



**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2016 and 2015**

**WITH**

**INDEPENDENT AUDITOR'S REPORT**

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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, 2016 and 2015, 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. 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 basis for our audit opinion.

### 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, 2016 and 2015, 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.



November 30, 2016

**FEED THE CHILDREN, INC.**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

**June 30, 2016 and 2015**

	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 3,374,822	\$ 2,028,013
Accounts receivable	466,617	456,531
Contributions receivable, net	13,812,880	6,904,624
Grants receivable	40,520	1,527,261
Investments	24,779,585	31,072,426
Inventory, net	90,755,711	95,938,389
Prepaid expenses and other assets	2,166,501	2,063,946
Assets held for sale	1,896,632	1,896,632
Assets held in trusts	-	987,310
Beneficial interests in remainder trusts	-	1,761,228
Property and equipment, net	23,740,069	25,970,612
 Total assets	 \$ 161,033,337	 \$ 170,606,972
 <b>Liabilities and Net Assets</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 5,161,428	\$ 4,047,715
Liability under split-interest agreements	173,901	1,295,771
Notes payable	2,108,669	2,636,233
 Total liabilities	 7,443,998	 7,979,719
 Net assets:		
Unrestricted:		
Available for operations	20,253,973	19,624,385
Net investment in property and equipment	21,631,400	23,334,379
Investment in inventory	90,755,711	95,938,389
	132,641,084	138,897,153
Temporarily restricted	20,948,255	20,933,536
Permanently restricted	-	2,796,564
 Total net assets	 153,589,339	 162,627,253
 Total liabilities and net assets	 \$ 161,033,337	 \$ 170,606,972

**FEED THE CHILDREN, INC.**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year ended June 30, 2016**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, Gains and Other Support</b>				
Gifts-in-kind	\$ 400,169,557	\$ 13,668,096	\$ -	\$ 413,837,653
Contributions	51,488,018	2,843,225	-	54,331,243
Government grants	446,967	586,571	-	1,033,538
Net investment loss	(466,693)	(543,645)	-	(1,010,338)
Net gain on disposition of assets	165,802	-	-	165,802
Other revenues	1,954,967	-	-	1,954,967
	453,758,618	16,554,247	-	470,312,865
Net assets released from restrictions:				
Satisfaction of purpose restrictions	4,452,420	(4,452,420)	-	-
Satisfaction of time restrictions	8,639,272	(8,639,272)	-	-
	13,091,692	(13,091,692)	-	-
Transportation service revenue	3,450,452	-	-	3,450,452
<b>Total revenues, gains and other support</b>	<b>470,300,762</b>	<b>3,462,555</b>	<b>-</b>	<b>473,763,317</b>
<b>Expenses</b>				
Program services:				
Childcare, food and medical	301,407,429	-	-	301,407,429
Disaster relief	4,871,060	-	-	4,871,060
Education and community development	135,089,727	-	-	135,089,727
	441,368,216	-	-	441,368,216
Supporting services:				
Fundraising	19,465,854	-	-	19,465,854
Management and general	11,482,115	-	-	11,482,115
	30,947,969	-	-	30,947,969
Transportation service expenses	3,976,272	-	-	3,976,272
<b>Total expenses</b>	<b>476,292,457</b>	<b>-</b>	<b>-</b>	<b>476,292,457</b>
Change in net assets before deconsolidation	(5,991,695)	3,462,555	-	(2,529,140)
Deconsolidation of World Neighbors	(264,374)	(3,447,836)	(2,796,564)	(6,508,774)
Change in net assets	(6,256,069)	14,719	(2,796,564)	(9,037,914)
Net assets, beginning of year	138,897,153	20,933,536	2,796,564	162,627,253
<b>Net assets, end of year</b>	<b>\$ 132,641,084</b>	<b>\$ 20,948,255</b>	<b>\$ -</b>	<b>\$ 153,589,339</b>

See notes to consolidated financial statements.

