CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018 and 2017

WITH

INDEPENDENT AUDITOR'S REPORT

HoganTaylor LLP
CPAs + ADVISORS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Feed the Children, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Feed the Children, Inc. and its subsidiaries and affiliates, which comprise the consolidated statements of financial position as of June 30, 2018 and 2017, the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Feed the Children, Inc. and its subsidiaries and affiliates as of June 30, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Hogan Taylor LLP

Oklahoma City, Oklahoma
February 14, 2019

FEED THE CHILDREN, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 1,573,595	$ 2,524,125
Accounts receivable	510,700	992,584
Contributions receivable, net	6,919,265	5,713,448
Government grants receivable	3,769	949,848
Investments	28,212,670	27,341,355
Inventory, net	62,179,970	84,928,312
Prepaid expenses and other assets	2,418,718	2,607,247
Capitalized software costs	2,976,934	528,138
Assets held for sale	5,484,733	5,484,733
Property and equipment, net	20,447,359	22,823,609
Total assets	$ 130,727,713	$ 153,893,399
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	$ 5,561,248	$ 4,654,581
Line of credit	1,500,000	2,500,000
Notes payable	1,990,163	2,858,937
Liability under split-interest agreements	148,737	160,582
Total liabilities	9,200,148	10,174,100
Net assets:		
Unrestricted:		
Available for operations	30,783,989	27,975,819
Net investment in property and equipment	18,457,196	19,964,672
Investment in inventory	62,179,970	84,928,312
	111,421,155	132,868,803
Temporarily restricted	10,106,410	10,850,496
Total net assets	121,527,565	143,719,299
Total liabilities and net assets	$ 130,727,713	$ 153,893,399

FEED THE CHILDREN, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support			
Gifts-in-kind	$ 313,161,130	$ 4,730,351	$ 317,891,481
Contributions	44,027,516	1,175,881	45,203,397
Government grants	6,079,077	-	6,079,077
Net investment gain	1,546,520	-	1,546,520
Net gain on disposition of assets	338,441	-	338,441
Other revenues	1,440,683	-	1,440,683
	366,593,367	5,906,232	372,499,599
Net assets released from restrictions:			
Satisfaction of purpose restrictions	2,357,831	(2,357,831)	-
Satisfaction of time restrictions	4,292,487	(4,292,487)	-
	6,650,318	(6,650,318)	-
Transportation service revenue	3,571,227	-	3,571,227
Total revenues, gains and other support	376,814,912	(744,086)	376,070,826
Expenses			
Program services:			
Childcare, food and medical	236,080,884	-	236,080,884
Disaster response	15,816,718	-	15,816,718
Education and community development	117,191,764	-	117,191,764
	369,089,366	-	369,089,366
Supporting activities:			
Fundraising	14,181,859	-	14,181,859
Management and general	11,462,408	-	11,462,408
	25,644,267	-	25,644,267
Transportation service expenses	3,528,927	-	3,528,927
Total expenses	398,262,560	-	398,262,560
Change in net assets	(21,447,648)	(744,086)	(22,191,734)
Net assets, beginning of year	132,868,803	10,850,496	143,719,299
Net assets, end of year	$ 111,421,155	$ 10,106,410	$ 121,527,565

FEED THE CHILDREN, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
Revenues, Gains and Other Support			
Gifts-in-kind	$ 351,210,665	$ 2,371,174	$ 353,581,839
Contributions	48,492,486	3,123,396	51,615,882
Government grants	3,023,727	-	3,023,727
Net investment gain	2,767,008	-	2,767,008
Net gain on disposition of assets	1,777,793	-	1,777,793
Other revenues	1,356,873	-	1,356,873
	408,628,552	5,494,570	414,123,122
Net assets released from restrictions:			
Satisfaction of purpose restrictions	2,423,881	(2,423,881)	-
Satisfaction of time restrictions	13,168,448	(13,168,448)	-
	15,592,329	(15,592,329)	-
Transportation service revenue	3,669,894	-	3,669,894
Total revenues, gains and other support	427,890,775	(10,097,759)	417,793,016
Expenses			
Program services:			
Childcare, food and medical	264,384,952	-	264,384,952
Disaster response	3,501,961	-	3,501,961
Education and community development	128,763,778	-	128,763,778
	396,650,691	-	396,650,691
Supporting activities:			
Fundraising	15,049,262	-	15,049,262
Management and general	11,563,472	-	11,563,472
	26,612,734	-	26,612,734
Transportation service expenses	4,399,631	-	4,399,631
Total expenses	427,663,056	-	427,663,056
Change in net assets	227,719	(10,097,759)	(9,870,040)
Net assets, beginning of year	132,641,084	20,948,255	153,589,339
Net assets, end of year	$ 132,868,803	$ 10,850,496	$ 143,719,299

