CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2019 and 2018

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 and affiliates (Feed the Children), which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Feed the Children as of June 30, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, Feed the Children adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. As a result, Feed the Children changed their presentation of their net asset classes and expanded the footnote disclosures as required by the standard. Our opinion is not modified with respect to this matter.

Hogan Taylor LLP

Oklahoma City, Oklahoma
February 10, 2020

FEED THE CHILDREN, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	$ 1,640,483	$ 1,573,595
Accounts receivable	529,348	510,700
Contributions receivable, net	5,087,844	6,919,265
Government grants receivable	6,403	3,769
Investments	25,483,563	28,212,670
Inventory, net	40,117,250	62,179,970
Prepaid expenses and other assets	2,454,429	2,418,718
Capitalized software costs	2,390,379	2,976,934
Assets held for sale	2,363,513	5,484,733
Property and equipment, net	20,293,323	20,447,359
Total assets	$ 100,366,535	$ 130,727,713
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	$ 4,624,398	$ 5,561,248
Line of credit	2,500,000	1,500,000
Notes payable	2,715,403	1,990,163
Liability under split-interest agreements	167,093	148,737
Total liabilities	10,006,894	9,200,148
Net assets:		
Without donor restrictions:		
Available for operations	38,141,779	59,266,556
Net investment in property and equipment	17,577,920	18,457,196
Board-designated	27,847,076	33,697,403
	83,566,775	111,421,155
With donor restrictions	6,792,866	10,106,410
Total net assets	90,359,641	121,527,565
Total liabilities and net assets	$ 100,366,535	$ 130,727,713

FEED THE CHILDREN, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Gifts-in-kind	$ 239,088,300	$ 2,540,736	$ 241,629,036
Contributions	36,947,196	1,406,472	38,353,668
Government grants	4,019,133	-	4,019,133
Investment income, net	900,314	-	900,314
Net gain on disposition of assets	899,247	-	899,247
Other revenues	2,525,581	-	2,525,581
	284,379,771	3,947,208	288,326,979
Net assets released from restrictions:			
Satisfaction of purpose restrictions	1,746,420	(1,746,420)	-
Satisfaction of time restrictions	5,514,332	(5,514,332)	-
	7,260,752	(7,260,752)	-
Transportation service revenue	3,720,267	-	3,720,267
Total revenues, gains and other support	295,360,790	(3,313,544)	292,047,246
Expenses			
Program services:			
Domestic:			
Food and personal essentials	168,330,113	-	168,330,113
Disaster response	9,781,695	-	9,781,695
Educational and community support	70,278,059	-	70,278,059
International:			
Child-focused community development	42,970,745	-	42,970,745
Residential care	1,143,498	-	1,143,498
	292,504,110	-	292,504,110
Supporting activities:			
Fundraising	12,761,936	-	12,761,936
Management and general	14,140,948	-	14,140,948
	26,902,884	-	26,902,884
Transportation service expenses	3,808,176	-	3,808,176
Total expenses	323,215,170	-	323,215,170
Change in net assets	(27,854,380)	(3,313,544)	(31,167,924)
Net assets, beginning of year	111,421,155	10,106,410	121,527,565
Net assets, end of year	$ 83,566,775	$ 6,792,866	$ 90,359,641

See notes to consolidated financial statements.

