CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2015 and 2014

WITH

INDEPENDENT AUDITOR'S REPORTS

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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, which comprise the consolidated statements of financial position as of June 30, 2015 and 2014, and 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Feed the Children, Inc. and its subsidiaries as of June 30, 2015 and 2014, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2015, on our consideration of Feed the Children, Inc. and its subsidiaries' internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Feed the Children, Inc. and its subsidiaries' internal control over financial reporting and compliance.

Hogan Taylor LLP

December 17, 2015

FEED THE CHILDREN, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	$ 2,028,013	$ 2,304,916
Accounts receivable	456,531	467,900
Contributions receivable, net	6,904,624	8,794,251
Grant receivable	1,527,261	590,245
Investments	31,072,426	35,146,562
Inventory, net	95,938,389	94,682,696
Prepaid expenses and other assets	2,063,946	2,592,926
Assets held for sale	1,896,632	2,396,632
Assets held in trusts	987,310	1,009,142
Beneficial interests in remainder trusts	1,761,228	1,752,753
Property and equipment, net	25,970,612	27,584,094
Total assets	$ 170,606,972	$ 177,322,117
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	$ 4,047,715	$ 6,011,741
Liability under split-interest agreements	1,295,771	1,366,765
Notes payable	2,636,233	2,283,138
Total liabilities	7,979,719	9,661,644
Net assets:		
Unrestricted:		
Available for operations	19,624,385	19,567,614
Net investment in property and equipment	23,334,379	25,300,956
Investment in inventory	95,938,389	94,682,696
	138,897,153	139,551,266
Temporarily restricted	20,933,536	25,312,643
Permanently restricted	2,796,564	2,796,564
Total net assets	162,627,253	167,660,473
Total liabilities and net assets	$ 170,606,972	$ 177,322,117

FEED THE CHILDREN, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Gifts-in-kind	$ 384,103,551	$ 4,390,923	$ -	$ 388,494,474
Contributions	54,439,843	2,631,537	-	57,071,380
Government grants	734,482	1,508,525	-	2,243,007
Net investment gain (loss)	813,874	(176,614)	-	637,260
Net gain on disposition of assets	3,171,220	-	-	3,171,220
Other revenues	2,146,425	-	-	2,146,425
	445,409,395	8,354,371	-	453,763,766
Net assets released from restrictions:				
Satisfaction of purpose restrictions	4,185,690	(4,185,690)	-	-
Satisfaction of time restrictions	8,547,788	(8,547,788)	-	-
	12,733,478	(12,733,478)	-	-
Transportation service revenue	5,013,173	-	-	5,013,173
Total revenues, gains and other support	463,156,046	(4,379,107)	-	458,776,939
Expenses				
Program services:				
Childcare, food and medical	309,078,880	-	-	309,078,880
Disaster relief	2,103,621	-	-	2,103,621
Education and community development	109,816,874	-	-	109,816,874
	420,999,375	-	-	420,999,375
Supporting services:				
Fundraising	24,125,922	-	-	24,125,922
Management and general	13,228,056	-	-	13,228,056
	37,353,978	-	-	37,353,978
Transportation service expenses	5,456,806	-	-	5,456,806
Total expenses	463,810,159	-	-	463,810,159
Change in net assets	(654,113)	(4,379,107)	-	(5,033,220)
Net assets, beginning of year	139,551,266	25,312,643	2,796,564	167,660,473
Net assets, end of year	$ 138,897,153	$ 20,933,536	$ 2,796,564	$ 162,627,253

FEED THE CHILDREN, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Gifts-in-kind	$ 332,730,646	$ 8,156,425	$ -	$ 340,887,071
Contributions	54,532,277	2,617,252	-	57,149,529
Government grants	1,706,850	264,842	-	1,971,692
Net investment gain	4,707,289	479,761	-	5,187,050
Net gain on disposition of assets	247,819	-	-	247,819
Other revenues	1,066,691	-	-	1,066,691
	394,991,572	11,518,280	-	406,509,852
Net assets released from restrictions:				
Satisfaction of purpose restrictions	7,658,130	(7,658,130)	-	-
Satisfaction of time restrictions	10,071,437	(10,071,437)	-	-
	17,729,567	(17,729,567)	-	-
Transportation service revenue	4,123,718	-	-	4,123,718
Total revenues, gains and other support	416,844,857	(6,211,287)	-	410,633,570
Expenses				
Program services:				
Childcare, food and medical	221,205,815	-	-	221,205,815
Disaster relief	12,229,715	-	-	12,229,715
Education and community development	137,486,967	-	-	137,486,967
	370,922,497	-	-	370,922,497
Supporting services:				
Fundraising	28,859,693	-	-	28,859,693
Management and general	12,858,855	-	-	12,858,855
	41,718,548	-	-	41,718,548
Transportation service expenses	5,075,810	-	-	5,075,810
Total expenses	417,716,855	-	-	417,716,855
Change in net assets	(871,998)	(6,211,287)	-	(7,083,285)
Net assets, beginning of year	140,423,264	31,523,930	2,796,564	174,743,758
Net assets, end of year	$ 139,551,266	$ 25,312,643	$ 2,796,564	$ 167,660,473