FEED THE CHILDREN, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2018

	Program Services				Supporting Activities				
	Childcare, Food and Medical	Disaster Response	Education and Community Development	Total Program Services	Fundraising	Management and General	Total Supporting Activities	Transportation Service Expenses	Total Expenses
Food and other necessities	$ 219,315,183	$ 15,172,117	$ 109,668,692	$ 344,155,992	$ -	$ -	$ -	$ -	$ 344,155,992
Grants and other assistance	972,841	-	4,765,106	5,737,947	-	-	-	-	5,737,947
Shipping, handling and storage	604,930	10,209	14,353	629,492	-	-	-	-	629,492
Salaries and benefits	9,595,023	327,571	1,769,631	11,692,225	3,136,411	6,292,716	9,429,127	1,745,588	22,866,940
Contract services	200,218	-	31,289	231,507	826,720	890,090	1,716,810	-	1,948,317
Insurance	351,131	27,165	62,590	440,886	13,442	346,205	359,647	157,807	958,340
Travel	329,982	4,037	54,398	388,417	133,056	72,391	205,447	6,981	600,845
Supplies	260,641	2,113	36,374	299,128	16,413	35,457	51,870	8,794	359,792
Equipment	106,478	662	20,103	127,243	100,958	371,211	472,169	759	600,171
Repair and maintenance	832,946	38,511	104,658	976,115	47,210	478,444	525,654	215,181	1,716,950
Printing	7,185	30	1,265	8,480	103,346	1,543	104,889	-	113,369
Telephone	36,858	4,387	8,816	50,061	233	92,092	92,325	26,828	169,214
Occupancy	906,196	7,585	63,044	976,825	27,464	220,469	247,933	18,133	1,242,891
Public relations	3,131	45	398	3,574	77,713	519,865	597,578	-	601,152
Office and other	240,073	1,269	64,702	306,044	81,407	699,422	780,829	1,153	1,088,026
Postage	131,682	2,216	33,353	167,251	99,858	344,344	444,202	4,251	615,704
Legal and accounting	132,366	2,164	26,954	161,484	-	853,954	853,954	14,481	1,029,919
Property and other taxes	48,241	1,263	5,146	54,650	-	11,644	11,644	3,248	69,542
Interest	25,634	7,317	12,194	45,145	-	64,480	64,480	48,981	158,606
Depreciation	1,597,044	98,707	266,447	1,962,198	83,667	168,081	251,748	544,725	2,758,671
Fuel and licensing	383,101	109,350	182,251	674,702	-	-	-	732,017	1,406,719
Direct mail	-	-	-	-	5,664,313	-	5,664,313	-	5,664,313
Direct mail postage	-	-	-	-	3,103,469	-	3,103,469	-	3,103,469
Airtime and production	-	-	-	-	172,185	-	172,185	-	172,185
Other fundraising costs	-	-	-	-	493,994	-	493,994	-	493,994
	$ 236,080,884	$ 15,816,718	$ 117,191,764	$ 369,089,366	$ 14,181,859	$ 11,462,408	$ 25,644,267	$ 3,528,927	$ 398,262,560

See notes to consolidated financial statements.