**FEED THE CHILDREN, INC.**

**CONSOLIDATED STATEMENT OF ACTIVITIES**

**Year ended June 30, 2015**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, Gains and Other Support</b>				
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
	<u>445,409,395</u>	<u>8,354,371</u>	<u>-</u>	<u>453,763,766</u>
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)	-	-
	<u>12,733,478</u>	<u>(12,733,478)</u>	<u>-</u>	<u>-</u>
Transportation service revenue	5,013,173	-	-	5,013,173
Total revenues, gains and other support	<u>463,156,046</u>	<u>(4,379,107)</u>	<u>-</u>	<u>458,776,939</u>
<b>Expenses</b>				
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
	<u>420,999,375</u>	<u>-</u>	<u>-</u>	<u>420,999,375</u>
Supporting services:				
Fundraising	24,125,922	-	-	24,125,922
Management and general	13,228,056	-	-	13,228,056
	<u>37,353,978</u>	<u>-</u>	<u>-</u>	<u>37,353,978</u>
Transportation service expenses	5,456,806	-	-	5,456,806
Total expenses	<u>463,810,159</u>	<u>-</u>	<u>-</u>	<u>463,810,159</u>
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	<u>\$ 138,897,153</u>	<u>\$ 20,933,536</u>	<u>\$ 2,796,564</u>	<u>\$ 162,627,253</u>

**FEED THE CHILDREN, INC.**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

**Year ended June 30, 2016**

	Program Services				Supporting Activities			Transportation Service Expenses	Total Expenses
	Childcare, Food and Medical	Disaster Relief	Education and Community Development	Total Program Services	Fundraising	Management and General	Total Supporting Activities		
Food and other necessities	\$ 287,099,568	\$ 4,124,832	\$ 124,107,701	\$ 415,332,101	\$ -	\$ -	\$ -	\$ -	\$ 415,332,101
Grants and other assistance	1,574,575	63,284	5,958,242	7,596,101	-	-	-	-	7,596,101
Shipping, handling and storage	427,584	251	41,029	468,864	-	-	-	-	468,864
Salaries and benefits	7,748,888	435,960	3,170,178	11,355,026	3,901,242	6,421,434	10,322,676	2,029,412	23,707,114
Contract services	104,097	2,228	210,861	317,186	1,328,570	705,274	2,033,844	-	2,351,030
Insurance	385,484	28,333	73,842	487,659	75,584	192,442	268,026	147,514	903,199
Travel	238,040	11,521	276,515	526,076	335,254	81,614	416,868	6,482	949,426
Supplies	208,733	4,209	79,960	292,902	20,787	29,245	50,032	11,209	354,143
Equipment expenses	37,356	2,834	19,317	59,507	78,307	272,743	351,050	809	411,366
Repair and maintenance	824,228	40,258	88,167	952,653	32,281	439,715	471,996	236,527	1,661,176
Printing	58,107	370	26,500	84,977	30,878	42,042	72,920	-	157,897
Telephone	38,562	2,783	47,013	88,358	7,616	80,603	88,219	24,642	201,219
Occupancy	711,810	23,482	217,548	952,840	61,019	250,050	311,069	17,505	1,281,414
Public relations	14,815	1,144	28,880	44,839	209,536	75,093	284,629	-	329,468
Office and other expense	76,912	4,779	160,593	242,284	179,174	1,100,438	1,279,612	19,514	1,541,410
Postage	24,725	538	32,082	57,345	34,657	782,391	817,048	4,879	879,272
Legal and accounting	24,129	432	47,316	71,877	6,444	826,089	832,533	14,666	919,076
Property and other taxes	40,777	3,273	4,172	48,222	866	8,124	8,990	4,835	62,047
Interest	21,041	1,299	9,429	31,769	-	27,497	27,497	44,083	103,349
Depreciation	1,408,733	98,299	343,965	1,850,997	217,722	147,321	365,043	703,413	2,919,453
Fuel and licensing	339,265	20,951	146,417	506,633	-	-	-	710,782	1,217,415
Direct mail	-	-	-	-	5,981,280	-	5,981,280	-	5,981,280
Direct mail postage	-	-	-	-	4,202,230	-	4,202,230	-	4,202,230
Event sponsorship	-	-	-	-	1,888,661	-	1,888,661	-	1,888,661
Airtime and production	-	-	-	-	362,745	-	362,745	-	362,745
Other fundraising costs	-	-	-	-	511,001	-	511,001	-	511,001
	<u>\$ 301,407,429</u>	<u>\$ 4,871,060</u>	<u>\$ 135,089,727</u>	<u>\$ 441,368,216</u>	<u>\$ 19,465,854</u>	<u>\$ 11,482,115</u>	<u>\$ 30,947,969</u>	<u>\$ 3,976,272</u>	<u>\$ 476,292,457</u>

See notes to consolidated financial statements.

