth Funds | 3,376,885 | - | - | 3,376,885 |
| International funds | 211,752 | - | - | 211,752 |
| Value funds | 2,099,476 | - | - | 2,099,476 |
| Income funds | <u>2,936,454</u> | <u>-</u> | <u>-</u> | <u>2,936,454</u> |
| Total mutual funds | 14,415,950 | - | - | 14,415,950 |
| Corporate stocks: | | | | |
| Domestic | 2,676,895 | - | - | 2,676,895 |
| International | <u>2,100,612</u> | <u>-</u> | <u>-</u> | <u>2,100,612</u> |
| Total common stocks | 4,777,507 | - | - | 4,777,507 |
| Obligations of the United States | | | | |
| government and its agencies | 4,206,645 | 5,629,823 | - | 9,836,468 |
| Corporate bonds | - | 5,331,217 | - | 5,331,217 |
| Certificates of deposit | 100,000 | - | - | 100,000 |
| Annuity contracts | <u>-</u> | <u>-</u> | <u>5,382,267</u> | <u>5,382,267</u> |
| Total investments | 23,500,102 | 10,961,040 | 5,382,267 | 39,843,409 |
| Life insurance policies | <u>-</u> | <u>-</u> | <u>1,531,362</u> | <u>1,531,362</u> |
| Total | <u>\$ 23,500,102</u> | <u>\$ 10,961,040</u> | <u>\$ 6,913,629</u> | <u>\$ 41,374,771</u> |

**Fair Value Measurements as of
May 31, 2009 using the following inputs**

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---|----------------------|----------------------|---------------------|----------------------|
| Investments: | | | | |
| Mutual funds | \$ 13,710,804 | \$ - | \$ - | \$ 13,710,804 |
| Corporate stocks | 6,770,599 | - | - | 6,770,599 |
| Obligations of the United States | | | | |
| government and its agencies | 4,432,530 | 7,084,096 | - | 11,516,626 |
| Corporate bonds | - | 6,801,415 | - | 6,801,415 |
| Certificates of deposit | 100,000 | - | - | 100,000 |
| Annuity contracts | <u>-</u> | <u>-</u> | <u>5,262,415</u> | <u>5,262,415</u> |
| Total investments | 25,013,933 | 13,885,511 | 5,262,415 | 44,161,859 |
| Life insurance policies | <u>-</u> | <u>-</u> | <u>1,314,284</u> | <u>1,314,284</u> |
| Total | <u>\$ 25,013,933</u> | <u>\$ 13,885,511</u> | <u>\$ 6,576,699</u> | <u>\$ 45,476,143</u> |

THE GIDEONS INTERNATIONAL AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

May 31, 2010 and 2009

The following table provides a summary of changes in fair value of the Plan's Level 3 assets for the years ended May 31, 2010 and 2009:

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | |
|--|--|------------------------------------|
| | <u>Annuity Contracts</u> | <u>Life Insurance Policies</u> |
| Annuity contracts as of May 31, 2008 | \$ 5,240,048 | \$ 1,248,821 |
| Purchase of new annuity contracts | 180,590 | - |
| Change in present value of annuity contracts and cash surrender value of life insurance policies | <u>(158,223)</u> | <u>65,463</u> |
| Annuity contracts as of May 31, 2009 | 5,262,415 | 1,314,284 |
| Purchase of new annuity contracts | 788,839 | - |
| Change in present value of annuity contracts and cash surrender value of life insurance policies | <u>(668,987)</u> | <u>217,078</u> |
| Annuity contracts as of May 31, 2010 | <u>\$ 5,382,267</u> | <u>\$ 1,531,362</u> |

(6) Property and equipment

A summary of property and equipment as of May 31, 2010 and 2009 is as follows:

| | <u>2010</u> | <u>2009</u> |
|--|----------------------|---------------------|
| Land | \$ 884,443 | \$ 884,443 |
| Buildings | 6,317,528 | 6,133,943 |
| Office furniture, equipment and software | 5,595,264 | 5,212,192 |
| Vehicles | 216,534 | 268,590 |
| Equipment and software not in service | <u>2,976,756</u> | <u>1,383,917</u> |
| | 15,990,525 | 13,883,085 |
| Less accumulated depreciation | <u>(4,941,052)</u> | <u>(4,293,961)</u> |
| | <u>\$ 11,049,473</u> | <u>\$ 9,589,124</u> |

(7) Employee benefit plans

Defined contribution retirement plan

The Organization maintains a defined contribution retirement plan covering substantially all of its employees. The Organization makes annual contributions to the plan as determined by management. The plan assets are held in a trust fund by a corporate trustee and are not included in these financial statements. Contributions to the plan amounted to approximately \$805,000 in 2010 and \$714,000 in 2009.