FEED THE CHILDREN, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2017

	Program Services				Supporting Activities				
	Childcare, Food and Medical	Disaster Response	Education and Community Development	Total Program Services	Fundraising	Management and General	Total Supporting Activities	Transportation Service Expenses	Total Expenses
Food and other necessities	$ 250,561,268	$ 3,378,549	$ 119,367,232	$ 373,307,049	$ -	$ -	$ -	$ -	$ 373,307,049
Grants and other assistance	473,827	34,429	4,942,907	5,451,163	-	-	-	-	5,451,163
Shipping, handling and storage	717,221	407	42,880	760,508	531	1,322	1,853	-	762,361
Salaries and benefits	7,967,596	53,008	2,978,280	10,998,884	2,926,225	6,596,634	9,522,859	2,206,021	22,727,764
Contract services	65,101	-	54,286	119,387	1,055,734	747,825	1,803,559	-	1,922,946
Insurance	331,318	3,175	86,401	420,894	12,948	322,497	335,445	191,057	947,396
Travel	303,122	533	96,420	400,075	183,607	77,048	260,655	11,210	671,940
Supplies	228,058	363	61,849	290,270	10,808	24,422	35,230	11,694	337,194
Equipment	51,874	122	71,978	123,974	77,905	417,292	495,197	870	620,041
Repair and maintenance	836,412	5,794	222,525	1,064,731	42,398	437,730	480,128	311,232	1,856,091
Printing	8,651	-	11,245	19,896	15,071	6,974	22,045	-	41,941
Telephone	36,347	418	9,862	46,627	450	85,622	86,072	30,003	162,702
Occupancy	735,150	1,594	166,289	903,033	36,418	186,188	222,606	19,832	1,145,471
Public relations	972	-	336	1,308	62,384	73,315	135,699	-	137,007
Office and other	243,247	111	55,591	298,949	89,379	768,757	858,136	3,858	1,160,943
Postage	25,573	113	15,995	41,681	8,231	681,158	689,389	5,492	736,562
Legal and accounting	70,243	207	21,806	92,256	-	887,791	887,791	17,017	997,064
Property and other taxes	11,362	81	2,724	14,167	-	42,536	42,536	5,027	61,730
Interest	19,749	544	7,367	27,660	-	58,471	58,471	44,852	130,983
Depreciation	1,329,299	12,352	410,322	1,751,973	185,233	147,890	333,123	704,434	2,789,530
Fuel and licensing	368,562	10,161	137,483	516,206	-	-	-	837,032	1,353,238
Direct mail	-	-	-	-	5,473,053	-	5,473,053	-	5,473,053
Direct mail postage	-	-	-	-	3,804,747	-	3,804,747	-	3,804,747
Airtime and production	-	-	-	-	272,783	-	272,783	-	272,783
Other fundraising costs	-	-	-	-	791,357	-	791,357	-	791,357
	$ 264,384,952	$ 3,501,961	$ 128,763,778	$ 396,650,691	$ 15,049,262	$ 11,563,472	$ 26,612,734	$ 4,399,631	$ 427,663,056

See notes to consolidated financial statements.

FEED THE CHILDREN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	$ (22,191,734)	$ (9,870,040)
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	2,758,671	2,789,530
Net gain on disposition of assets	(338,441)	(1,777,793)
Net unrealized and realized gain on investments	(931,560)	(2,369,663)
Annuity actuarial change	(11,845)	(13,319)
Changes in operating assets and liabilities:		
Accounts receivable	481,884	(525,967)
Contributions receivable	(1,205,817)	8,099,432
Grant receivable	946,079	(909,328)
Inventory	22,748,342	5,827,399
Prepaid expenses and other assets	234,338	(291,835)
Accounts payable and accrued liabilities	906,667	(506,847)
Net cash provided by operating activities	3,396,584	451,569
Cash Flows from Investing Activities		
Purchases of investments	(6,069,058)	(2,488,990)
Proceeds from sales of investments	6,083,494	1,315,162
Proceeds from settlement of life insurance policies	-	832,810
Purchases of internal-use software	(2,448,796)	(528,138)
Purchases of property and equipment	(497,210)	(4,689,867)
Proceeds from disposition of property and equipment	453,230	2,618,829
Net cash used in investing activities	(2,478,340)	(2,940,194)
Cash Flows from Financing Activities		
Principal payments on notes payable	(868,774)	(862,072)
Net proceeds from (payments on) line of credit	(1,000,000)	2,500,000
Net cash provided by (used in) financing activities	(1,868,774)	1,637,928
Net change in cash and cash equivalents	(950,530)	(850,697)
Cash and cash equivalents, beginning of year	2,524,125	3,374,822
Cash and cash equivalents, end of year	$ 1,573,595	$ 2,524,125
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 94,126	$ 72,512
Supplemental Disclosure of Noncash Investing and Financing Activities		
Property and equipment financed through notes payable	$ -	$ 1,612,340

Note 1 – Nature of Organization and Activities

Feed the Children, Inc. (Feed the Children) is an international Christian relief and humanitarian organization established as an Oklahoma nonprofit corporation on October 12, 1964. Its mission is providing food, clothing, medical supplies, educational materials and other necessities for those without life's essentials. Every day, Feed the Children works diligently together with its partners toward the vision that no child or family goes to bed hungry.