FEED THE CHILDREN, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2015

	Program Services				Supporting Activities				
	Childcare, Food and Medical	Disaster Relief	Education and Community Development	Total Program Services	Fundraising	Management and General	Total Supporting Activities	Transportation Service Expenses	Total Expenses
Food and other necessities	$ 291,638,122	$ 1,879,241	$ 99,388,961	$ 392,906,324	$ -	$ -	$ -	$ -	$ 392,906,324
Grants and other assistance	4,370,684	116,906	5,296,244	9,783,834	-	-	-	-	9,783,834
Shipping, handling and storage	82,387	-	28,065	110,452	-	12,247	12,247	-	122,699
Salaries and benefits	7,728,124	67,824	3,134,105	10,930,053	4,086,371	6,849,804	10,936,175	2,551,111	24,417,339
Contract services	123,495	3,503	67,476	194,474	1,746,067	1,067,984	2,814,051	-	3,008,525
Insurance	349,569	2,556	84,087	436,212	71,809	167,011	238,820	226,305	901,337
Travel	374,563	5,449	308,694	688,706	479,455	166,425	645,880	11,279	1,345,865
Supplies	258,258	6,470	79,801	344,529	24,026	115,812	139,838	10,719	495,086
Equipment expenses	53,865	481	29,496	83,842	12,852	204,302	217,154	943	301,939
Repair and maintenance	818,067	2,989	101,032	922,088	48,518	286,707	335,225	294,723	1,552,036
Printing	3,505	97	19,004	22,606	67,239	7,581	74,820	-	97,426
Telephone	59,792	520	45,500	105,812	5,079	158,658	163,737	31,809	301,358
Occupancy	754,807	2,186	266,195	1,023,188	67,493	260,111	327,604	23,969	1,374,761
Public relations	6,901	59	24,162	31,122	459,373	732,545	1,191,918	-	1,223,040
Office and other expense	321,985	1,218	242,482	565,685	252,231	1,400,372	1,652,603	19,937	2,238,225
Postage	31,650	110	56,467	88,227	51,919	699,947	751,866	10,197	850,290
Legal and accounting	28,602	53	41,474	70,129	4,402	903,470	907,872	13,753	991,754
Property and other taxes	26,018	163	4,685	30,866	1,717	42,271	43,988	5,463	80,317
Interest	23,192	209	9,157	32,558	-	20,335	20,335	62,929	115,822
Depreciation	1,530,947	9,215	394,588	1,934,750	203,890	132,474	336,364	852,294	3,123,408
Fuel and licensing	494,347	4,372	195,199	693,918	-	-	-	1,341,375	2,035,293
Direct mail	-	-	-	-	6,098,279	-	6,098,279	-	6,098,279
Direct mail postage	-	-	-	-	3,804,741	-	3,804,741	-	3,804,741
Event sponsorship	-	-	-	-	3,786,156	-	3,786,156	-	3,786,156
Airtime and production	-	-	-	-	1,740,381	-	1,740,381	-	1,740,381
Other fundraising costs	-	-	-	-	1,113,924	-	1,113,924	-	1,113,924
	$ 309,078,880	$ 2,103,621	$ 109,816,874	$ 420,999,375	$ 24,125,922	$ 13,228,056	$ 37,353,978	$ 5,456,806	$ 463,810,159

See notes to consolidated financial statements.