**FEED THE CHILDREN, INC.**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**

**Year ended June 30, 2015**

	Program Services				Supporting Activities			Transportation Service Expenses	Total Expenses
	Childcare, Food and Medical	Disaster Relief	Education and Community Development	Total Program Services	Fundraising	Management and General	Total Supporting Activities		
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
	<u>\$ 309,078,880</u>	<u>\$ 2,103,621</u>	<u>\$ 109,816,874</u>	<u>\$ 420,999,375</u>	<u>\$ 24,125,922</u>	<u>\$ 13,228,056</u>	<u>\$ 37,353,978</u>	<u>\$ 5,456,806</u>	<u>\$ 463,810,159</u>

See notes to consolidated financial statements.



**FEED THE CHILDREN, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Years ended June 30, 2016 and 2015**

	2016	2015
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (9,037,914)	\$ (5,033,220)
Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities:		
Depreciation	2,919,453	3,123,408
Net gain on disposition of assets	(165,802)	(3,171,220)
Net unrealized and realized loss on investments	933,696	46,181
Donated investments	(65,503)	(314,350)
Annuity actuarial change	(147,624)	(70,994)
Change in value of beneficial interests in remainder trusts	80,216	(8,475)
Deconsolidation of World Neighbors	6,508,774	-
Changes in operating assets and liabilities:		
Accounts receivable	(10,086)	11,369
Contributions receivable	(6,930,831)	1,889,627
Grant receivable	1,157,975	(937,016)
Inventory	5,182,678	(1,255,693)
Prepaid expenses and other assets	240,771	793,492
Accounts payable and accrued liabilities	1,198,267	(1,964,026)
Net cash provided by (used in) operating activities	1,864,070	(6,890,917)
<b>Cash Flows from Investing Activities</b>		
Purchase of investments	(549,042)	(20,708,046)
Proceeds from sales of investments	1,850,535	24,807,671
Purchases of property and equipment	(491,083)	(974,277)
Proceeds from disposition of property and equipment	615,120	4,244,623
Proceeds from disposition of assets held for sale	-	1,033,073
Net cash outflow from deconsolidation of World Neighbors	(656,437)	-
Net cash provided by investing activities	769,093	8,403,044
<b>Cash Flows from Financing Activities</b>		
Principal payments on notes payable	(1,286,354)	(1,789,030)
Net cash used in financing activities	(1,286,354)	(1,789,030)
Net change in cash and cash equivalents	1,346,809	(276,903)
Cash and cash equivalents, beginning of year	2,028,013	2,304,916
Cash and cash equivalents, end of year	\$ 3,374,822	\$ 2,028,013
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid for interest	\$ 75,853	\$ 95,484
<b>Supplemental Disclosure of Noncash Investing and Financing Activities</b>		
Property and equipment financed through notes payable	\$ 758,790	\$ 2,142,125

## FEED THE CHILDREN, INC.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2016 and 2015

#### 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, 2016 and 2015, is approximately \$5,500,000 and \$8,800,000, respectively. The total revenue, excluding intercompany revenue, of these international affiliates was approximately \$420,000 and \$2,200,000 for the years ended June 30, 2016 and 2015, 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.

World Neighbors is 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. Feed the Children was the sole corporate member of World Neighbors until June 30, 2016, when by mutual agreement with World Neighbors, Feed the Children rescinded its position as the sole corporate member (see Note 16).

#### 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.

### 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).

### 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 \$2,200 and \$83,000 at June 30, 2016 and 2015, 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 donated value 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 \$98,000 and \$233,000 at June 30, 2016 and 2015, 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, 2016 or 2015.

### 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 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 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.