Feed the Children provides services throughout the United States and numerous countries abroad through the following programs:

Childcare, food and medical – Feed the Children provides food, clothing and other basic necessities for children and families lacking life's essentials. No child, family, shelter or partner organization is ever charged for the food, supplies and assistance they receive. Feed the Children also secures desperately needed medical assistance and supplies for children worldwide.

Disaster response – Feed the Children provides emergency assistance to victims of natural and man-made disasters. Feed the Children is often the first relief agency to reach the scene due to its dedicated fleet of semi-tractor trailers operated by FTC Transportation, Inc.

Education and community development – Feed the Children develops sustainable long-term improvements in the quality of life for children and their families in poor or developing countries. Feed the Children combines clean water and sanitation projects with health, nutrition and education programs and income generating activities that assist to move entire communities toward self-sufficiency.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation

These consolidated financial statements include the accounts of Feed the Children and its wholly owned subsidiaries and controlled affiliates: Feed the Children Kenya, Feed the Children Malawi, Feed the Children Nicaragua, Feed the Children Guatemala, FTC Transportation, Inc. (FTCT), and Friends That Care Holding Co. Ltd. (FTCHC) (collectively, the Organization).

Entities in which the Organization has a relationship that meet the consolidation criteria defined in Accounting Standards Codification (ASC) Subtopic 958-810, *Consolidations*, are included in the accompanying consolidated financial statements. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States using the accrual basis of accounting. All significant intercompany balances and transactions have been eliminated in consolidation.

The financial statements of affiliates in Tanzania, Uganda, and Haiti, which have met the consolidation criteria, are not material and, accordingly, are not included in the accompanying consolidated financial statements. Certain other international nonprofit affiliates are not included in the consolidated financial statements because they are not controlled through ownership, sole corporate membership or a majority voting interest in the board of the affiliate.

Feed the Children Kenya, Feed the Children Malawi, Feed the Children Nicaragua and Feed the Children Guatemala each operate as a furtherance of the Organization's operations in their respective country. FTCHC was formed for the purpose of purchasing and holding land and property in Kenya as a furtherance of the Organization's mission in that country.

The carrying amount of the net assets of consolidated international affiliates at June 30, 2018 and 2017, is approximately $8,900,000 and $13,200,000, respectively. The total revenue, excluding intercompany revenue, of these international affiliates was approximately $927,000 and $1,280,000 for the years ended June 30, 2018 and 2017, respectively.

FTCT was formed in 1986 to provide transportation services to Feed the Children. As the core carrier for Feed the Children, FTCT picks up gifts-in-kind contributions from corporate donors and transports them to one of five Feed the Children regional distribution centers that are located in Ontario, California; La Vergne, Tennessee; Oklahoma City, Oklahoma; Elkhart, Indiana; and Bethlehem, Pennsylvania. FTCT also contracts with other third-party shippers and brokers for transportation services to help defray its costs.

Net assets

Net assets and related revenues and support are classified based upon the existence or absence of donor-imposed restrictions, as follows:

Unrestricted net assets – Includes all resources that are expendable at the discretion of the Board of Directors for the Organization's programs.

Temporarily restricted net assets – Net assets whose use is limited by donor-imposed restrictions that either expire with the passage of time or occurrence of specified events or actions. When a restriction has been fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities as net assets released due to satisfaction of time or purpose restrictions. Contributions with restrictions that are fulfilled in the same time period in which the contribution is received are recorded as unrestricted contributions in the consolidated statements of activities.

Permanently restricted net assets – Net assets whose use is limited by donor-imposed restrictions that require such resources be maintained in perpetuity and the income therefrom utilized for operating or other donor-restricted purposes. The Organization had no permanently restricted net assets as of or during the years ended June 30, 2018 and 2017.

Accounting 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents

The Organization considers all highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents included in investments are not included in cash and cash equivalents as they are held for investment purposes.