FEED THE CHILDREN, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2014

	Program Services				Supporting Activities				
	Childcare, Food and Medical	Disaster Relief	Education and Community Development	Total Program Services	Fundraising	Management and General	Total Supporting Activities	Transportation Service Expenses	Total Expenses
Food and other necessities	$ 203,434,004	$ 11,610,774	$ 129,185,003	$ 344,229,781	$ -	$ -	$ -	$ -	$ 344,229,781
Grants and other assistance	4,028,355	185,946	3,506,517	7,720,818	-	-	-	-	7,720,818
Shipping, handling and storage	199,200	14,940	70,424	284,564	5,854	19,914	25,768	-	310,332
Salaries and benefits	7,500,511	212,739	2,839,577	10,552,827	5,072,470	6,220,742	11,293,212	2,091,821	23,937,860
Contract services	155,153	3,096	77,378	235,627	1,750,192	1,733,762	3,483,954	10,679	3,730,260
Insurance	339,805	13,631	72,285	425,721	93,273	137,590	230,863	190,217	846,801
Travel	389,562	6,038	255,798	651,398	493,366	163,253	656,619	10,295	1,318,312
Supplies	313,589	6,056	59,292	378,937	38,897	125,808	164,705	9,391	553,033
Equipment expenses	69,188	2,771	35,827	107,786	107,166	238,986	346,152	751	454,689
Repair and maintenance	837,201	20,297	110,050	967,548	160,155	354,152	514,307	254,678	1,736,533
Printing	3,011	241	23,464	26,716	72,728	13,536	86,264	-	112,980
Telephone	73,695	2,927	52,713	129,335	27,191	183,070	210,261	26,379	365,975
Occupancy	693,102	12,416	245,884	951,402	85,267	158,084	243,351	19,382	1,214,135
Public relations	7,292	2,059	25,791	35,142	237,451	753,310	990,761	-	1,025,903
Office and other expense	139,373	3,697	145,567	288,637	143,970	1,091,127	1,235,097	40,048	1,563,782
Postage	11,439	570	36,473	48,482	27,800	741,972	769,772	12,284	830,538
Legal and accounting	193,064	4,972	96,029	294,065	276,090	665,999	942,089	14,194	1,250,348
Property and other taxes	103,209	3,614	17,677	124,500	3,374	48,949	52,323	6,746	183,569
Interest	33,922	2,167	11,024	47,113	-	27,021	27,021	64,442	138,576
Depreciation	1,898,046	70,733	365,688	2,334,467	203,666	181,580	385,246	836,838	3,556,551
Fuel and licensing	783,094	50,031	254,506	1,087,631	-	-	-	1,487,665	2,575,296
Direct mail	-	-	-	-	7,033,014	-	7,033,014	-	7,033,014
Direct mail postage	-	-	-	-	4,743,107	-	4,743,107	-	4,743,107
Event sponsorship	-	-	-	-	2,361,478	-	2,361,478	-	2,361,478
Airtime and production	-	-	-	-	3,482,982	-	3,482,982	-	3,482,982
Other fundraising costs	-	-	-	-	2,440,202	-	2,440,202	-	2,440,202
	$ 221,205,815	$ 12,229,715	$ 137,486,967	$ 370,922,497	$ 28,859,693	$ 12,858,855	$ 41,718,548	$ 5,075,810	$ 417,716,855

See notes to consolidated financial statements.

FEED THE CHILDREN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Change in net assets	$ (5,033,220)	$ (7,083,285)
Adjustments to reconcile the change in net assets to net cash used in operating activities:		
Depreciation	3,123,408	3,556,551
Net gain on disposition of assets	(3,171,220)	(247,819)
Net unrealized and realized (gain) loss on investments	46,181	(4,437,087)
Donated investments	(314,350)	(76,189)
Annuity actuarial change	(70,994)	(61,472)
Change in value of beneficial interests in remainder trusts	(8,475)	(127,944)
Changes in operating assets and liabilities:		
Accounts receivable	11,369	60,210
Contributions receivable	1,889,627	1,964,048
Grant receivable	(937,016)	(212,710)
Inventory	(1,255,693)	(2,281,516)
Prepaid expenses and other assets	793,492	(513,314)
Accounts payable and accrued liabilities	(1,964,026)	348,983
Net cash used in operating activities	(6,890,917)	(9,111,544)
Cash Flows from Investing Activities		
Purchase of investments	(20,708,046)	(9,836,395)
Proceeds from sales of investments	24,807,671	21,104,583
Purchases of property and equipment	(974,277)	(4,854,418)
Proceeds from disposition of property and equipment	4,244,623	264,026
Proceeds from disposition of assets held for sale	1,033,073	783,796
Net cash provided by investing activities	8,403,044	7,461,592
Cash Flows from Financing Activities		
Principal payments on notes payable and capital lease obligations	(1,789,030)	(1,307,636)
Net cash used in financing activities	(1,789,030)	(1,307,636)
Net change in cash and cash equivalents	(276,903)	(2,957,588)
Cash and cash equivalents, beginning of year	2,304,916	5,262,504
Cash and cash equivalents, end of year	$ 2,028,013	$ 2,304,916
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 95,484	$ 111,555
Supplemental Disclosure of Noncash Investing and Financing Activities		
Property and equipment financed through notes payable	$ 2,142,125	$ -

See notes to consolidated financial statements.