THE GIDEONS INTERNATIONAL AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

May 31, 2010 and 2009

Nonqualified pension plan

The Organization maintains a nonqualified pension plan (designated fund) established prior to the adoption of the defined contribution retirement plan. The nonqualified plan will remain in existence, although there is no intention to make additional contributions, until all funds have been distributed to participants. During 2001, the Organization entered into agreements with each of the nonqualified pension plan participants whereby the annual income earned by the participant is not subject to financial equity market risk. The Organization agreed to annually add to each participant's account an amount equal to one percent (1.00%) plus the United States 10-year Treasury Note Yield (Applicable Percentage) as published on May 31 of the preceding year. The Organization has assumed the risk of financial loss if it is unable to earn an amount in excess of the Applicable Percentage. At May 31, 2010 and 2009, the Applicable Percentages were 4.71% and 5.06%, respectively. Accordingly, the Organization has reflected the liability to the nonqualified pension plan participants of \$2,906,082 and \$2,994,661 in the accompanying consolidated statements of financial position as of May 31, 2010 and 2009, respectively.

Deferred compensation plan

During 2003, the Organization established a deferred compensation plan for eligible members of management. Under the plan, participants may defer up to 100% of their compensation. In addition, the Organization makes contributions equal to the amount by which the contribution that would have been made to the defined contribution profit-sharing plan if the employee did not contribute to the deferred compensation plan. The participants are also entitled to receive earnings from the investment of the deferred compensation. As of May 31, 2010 and 2009, six members of management have elected to participate in the plan resulting in a liability to the participants of approximately \$608,000 and \$506,000, respectively. These plan investments are included with investments of the Organization, and the liability to participants is included in accounts payable at May 31, 2010 and 2009.

(8) Postretirement benefits

The Organization provides post-retirement life insurance benefits to employees hired prior to January 1, 1991. Upon retirement, the Organization provides life insurance coverage to these employees in an amount equal to one-half of their salary at the time of retirement. The Organization also provides \$5,000 coverage for the employee's spouse until the death of the employee. The following table sets forth the plan's funded status and amounts recognized in the consolidated statement of financial position.

The benefit obligation of the plan was \$345,369 and \$342,224 as of May 31, 2010 and 2009, respectively.

THE GIDEONS INTERNATIONAL AND SUBSIDIARIES

Notes to the Consolidated Financial Statements

May 31, 2010 and 2009

Management of The Gideons International believes the unfunded benefit obligation will be funded by life insurance proceeds on the lives of those employees who are entitled to the postretirement benefits.

| | | |
|------------------------|------------------|------------------|
| Benefit Cost | \$ <u>89,853</u> | \$ <u>94,683</u> |
| Employer contributions | \$ <u>23,503</u> | \$ <u>22,430</u> |
| Benefit payments | \$ <u>23,503</u> | \$ <u>22,430</u> |

Assumptions used in determining the preceding information are as follows:

| | |
|---|------------------------------------|
| Discount rate | 6.0% |
| Expected return on plan assets | N/A |
| Retirement age | 65 or current age if later |
| Annual pay increases for active employees | 4.5% |
| Mortality | 1983 Group Annuity Mortality Table |

Approximate future benefit payments expected to be paid over the next ten years are as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------------|---------------|
| 2011 | \$ 29,000 |
| 2012 | 31,000 |
| 2013 | 29,000 |
| 2014 | 28,000 |
| 2015 | 29,000 |
| 2016 through 2020 | 144,000 |

The above information was provided by consulting actuaries as of May 31, 2010 and 2009.

(9) Life insurance policies

Certain donors have arranged life insurance contracts naming the Organization as beneficiary of life insurance policies with face values in the approximate amount of \$6,200,000 at May 31, 2010 and \$6,000,000 at May 31, 2009. These policies are owned by the Organization and have cash surrender values totaling approximately \$1,531,000 and \$1,314,000 as of May 31, 2010 and 2009, respectively.