Accounts receivable

Accounts receivable primarily consists of amounts due from third parties for transportation services. Accounts receivable are carried at invoice amounts less an estimate made for doubtful receivables. Amounts are aged based on invoice terms. The Organization maintains an allowance for estimated credit losses based upon its historical experience and specific customer collection issues that the Organization has identified. Bad debts are written off against the allowance when amounts are specifically determined to be uncollectible.

Contributions receivable

Unconditional promises to give cash are recorded at net present value, using estimated discount rates that market participants would require applicable to the year in which the promise is received. Amortization of the discounts related to pledges receivable are recognized over the period of the promise as contribution revenue.

Unconditional promises to give donations of food, medical supplies, clothing and other materials (collectively, gifts-in-kind) for use in the Organization's programs are recognized in the period that sufficient verifiable evidence exists documenting that a promise was made by the donor and received by the Organization. Such gifts are recorded at their fair value (see "Revenue recognition" in Note 2).

Government grants receivable

Grants receivable consist primarily of amounts due from the United States Agency for International Development (USAID) and the United States Department of Agriculture (USDA) under cost reimbursement grants (see "Revenue recognition" in Note 2).

Fair value of financial instruments

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

- The fair values of investments are estimated generally based on quoted market prices for identical or similar assets (see Note 12). The cash surrender value of life insurance policies approximates fair value.
- The carrying value of notes payable approximates fair value as the stated fixed rates approximate current market rates on similar financial instruments.

Investments

Investments in mutual funds with readily determinable fair values are reported at fair value. Donated investments are initially recorded at fair value at the date of donation. Life insurance policies are recorded at their cash surrender value. Certain other investments, including cash held for investment in money market accounts, are carried at cost, which approximates fair value.

Interest, dividends and net realized and unrealized gains and losses are reflected as part of investment income and are included in the change in unrestricted net assets in the accompanying consolidated statements of activities, unless their use is temporarily or permanently restricted by donor stipulation. Any investment income restricted by the donor that is received and expended in the same period is classified as unrestricted support.

Realized and unrealized gains and losses on investments are recognized for changes in fair value between periods or when related securities are sold. Interest and dividends are recognized when earned. Investment transactions are recognized on a trade-date basis.

Inventory

Purchased inventory is recorded at the lower of cost or net realizable value. Donated inventory is initially recorded at the fair value of the donated goods at the date of donation based upon the estimated wholesale value of gifts received (see "Revenue recognition" in Note 2). Subsequent to initial recognition, donated inventory is reported at the lower of donated value or net realizable value. Donated inventory is intended for distribution to qualified organizations only, and is not available for sale. A loss is recognized for the decrease in value of any slow-moving inventory. Inventory is reported net of an allowance for obsolescence of approximately $258,000 and $155,000 at June 30, 2018 and 2017, respectively.

Prepaid expenses and other assets

Certain payments reflect costs applicable to future periods. Prepaid expenses and other assets include certain prepaid direct mail costs which are expensed upon mailing.

Capitalized software costs

In December 2016, Feed the Children's Board of Directors approved a project to update the Organization's donor management system. The Organization has contracted with a software developer to develop software specific to the Organization's unique needs. External costs and certain direct internal costs incurred to develop this internal-use software during the application development stage have been capitalized and are included in the consolidated statements of financial position. Amortization is computed by the straight-line method over the estimated useful life of the asset. At June 30, 2018, no amortization was recorded as the software was still in the application development stage and was not yet ready for its intended use.

Assets held for sale

Certain assets consisting of land and buildings are classified as held for sale in the accompanying consolidated statements of financial position. At June 30, 2018 and 2017, $5,484,733 in assets held for sale included $3,594,102 of idle warehouse facilities within the United States and $1,890,631 of land and buildings located in Nairobi, Kenya.

Subsequent to year-end, a portion of the idle warehouse facilities within the United States was sold for approximately $3,311,000. The carrying value of the assets was approximately $3,121,000, resulting in a gain on sale of approximately $190,000, which was recognized in other revenues.

Property and equipment

Property and equipment is carried at cost or, if donated, at fair value on the date of donation. Depreciation is computed by the straight-line method over the estimated useful lives of the assets. Expenditures for betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Leasehold improvements are depreciated over the shorter of their estimated useful lives or terms of the underlying lease.