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 and equipment, 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. Feed the Children medical teams travel to developing countries to help people who cannot afford, or who do not have access to, regular medical care.

Disaster relief – 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 and controlled affiliates; Feed the Children Kenya (Feed the Children-Kenya), Feed the Children Malawi (Feed the Children-Malawi), FTC Transportation, Inc. (FTCT), Friends That Care Holding Co. Ltd. (FTCHC), and World Neighbors, Inc. (World Neighbors) (collectively, the Organization).

Entities in which the Organization has a relationship that meet the consolidation criteria defined in Accounting Standard 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, Haiti, Guatemala and Nicaragua, which have met the consolidation criteria, are not material and, accordingly, are not included in the accompanying consolidated financial statements. Certain other international affiliates are not included in the consolidated financial statements because they are not controlled through a majority ownership interest or by other than ownership of majority voting interest, or controlled through a majority voting interest in the board of the other entity.

Feed the Children-Kenya operates as a furtherance of the Organization's operations in Kenya, Africa. 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, 2015 and 2014, is approximately $8,800,000 and $13,200,000, respectively. The total revenue, excluding intercompany revenue, of these international affiliates was approximately $2,200,000 and $1,900,000 for the years ended June 30, 2015 and 2014, 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.

Feed the Children is the sole corporate member of World Neighbors, a nonprofit entity that shares Feed the Children's mission of providing programs and services to those without life's essentials. World Neighbors' programs strive to eliminate hunger, poverty, and disease in the most deprived rural villages in Latin America and the Caribbean, Asia and Africa, investing in people and their communities by training and inspiring them to create their own life-changing solutions through programs that combine agriculture, literacy, water, health and environmental protection.

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.

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.

Grant receivable

Grant receivable consists of amounts due from the United States Agency for International Development under cost reimbursement grants (see "Revenue recognition" in Note 2).

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. Contributions receivable is reported net of an allowance of approximately $83,000 and $136,000 at June 30, 2015 and 2014, respectively.

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).

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 13). 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 equity securities and mutual funds with readily determinable fair values and investments in debt securities, including corporate bonds and government securities, 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 and certificates of deposit, 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 market. 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 cost or market. 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 $233,000 and $48,000 at June 30, 2015 and 2014, 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.

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.

The Organization evaluates the recoverability of property and equipment if circumstances indicate impairment has occurred. If the carrying value is not recoverable, the assets are reduced to their estimated fair value. No impairments were recognized for the years ended June 30, 2015 or 2014.

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. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted.

When a temporary restriction expires, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions with restrictions which are fulfilled in the time period in which the contribution is received are recorded as unrestricted contributions in the consolidated financial statements. 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 United States Agency for International Development (USAID). 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 and World Neighbors are nonprofit organizations 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 affiliates may be subject to country and local income tax which would not be significant to the financial statements.

Functional allocation of expenses

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

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's financial statement presentation. These reclassifications did not affect the previously reported net assets or change in net assets.

Subsequent events

Management has evaluated subsequent events through December 17, 2015, 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. Unconditional promises to give as of June 30:

	2015	2014
Gifts-in-kind receivable, temporarily restricted	$ 4,786,772	$ 7,194,748
Pledges receivable, temporarily restricted	2,216,958	1,768,793
Less discounts to net present value	(15,781)	(32,877)
Less allowance for uncollectible pledges	(83,325)	(136,413)
	$ 6,904,624	$ 8,794,251
Amount receivable in:		
Less than one year	$ 6,861,983	$ 8,552,746
One to five years	55,876	272,404
Five to ten years	2,546	1,978
	6,920,405	8,827,128
Less discounts to net present value	(15,781)	(32,877)
	$ 6,904,624	$ 8,794,251

At June 30, 2015 and 2014, gifts-in-kind receivable from two donors represented approximately 39% and one donor represented approximately and 22%, respectively, of total contributions receivable.