### New accounting pronouncement

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 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) the ASU 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) the ASU 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) the ASU requires expenses to be presented by nature and function, as well as an analysis of the allocation of these expenses, and (4) the ASU 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. ASU 2016-14 is to be applied retrospectively, and is effective for years beginning after December 15, 2017, with early adoption permitted. The Organization will be evaluating the impact this standard will have on its financial statements and related disclosures.

### Subsequent events

Management has evaluated subsequent events through November 30, 2016, 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:

	2016	2015
Gifts-in-kind receivable, temporarily restricted	\$ 11,740,521	\$ 4,786,772
Pledges receivable, temporarily restricted	2,074,633	2,216,958
Less discounts to net present value	-	(15,781)
Less allowance for uncollectible pledges	(2,274)	(83,325)
	<u>\$ 13,812,880</u>	<u>\$ 6,904,624</u>
	2016	2015
Amount receivable in:		
Less than one year	\$ 13,812,880	\$ 6,861,983
One to five years	-	55,876
Five to ten years	-	2,546
	13,812,880	6,920,405
Less discounts to net present value	-	(15,781)
	<u>\$ 13,812,880</u>	<u>\$ 6,904,624</u>

At June 30, 2016 and 2015, gifts-in-kind receivable from one donor represented approximately 31% and two donors represented approximately and 39%, respectively, of total contributions receivable.

#### Note 4 – Investments

Investments consist of the following as of June 30:

	2016	2015
Equity securities	\$ -	\$ 366,830
Mutual funds	19,062,997	23,565,499
Money market accounts	1,292,483	2,034,212
Key man life insurance policies	4,424,105	4,845,885
Real estate	-	260,000
	<u>\$ 24,779,585</u>	<u>\$ 31,072,426</u>

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

	2016	2015
Interest and dividends	\$ 612,351	\$ 757,786
Net realized and unrealized gain (loss)	(1,264,307)	(46,181)
Other	(358,382)	(74,345)
	<u>\$ (1,010,338)</u>	<u>\$ 637,260</u>

#### Note 5 – Property and Equipment

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

	Estimated useful life	2016	2015
Land		\$ 4,689,660	\$ 4,689,660
Buildings and buildings improvements	5-40	28,433,855	28,344,185
Furniture, fixtures and equipment	3-5	10,978,728	10,877,216
Vehicles	3-7	1,707,854	1,720,759
Transportation equipment	3-7	7,044,972	7,709,519
		52,855,069	53,341,339
Less accumulated depreciation		(29,115,000)	(27,370,727)
		<u>\$ 23,740,069</u>	<u>\$ 25,970,612</u>

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

	2016	2015
Property and equipment, net	\$ 23,740,069	\$ 25,970,612
Less: related debt	(2,108,669)	(2,636,233)
	<u>\$ 21,631,400</u>	<u>\$ 23,334,379</u>

#### Note 6 – Split-Interest Agreements

World Neighbors administers various charitable remainder trusts which provide 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 fair value of assets held in the charitable remainder trusts was \$987,310 at June 30, 2015, and is reported in the consolidated statements of financial position. The present value of the estimated future payments under the trusts was \$205,986 at June 30, 2015, and is included in the liability for split-interest agreements in the consolidated statements of financial position. The fair value of assets held in the charitable remainder trusts and the present value of the estimated future payments under the trusts were deconsolidated from the accompanying consolidated financial statements as of June 30, 2016 (see Note 16).

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, 2016, related to World Neighbors has been deconsolidated from the accompanying consolidated financial statements (see Note 16). The present value of the estimated future payments at June 30, 2016, related to Feed the Children is \$173,901. 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. 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) at June 30, 2015, which are included in assets held in trusts in the consolidated statements of financial position. These assets were deconsolidated from the accompanying consolidated financial statements on June 30, 2016 (see Note 16).

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. Based on donor life expectancy and discount rates ranging from 6.75% to 6.85%, the present value of future benefits expected to be received by World Neighbors was \$1,726,093 at June 30, 2015, which is included in beneficial interests in remainder trusts in the consolidated statements of financial position. These assets were deconsolidated from the accompanying consolidated financial statements on June 30, 2016 (see Note 16).