Gifts of property are presented as unrestricted support unless explicit donor restrictions specify how the donated assets must be used. Property donated with restrictions regarding their use and contributions of cash to acquire property are reported as restricted support. Absent any donor stipulations about how long these assets must be maintained, these restrictions expire when the asset is acquired and a reclassification is made from temporarily restricted net assets to unrestricted net assets at that time.

Impairment of long-lived assets

The Organization reviews long-lived assets for potential impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. In performing the review for impairment, future cash flows expected to result from the use of the asset and its eventual disposal are estimated. If the undiscounted future cash flows are less than the carrying amount of the assets, there is an indication that the asset may be impaired. The amount of the impairment is measured as the difference between the carrying value and the estimated fair value of the asset. The fair value is determined either through the use of an external valuation, or by means of an analysis of discounted future cash flows based on expected utilization. An impairment loss would be recognized for the excess of the asset's carrying value as compared to its estimated fair value. No impairment for long-lived assets was recognized for the years ended June 30, 2018 or 2017.

Revenue recognition

The Organization follows ASC Subtopic 958-605, *Revenue Recognition*, to recognize cash and gift-in-kind contributions from individuals and domestic and multi-national organizations. These contributions, including unconditional promises, are recognized as revenue when the donor's unconditional commitment is received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met.

The Organization receives donations of food, medical supplies, clothing and other goods for use in its mission programs, collectively gifts-in-kind. These donations are recorded at their estimated fair value based upon the Organization's estimate of the wholesale values that would be received for selling the goods in their principal market, considering their condition and utility for use at the time the goods are donated. Several methodologies are used in the determination of estimated wholesale value, including values provided by the donor, published industry pricing guides, internally researched values, and internal average values for like-kind items.

Donations of gifts-in-kind whose principal market is the United States are valued at their estimated wholesale value in the United States, determined as discussed in the previous paragraph. Gifts-in-kind donated outside the United States are valued based upon the estimated wholesale market value of the items within the countries that represents the principal market of use. The estimated wholesale value of these donations is obtained from market price data compiled from wholesale commercial transactions within the non-United States principal market. Regardless of the methodology, the condition and utility for use of the donated materials is taken into account for valuation purposes.

Certain projects of the Organization are assisted by grants from the USAID and USDA. Revenues from grants are deemed earned and recognized in the consolidated statements of activities when expenditures are made for the purposes specified. Grant funds that have been received but have not yet been expended for the purposes specified are reported as deferred revenue.

Transportation service revenue represents commercial transportation revenue from third parties and is recognized upon completion of delivery. Transportation service expenses represent direct and allocated operational expenses incurred to generate commercial transportation revenue from third parties.

Advertising

Direct mail advertising and promotional costs are expensed when mailed. Advertising and promotional costs related to television and radio airtime and production expenses are expensed upon completion of program production and its release to broadcasting networks.

Income taxes

Feed the Children is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. FTCT has historically sustained tax operating losses which could generate a future income tax benefit. However, FTCT has recorded a valuation allowance to offset any asset for the income tax benefit since management has determined that it is more likely than not that the benefit will not be realized due to uncertainty with respect to future operating profits, if any. Therefore, no provision for income taxes has been made in the consolidated financial statements.

International subsidiaries and affiliates may be subject to country and local income tax; however, any such taxes would not be significant to the consolidated financial statements.

Functional allocation of expenses

Expenses have been allocated among program and supporting activities classifications on the basis of direct cost allocations, employee time records and indirect cost allocation estimates.