FEED THE CHILDREN, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES

Year ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, Gains and Other Support			
Gifts-in-kind	$ 313,161,130	$ 4,730,351	$ 317,891,481
Contributions	44,027,516	1,175,881	45,203,397
Government grants	6,079,077	-	6,079,077
Investment income, net	1,397,290	-	1,397,290
Net gain on disposition of assets	338,441	-	338,441
Other revenues	1,440,683	-	1,440,683
	366,444,137	5,906,232	372,350,369
Net assets released from restrictions:			
Satisfaction of purpose restrictions	2,357,831	(2,357,831)	-
Satisfaction of time restrictions	4,292,487	(4,292,487)	-
	6,650,318	(6,650,318)	-
Transportation service revenue	3,571,227	-	3,571,227
Total revenues, gains and other support	376,665,682	(744,086)	375,921,596
Expenses			
Program services:			
Domestic:			
Food and personal essentials	189,004,504	-	189,004,504
Disaster response	15,800,230	-	15,800,230
Educational and community support	96,851,570	-	96,851,570
International:			
Child-focused community development	65,459,962	-	65,459,962
Residential care	1,976,868	-	1,976,868
	369,093,134	-	369,093,134
Supporting activities:			
Fundraising	14,181,859	-	14,181,859
Management and general	11,309,410	-	11,309,410
	25,491,269	-	25,491,269
Transportation service expenses	3,528,927	-	3,528,927
Total expenses	398,113,330	-	398,113,330
Change in net assets	(21,447,648)	(744,086)	(22,191,734)
Net assets, beginning of year	132,868,803	10,850,496	143,719,299
Net assets, end of year	$ 111,421,155	$ 10,106,410	$ 121,527,565

See notes to consolidated financial statements.

FEED THE CHILDREN, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2019

	Program Services						Supporting Activities				
	Domestic			International							
	Food and Personal Essentials	Disaster Response	Educational and Community Support	Child-Focused Community Development	Residential Care	Total Program Services	Fundraising	Management and General	Total Supporting Activities	Transportation Service Expenses	Total Expenses
Food and other necessities	$ 161,246,205	$8,409,277	$ 68,089,948	$ 31,565,997	$ 177,826	$ 269,489,253	$ -	$ -	$ -	$ -	$ 269,489,253
Grants and other assistance	6,620	-	-	4,766,795	-	4,773,415	-	-	-	-	4,773,415
Shipping, handling and storage	722,523	-	19,264	109,519	-	851,306	-	4,100	4,100	-	855,406
Salaries and benefits	3,745,478	813,727	1,266,857	4,808,692	497,763	11,132,517	3,524,440	6,744,981	10,269,421	1,877,600	23,279,538
Contract services	-	-	-	132,066	20,666	152,732	838,139	586,956	1,425,095	-	1,577,827
Fuel and licensing	410,356	35,842	190,975	-	-	637,173	-	-	-	822,812	1,459,985
Insurance	220,358	55,196	77,708	70,172	1,544	424,978	12,709	306,279	318,988	146,420	890,386
Travel	126,679	23,754	21,722	160,029	10,012	342,196	133,412	72,133	205,545	11,747	559,488
Supplies	166,763	8,859	33,316	54,737	909	264,584	18,496	29,177	47,673	10,677	322,934
Equipment	23,846	6,604	6,859	7,126	176	44,611	58,563	140,134	198,697	1,454	244,762
Information technology	17,417	2,796	6,813	50,023	5,792	82,841	39,011	2,159,442	2,198,453	19,830	2,301,124
Repair and maintenance	378,329	88,614	137,362	226,760	178,415	1,009,480	25,391	118,408	143,799	298,522	1,451,801
Printing	1,055	348	357	13,531	-	15,291	107,325	6,170	113,495	-	128,786
Telephone	19,079	5,608	6,211	58,277	29	89,204	181	84,116	84,297	6,566	180,067
Occupancy	198,520	63,130	60,433	421,220	156,490	899,793	22,038	171,990	194,028	18,278	1,112,099
Public relations	802	232	238	198	-	1,470	56,888	337,875	394,763	-	396,233
Office and other	25,408	7,447	7,620	138,429	1,722	180,626	41,872	899,035	940,907	2,878	1,124,411
Postage	70,656	17,337	21,163	60,933	1,994	172,083	94,221	278,425	372,646	5,133	549,862
Legal and accounting	8,525	745	3,968	54,898	5,550	73,686	-	1,862,947	1,862,947	17,095	1,953,728
Property and other taxes	20,196	5,838	6,657	2,547	-	35,238	50	40,329	40,379	7,839	83,456
Interest	35,587	3,196	16,468	367	13	55,631	653	140,189	140,842	70,264	266,737
Depreciation	885,711	233,145	304,120	268,429	84,597	1,776,002	64,367	158,262	222,629	491,061	2,489,692
Direct mail	-	-	-	-	-	-	4,140,263	-	4,140,263	-	4,140,263
Direct mail postage	-	-	-	-	-	-	2,579,526	-	2,579,526	-	2,579,526
Event sponsorship	-	-	-	-	-	-	397,370	-	397,370	-	397,370
Airtime and production	-	-	-	-	-	-	29,370	-	29,370	-	29,370
Other fundraising costs	-	-	-	-	-	-	577,651	-	577,651	-	577,651
	$ 168,330,113	$9,781,695	$ 70,278,059	$ 42,970,745	$1,143,498	$ 292,504,110	$ 12,761,936	$ 14,140,948	$ 26,902,884	$3,808,176	$ 323,215,170

See notes to consolidated financial statements.