Note 4 – Investments

Investments consist of the following as of June 30:

	2015	2014
Equity securities	$ 366,830	$ 16,008,205
Mutual funds	22,811,218	7,252,613
Corporate bonds	-	1,568,908
Government and government-backed securities	754,281	2,750,685
Money market accounts	2,034,212	2,027,014
Certificates of deposit	-	168,740
Key man life insurance policies	4,845,885	5,110,397
Real estate	260,000	260,000
	$ 31,072,426	$ 35,146,562

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

	2015	2014
Interest and dividends	$ 757,786	$ 727,121
Net realized and unrealized gain (loss)	(46,181)	4,437,087
Other	(74,345)	22,842
	$ 637,260	$ 5,187,050

Note 5 – Property and Equipment

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

	Estimated useful life	2015	2014
Land		$ 4,689,660	$ 4,937,160
Buildings and buildings improvements	5-40	28,344,185	30,603,165
Furniture, fixtures and equipment	3-5	10,877,216	10,363,816
Vehicles	3-7	1,720,759	1,531,785
Transportation equipment	3-7	7,709,519	7,429,362
		53,341,339	54,865,288
Less accumulated depreciation		(27,370,727)	(27,281,194)
		$ 25,970,612	$ 27,584,094

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

	2015	2014
Property and equipment, net	$ 25,970,612	$ 27,584,094
Less: related debt	(2,636,233)	(2,283,138)
	$ 23,334,379	$ 25,300,956

Note 6 – Split-Interest Agreements

World Neighbors administers various charitable remainder trusts. A charitable remainder trust provides for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiaries' lifetime). At the end of the trust's term, remaining assets are available for World Neighbors' use. The portion of the trust attributable to the present value of the future benefits to be received by World Neighbors is recorded in the consolidated statement of activities as a temporarily restricted contribution in the period the trust is established. There were no contributions in 2015 or 2014. Assets held in the charitable remainder trusts totaled $987,310 and $1,009,142 at June 30, 2015 and 2014, respectively, and are reported at fair value in the consolidated statements of financial position. The actuarial liability for estimated future payments to designated beneficiaries is calculated annually using published mortality rate tables adopted by the Internal Revenue Service and discount rates ranging from 6.5% to 7%. 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 was $205,986 and $210,664 at June 30, 2015 and 2014, respectively, and is included in the liability for split-interest agreements in the consolidated statements of financial position.

Feed the Children and World Neighbors are also obligated to pay annuitants under their respective charitable gift annuities. Under these annuity agreements, 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 or World Neighbors 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 and discount rates ranging from 4.6% to 10.5%. 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, 2015, was $1,089,785, including $906,533 related to World Neighbors and $183,252 related to Feed the Children. The present value of the estimated future payments at June 30, 2014, was $1,156,101, including $967,310 related to World Neighbors and $188,791 related to Feed the Children. These estimated future payments are included in the liability for split-interest agreements in the consolidated statements of financial position.

Note 7 – Assets Held in Trusts

Assets held in charitable remainder trusts (see Note 6), include investments of $987,310 (cash equivalents of $56,412, and mutual funds of $930,898) and $1,009,142 (cash equivalents of $23,102, and mutual funds of $986,040) at June 30, 2015 and 2014, respectively, which are included in assets held in trusts in the consolidated statements of financial position.

World Neighbors is a beneficiary of several charitable remainder trusts which are held and administered by external fiscal trust agents. When each trust terminates the remaining assets of the trust will be distributed to the beneficiaries. For the year ended June 30, 2015, no contributions were received from these agreements. Based on donor life expectancy and discount rates ranging from 6.75% to 6.83%, the present value of future benefits expected to be received by World Neighbors was $1,726,093 and $1,719,182 at June 30, 2015 and 2014, respectively, which is included in beneficial interests in remainder trusts in the consolidated statements of financial position.

Note 8 – Notes Payable

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

	2015	2014
FTCT bank note payable of $292,850, collateralized by certain transportation equipment of FTCT, maturing October 2016, principal and interest payable monthly, 4.00% as of June 30, 2015.	$ 83,871	$ 143,953
FTCT notes payable to Daimler Chrysler totaling $5,022,600, collateralized by certain transportation equipment of FTCT, maturity dates ranging from February 2017 to October 2019, principal and interest payable monthly, interest ranging from 2.65% to 3.65% as of June 30, 2015.	2,499,329	2,053,964
FTCT bank note payable of $129,200, collateralized by certain property and equipment of FTCT, maturing February 2017, principal and interest payable monthly, 3.25% as of June 30, 2015.	53,033	85,221
	$ 2,636,233	$ 2,283,138

Future maturities of notes payable as of June 30, 2015, are as follows:

Year ending June 30,	Amount
2016	$ 1,018,477
2017	838,093
2018	355,637
2019	382,104
Thereafter	41,922
	$ 2,636,233

Note 9 – Restricted Net Assets

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

	2015	2014
Childcare, food and medical programs (international)	$ 8,923,407	$ 11,016,782
Disaster relief (domestic)	892,609	1,602,183
Education and community development programs (international)	2,061,693	1,701,635
Split-interest agreements	1,704,975	1,709,545
Other	446,228	488,247
Total purpose restrictions	14,028,912	16,518,392
Time-restricted, contributions receivable, primarily gifts-in-kind	6,904,624	8,794,251
	$ 20,933,536	$ 25,312,643

Permanently restricted net assets represent the accumulation of endowment gifts to be invested in perpetuity and certain perpetual trusts, with the income expendable as unrestricted or temporarily restricted support (see Note 12).

Note 10 – Employee Benefits

The Organization provides retirement benefits to employees under three 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. World Neighbors has a defined contribution plan covering all U.S.-based employees. Employee contributions are matched in accordance with the provisions of each plan. For the years ended June 30, 2015 and 2014, collective contributions to the plans were $355,917 and $335,539, respectively.

Note 11 – Related Party Transactions

The Organization provides financial support and donates food, medicine, clothing and other materials to its nonconsolidated international affiliates, who act in furtherance of the Organization's mission. Total support provided to nonconsolidated international affiliates was approximately $28,500,000 and $23,400,000, for the years ended June 30, 2015 and 2014, respectively.

Note 12 – Endowment

Endowment consists of funds established by donors for specific purposes and benefit of the Organization. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law

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

Investment return objectives, risk parameters and strategies

The Organization has adopted investment and spending policies, approved by the board of trustees of World Neighbors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds, if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending policy

The Organization has a policy of appropriating for distribution each year 5% of its endowment fund's average value of the prior 20 quarters through the calendar year-end proceeding the fiscal year in which the distribution is planned. In establishing this policy, the Organization considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. Accordingly, the Organization expects its endowment assets, over time, to produce an average minimum rate of return of 5% annually. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth, through new gifts and investment return.

Endowment net asset composition by type of fund as of June 30 is as follows:

2015	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 1,561,996	$ 2,796,564	$ 4,358,560

2014	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 1,624,703	$ 2,796,564	$ 4,421,267

Note 13 – 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 year ended June 30, 2015 and 2014.

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

		Fair Value Measurements		
2015	Total	Level 1	Level 2	Level 3
Equity securities	$ 366,830	$ 366,830	$ -	$ -
Mutual funds	22,811,218	22,811,218	-	-
Government and government-backed securities	754,281	754,281	-	-
Assets held in trusts	987,310	-	987,310	-
Beneficial interest in remainder trusts	1,761,228	-	-	1,761,228
	$ 26,680,867	$ 23,932,329	$ 987,310	$ 1,761,228

		Fair Value Measurements		
2014	Total	Level 1	Level 2	Level 3
Equity securities	$ 16,008,205	$ 16,008,205	$ -	$ -
Mutual funds	7,252,613	7,252,613	-	-
Corporate bonds	1,568,908	1,568,908	-	-
Government and government-backed securities	2,750,685	-	2,750,685	-
Assets held in trusts	1,009,142	-	1,009,142	-
Beneficial interest in remainder trusts	1,752,753	-	-	1,752,753
	$ 30,342,306	$ 24,829,726	$ 3,759,827	$ 1,752,753

Assets measured at fair value on a recurring basis using observable inputs other than quoted prices in active markets for identical assets (Level 2 inputs) include government and government-backed securities and assets held in trusts. The fair value of these investments is based upon quoted prices in markets that are not active for government securities and quoted prices of the underlying investments held in the trusts.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs) include beneficial interest in remainder trusts. The fair value of beneficial interest in remainder trusts is based upon the value of trust investments provided by external trust agents. The change in estimated fair value of beneficial interest in remainder trusts was not significant in 2015 or 2014.

Note 14 – 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, 2015 and 2014, the Organization held $985,377 and $1,086,387, respectively, in foreign bank accounts not covered by the Federal Deposit Insurance Corporation.

Note 15 – Contingencies

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

Note 16 – Subsequent event

Subsequent to June 30, 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.

OTHER REPORTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Feed the Children, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Feed the Children, Inc. and its subsidiaries (the Organization), which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated December 17, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hogan Taylor LLP

December 17, 2015