New accounting pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which provides more relevant information about available resources (and the changes in those resources) to donors, grantors, creditors and other users. The most significant aspects of the ASU are as follows: (1) replaces the current presentation of three classes of net assets (unrestricted, temporarily restricted, and permanently restricted) with two classes of net assets – net assets with donor restrictions and net assets without donor restrictions, (2) expands the disclosures about the nature and amount of any donor restrictions, board designations of net assets without donor restrictions as well as any underwater endowment funds, (3) requires expenses to be presented by nature and function, as well as an analysis of the allocation of these expenses, (4) requires specific quantitative and qualitative disclosures to improve the ability of financial statement users to assess the entity's available financial resources and the methods by which it manages liquidity and liquidity risk, and (5) requires investment returns to be presented net of external and direct internal investment expenses. This ASU is to be applied retrospectively, and is effective for years beginning after December 15, 2017, with early adoption permitted. The Organization is currently evaluating the impact this standard will have on its consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01)*. Among other provisions that are not applicable to the Organization, this update eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost. For nonprofit entities, the amendments in this update are effective for fiscal years beginning after December 15, 2018, with early adoption permitted. The Organization has elected to omit certain disclosures related to the fair value of financial instruments in the accompanying June 30, 2018 and 2017 consolidated financial statements, as permitted.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The update provides guidance concerning the recognition and measurement of revenue from contracts with customers. Its objective is to increase the usefulness of information in the financial statements regarding the nature, time and uncertainty of revenues. As deferred by ASU 2015-14, the update is effective for the Organization beginning on July 1, 2019, for the year ending June 30, 2020. The standard permits the use of either the retrospective or cumulative effect transition method. The Organization has is currently evaluating the impact this standard will have on its consolidated financial statements and related disclosures, including the selection of a transition method.

Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 presentation. These reclassifications had no impact on the previously reported change in net assets.

Subsequent events

Management has evaluated subsequent events through February 14, 2019, the date the consolidated financial statements were available to be issued.

Note 3 – Contributions Receivable and Concentrations

Contributions receivable consists of pledges of cash and gifts-in-kind from corporate and individual donors expected to be collected within one year. Unconditional promises to give, net of allowance for uncollectible receivables, as of June 30:

	2018	2017
Gifts-in-kind receivable, temporarily restricted	$ 4,730,351	$ 2,371,174
Pledges receivable, temporarily restricted	2,188,914	3,342,274
	$ 6,919,265	$ 5,713,448

At June 30, 2018, gifts-in-kind receivable from two donors represented approximately 31% of total contributions receivable. At June 30, 2017, gifts-in-kind receivable from one donor represented approximately 13% of total contributions receivable.

Note 4 – Investments

Investments consist of the following as of June 30:

	2018	2017
Mutual funds	$ 24,688,014	$ 21,850,209
Money market accounts	128,081	2,048,762
Key man life insurance policies	3,396,575	3,442,384
	$ 28,212,670	$ 27,341,355

Net investment gain is comprised of the following as of June 30:

	2018	2017
Interest and dividends	$ 636,101	$ 515,234
Net realized and unrealized gain	930,770	2,369,663
Other	(20,351)	(117,889)
	$ 1,546,520	$ 2,767,008

Note 5 – Property and Equipment

Property and equipment consists of the following as of June 30:

	Estimated Useful Life	2018	2017
Land		$ 3,472,280	$ 3,472,280
Buildings and buildings improvements	5-40	26,016,691	25,951,429
Furniture, fixtures and equipment	3-5	11,619,329	11,309,179
Vehicles	3-7	2,214,236	2,263,462
Transportation equipment	3-7	5,955,348	7,194,326
		49,277,884	50,190,676
Less accumulated depreciation		(28,830,525)	(27,367,067)
		$ 20,447,359	$ 22,823,609

Net investment in property and equipment at June 30 consists of the following:

	2018	2017
Property and equipment, net	$ 20,447,359	$ 22,823,609
Less: related debt	(1,990,163)	(2,858,937)
	$ 18,457,196	$ 19,964,672

Note 6 – Split-Interest Agreements

Feed the Children maintains a charitable gift annuity program whereby donors contribute assets in exchange for the right to receive a fixed dollar annual return during their lifetimes. The difference between the amount provided for the annuity contract and the discounted liability for future payments, determined on an actuarial basis, is recognized as contribution revenue at the date of the gift if Feed the Children is the ultimate beneficiary, or as a liability if another charity is the beneficiary. Upon the death of the annuitant, income distributions cease. The actuarial liability for annuities payable is calculated annually using published mortality rate tables adopted by the Internal Revenue Service at an assumed rate of return of 5.8%. The resulting actuarial gain or loss is recorded as a component of the change in value of split-interest agreements and reported in other revenue in the consolidated statements of activities. The present value of the estimated future payments at June 30, 2018 and 2017, is $148,737 and $160,582, respectively. These estimated future payments are included in the liability for split-interest agreements in the consolidated statements of financial position.