FEED THE CHILDREN, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

Year ended June 30, 2018

	Program Services						Supporting Activities				
	Domestic			International							
	Food and Personal Essentials	Disaster Response	Educational and Community Support	Child-Focused Community Development	Residential Care	Total Program Services	Fundraising	Management and General	Total Supporting Activities	Transportation Service Expenses	Total Expenses
Food and other necessities	$ 180,965,045	$ 15,155,643	$ 95,306,923	$ 52,453,470	$ 274,912	$ 344,155,993	$ -	$ -	$ -	$ -	$ 344,155,993
Grants and other assistance	7,761	-	-	5,730,186	-	5,737,947	-	-	-	-	5,737,947
Shipping, handling and storage	473,525	10,209	8,916	136,841	-	629,491	-	272	272	-	629,763
Salaries and benefits	4,393,337	327,562	822,102	4,959,711	1,189,513	11,692,225	3,136,411	6,292,716	9,429,127	1,745,588	22,866,940
Contract services	-	-	-	219,076	12,432	231,508	826,720	890,090	1,716,810	-	1,948,318
Fuel and licensing	383,101	109,350	182,251	-	-	674,702	-	-	-	732,017	1,406,719
Insurance	265,985	27,164	58,637	88,947	153	440,886	13,442	346,205	359,647	157,807	958,340
Travel	144,277	4,038	10,899	213,042	16,161	388,417	133,056	72,391	205,447	6,981	600,845
Supplies	190,022	2,113	19,219	85,102	2,579	299,035	16,385	30,481	46,866	8,794	354,695
Equipment	33,525	662	3,602	19,072	144	57,005	88,555	88,005	176,560	759	234,324
Information technology	-	-	-	61,885	8,941	70,826	12,431	521,195	533,626	-	604,452
Repair and maintenance	442,692	38,510	90,348	258,723	145,842	976,115	47,210	245,431	292,641	215,181	1,483,937
Printing	3,894	30	410	4,147	-	8,481	103,346	1,543	104,889	-	113,370
Telephone	33,128	4,387	8,581	3,966	-	50,062	233	92,092	92,325	26,828	169,215
Occupancy	260,455	7,584	31,759	465,460	211,566	976,824	27,464	220,469	247,933	18,133	1,242,890
Public relations	2,507	46	328	666	28	3,575	77,713	519,865	597,578	-	601,153
Office and other	59,580	1,269	39,546	205,703	3,712	309,810	81,407	546,425	627,832	1,153	938,795
Postage	100,438	2,215	18,137	45,405	1,056	167,251	99,858	344,072	443,930	4,251	615,432
Legal and accounting	7,579	2,163	3,606	133,400	14,736	161,484	-	853,954	853,954	14,481	1,029,919
Property and other taxes	40,824	1,263	4,693	7,869	-	54,649	-	11,644	11,644	3,248	69,541
Interest	25,634	7,317	12,195	-	-	45,146	-	64,480	64,480	48,981	158,607
Depreciation	1,171,195	98,705	229,418	367,291	95,093	1,961,702	83,667	168,080	251,747	544,725	2,758,174
Direct mail	-	-	-	-	-	-	5,664,313	-	5,664,313	-	5,664,313
Direct mail postage	-	-	-	-	-	-	3,103,469	-	3,103,469	-	3,103,469
Airtime and production	-	-	-	-	-	-	172,185	-	172,185	-	172,185
Other fundraising costs	-	-	-	-	-	-	493,994	-	493,994	-	493,994
	$ 189,004,504	$ 15,800,230	$ 96,851,570	$ 65,459,962	$ 1,976,868	$ 369,093,134	$ 14,181,859	$ 11,309,410	$ 25,491,269	$3,528,927	$ 398,113,330

See notes to consolidated financial statements.