#### **Note 8 – Notes Payable**

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

	2016	2015
FTCT bank note payable of \$292,850, collateralized by certain transportation equipment of FTCT, matured October 2016, principal and interest payable monthly, 4.00% as of June 30, 2016.	\$ 21,302	\$ 83,871

	<u>2016</u>	<u>2015</u>
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, 2016.	2,067,597	2,499,329
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, 2016.	19,770	53,033
	<u>\$ 2,108,669</u>	<u>\$ 2,636,233</u>

Future maturities of notes payable as of June 30, 2016, are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2017	\$ 785,526
2018	505,166
2019	519,239
2020	298,738
	<u>\$ 2,108,669</u>

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. There were no borrowings against the line of credit as of June 30, 2016.

### **Note 9 – Restricted Net Assets**

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

	<u>2016</u>	<u>2015</u>
Childcare, food and medical programs (international)	\$ 7,120,984	\$ 8,923,407
Disaster relief (domestic)	7,992	892,609
Education and community development programs (international)	6,399	2,061,693
Split-interest agreements	-	1,704,975
Other	-	446,228
Total purpose restrictions	7,135,375	14,028,912
Time-restricted, contributions receivable, primarily gifts-in-kind	13,812,880	6,904,624
	<u>\$ 20,948,255</u>	<u>\$ 20,933,536</u>

### 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. Employee contributions are matched in accordance with the provisions of each plan. For the years ended June 30, 2016 and 2015, collective contributions to the plans were \$327,006 and \$355,917, 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 \$21,590,000 and \$28,500,000, for the years ended June 30, 2016 and 2015, respectively.

### Note 12 – Endowment

Endowment consists of funds established by donors for specific purposes and benefit of World Neighbors. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The endowment funds were deconsolidated from the accompanying consolidated financial statements on June 30, 2016 (see Note 16).

Endowment net asset composition by type of fund as of June 30, 2015 is as follows:

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

### 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 years ended June 30, 2016 and 2015.

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:

2016	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
Mutual funds	\$ 19,062,997	\$ 19,062,997	\$ -	\$ -

  

2015	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
Equity securities	\$ 366,830	\$ 366,830	\$ -	\$ -
Mutual funds	23,565,499	23,565,499	-	-
Assets held in trusts	987,310	-	987,310	-
Beneficial interest in remainder trusts	1,761,228	-	-	1,761,228
	<u>\$ 26,680,867</u>	<u>\$ 23,932,329</u>	<u>\$ 987,310</u>	<u>\$ 1,761,228</u>

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 assets held in trusts. The fair value of these financial instruments is based upon 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 2016 or 2015.

#### **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, 2016 and 2015, the Organization held \$1,300,680 and \$985,377, 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 matters with counsel, management does not believe that any resulting liability will be material to the financial statements taken as a whole.

#### **Note 16 – Deconsolidation of World Neighbors**

On June 30, 2016, pursuant to a mutual agreement with World Neighbors, Feed the Children, rescinded its position as the sole corporate member of World Neighbors. As a result, the conditions required by generally accepted accounting principles for consolidation of World Neighbors were no longer met and Feed the Children deconsolidated World Neighbors from its consolidated financial statements effective

June 30, 2016. As such, the Organization has included the results of operations of World Neighbors for the 12 months ended June 30, 2016, in these financial statements, including revenues of \$2,516,317 and expenses of \$3,248,889. The effect of deconsolidation of \$6,508,774 is presented separately in the statement of activities. The following assets, liabilities and net assets of World Neighbors as of June 30, 2016, were deconsolidated:

Cash and cash equivalents	\$ 656,437
Grants and contributions receivables	351,341
Investments	3,914,877
Investments held in trusts	773,808
Beneficial interest in remainder trusts	1,681,012
Property and equipment	111,645
Other assets	78,454
Accounts payable and accrued expenses	(84,554)
Annuities payable	<u>(974,246)</u>
Effect of deconsolidation	<u>\$ 6,508,774</u>
Unrestricted net assets	\$ (264,375)
Temporarily restricted net assets	(3,447,835)
Permanently restricted net assets	<u>(2,796,564)</u>
Net assets deconsolidated	<u>\$ (6,508,774)</u>