Note 7 – Line of Credit

On September 14, 2015, the Organization entered into a $4,000,000 revolving credit facility with its investment custodial bank. Any borrowings under the facility are due on demand, and are secured by investment securities held by the bank. The line of credit provides for two interest rate options at the discretion of Feed the Children: Prime Rate plus 0.75%, payable monthly, or LIBOR Rate plus 1.5% when the outstanding principal balance is less than $1,000,000 and 1.25% when the outstanding principal balance is equal to or exceeds $1,000,000, payable at the end of each interest period. Borrowings against the line of credit at June 30, 2018 and 2017, were $1,500,000 and $2,500,000, respectively.

Note 8 – Notes Payable

The following is a summary of notes payable as of June 30:

	2018	2017
FTCT notes payable to Daimler, collateralized by certain transportation equipment of FTCT, maturity dates ranging from August 2019 to April 2022, principal and interest payable monthly, interest ranging from 2.65% to 4.65% as of June 30, 2018.	$ 1,990,163	$ 2,858,937

Future maturities of notes payable as of June 30, 2017, are as follows:

Year ending June 30,	Amount
2019	$ 805,719
2020	539,263
2021	415,171
2022	230,010
	$ 1,990,163

Note 9 – Temporarily Restricted Net Assets

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

	2018	2017
Childcare, food and medical programs (international)	$ 3,172,429	$ 5,122,357
Other	14,716	14,691
Total purpose restrictions	3,187,145	5,137,048
Time-restricted, contributions receivable, primarily gifts-in-kind	6,919,265	5,713,448
	$ 10,106,410	$ 10,850,496

Note 10 – Employee Benefits

The Organization provides retirement benefits to employees under two separate qualified defined contribution plans. The plans cover all full-time employees and part-time employees that meet plan requirements. Feed the Children and FTCT have separate qualified defined contribution plans; a 403(b) plan and a 401(k) plan for eligible employees. Employee contributions are matched in accordance with the provisions of each plan. For the years ended June 30, 2018 and 2017, collective contributions to the plans were $341,247 and $331,852, respectively.

Note 11 – Related Party Transactions

The Organization provides financial support and donates food, medicine, clothing and other materials to its international affiliates, who act in furtherance of the Organization's mission. Total support provided to nonconsolidated international affiliates was approximately $9,980,000 and $15,930,000, for the years ended June 30, 2018 and 2017, respectively.

Note 12 – Fair Value Measurements

ASC Topic 820, *Fair Value Measurements and Disclosures*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined based on a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value which are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. Level 3 assets and liabilities include investments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. There were no significant transfers into or out of Level 1, 2 or 3 measurements for the years ended June 30, 2018 and 2017.

The following table summarizes assets measured at fair value on a recurring basis as of June 30, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
2018:				
Mutual funds	$ 24,688,014	$ 24,688,014	$ -	$ -

	Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
2017:				
Mutual funds	$ 21,850,209	$ 21,850,209	$ -	$ -

Note 13 – Concentration of Credit Risk

The Organization has cash deposits with several financial institutions that typically exceed U.S. federally insured limits by significant amounts. No losses have been incurred on such uninsured bank balances to date. As of June 30, 2018 and 2017, the Organization held $788,412 and $973,172, respectively, in foreign bank accounts not covered by the Federal Deposit Insurance Corporation.

Note 14 – Commitments and Contingencies

During the year ended June 30, 2017, the Organization entered into a three-year contractual commitment with a software provider for certain software services. The total commitment under the three-year term was approximately $2,300,000. As of June 30, 2018, the Organization had purchased approximately $954,000 in software services and remained obligated to purchase additional software services of approximately $1,346,000.

The Organization is involved in various legal matters arising in the ordinary course of business. After reviewing these matters with counsel, management does not believe that any resulting liability will be material to the financial statements taken as a whole.

Subsequent to the year ended June 30, 2018, management became aware of potential inappropriate activity that could have resulted in instances of noncompliance with its major federal program in Malawi and is conducting an investigation into the matter. Ultimate resolution of this matter, including any potential financial obligation assessed on the Organization, cannot presently be determined.

During the year ended June 30, 2017, the Organization was named as a defendant in a lawsuit filed by its former Chief Executive Officer. This litigation is ongoing and, while the Organization believes it will prevail in the lawsuit, the ultimate resolution of this matter, including any potential liability to the Organization, cannot presently be determined.