FEED THE CHILDREN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Change in net assets	$ (31,167,924)	$ (22,191,734)
Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,470,270	2,758,671
Net gain on disposition of assets	(899,247)	(338,441)
Net unrealized and realized gain on investments	(430,666)	(931,560)
Annuity actuarial change	18,356	(11,845)
Changes in operating assets and liabilities:		
Accounts receivable	(18,648)	481,884
Contributions receivable	1,831,421	(1,205,817)
Grant receivable	(2,634)	946,079
Inventory	22,062,720	22,748,342
Prepaid expenses and other assets	68,348	234,338
Accounts payable and accrued liabilities	(936,850)	906,667
Net cash (used in) provided by operating activities	(6,004,854)	3,396,584
Cash Flows from Investing Activities		
Purchases of investments	(10,434,524)	(6,069,058)
Proceeds from sales of investments	13,490,238	6,083,494
Purchases of internal-use software	(394,023)	(2,448,796)
Purchases of property and equipment	(987,325)	(497,210)
Proceeds from disposition of property and equipment	4,389,024	453,230
Net cash provided by (used in) investing activities	6,063,390	(2,478,340)
Cash Flows from Financing Activities		
Principal payments on notes payable	(991,648)	(868,774)
Net proceeds from (payments on) line of credit	1,000,000	(1,000,000)
Net cash provided by (used in) financing activities	8,352	(1,868,774)
Net change in cash and cash equivalents	66,888	(950,530)
Cash and cash equivalents, beginning of year	1,573,595	2,524,125
Cash and cash equivalents, end of year	$ 1,640,483	$ 1,573,595
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 124,676	$ 94,126
Supplemental Disclosure of Noncash Investing and Financing Activities		
Property and equipment financed through notes payable	$ 1,716,888	$ -

See notes to consolidated financial statements.

FEED THE CHILDREN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019 and 2018

Note 1 – Nature of Organization and Activities

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

Feed the Children provides services throughout the United States through the following programs:

Food and personal essentials – Feed the Children provides food and other basic necessities for children and families lacking life's essentials. No child or family is ever charged for the food, supplies and assistance they receive.

Disaster response – Feed the Children provides emergency essentials to victims of natural and man-made disasters. Feed the Children is able to swiftly respond due to its dedicated fleet of semi-tractor trailers operated by FTC Transportation, Inc. (see Note 2).

Educational and community support – To empower the well-being of children and their families lacking life's essentials, Feed the Children provides educational supplies and other essentials through its backpack programs, teacher stores, summer feeding programs and through its network of community partners.

Feed the Children provides services internationally through the following programs:

Child-focused 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 by addressing the issue of childhood hunger. Feed the Children combines clean water and sanitation projects with health, food, nutrition and education programs and income generating activities that assist to move entire communities toward self-sufficiency.

Residential care – Feed the Children provides for the well-being of at-risk, vulnerable and/or abandoned children through its facilities in Kenya and Honduras, including providing for food, security, medical care, provision for educational needs, social and rehabilitation services, and overall safety and security.

Note 2 – Summary of Significant Accounting Policies

Basis of presentation

Entities in which the Organization has a relationship that meet the consolidation criteria defined in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 958-810, *Consolidations*, are included in the accompanying consolidated financial statements (the financial statements), if material. The accompanying 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.

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

FTCT was formed in 1986 to provide transportation services to Feed the Children. As the core carrier for Feed the Children, FTCT transports gifts-in-kind contributions from corporate donors to one of five Feed the Children regional distribution centers 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.

The Organization provides financial support and donates food and other essentials to its international subsidiaries and affiliates, who act in furtherance of the Organization's mission.

Feed the Children Kenya and Feed the Children Malawi each operate as a furtherance of the Organization's operations in their respective country. FTCHC was formed for the purpose of purchasing and holding land and property in Kenya as a furtherance of the Organization's mission in that country. The carrying amount of the net assets of consolidated international affiliates at June 30, 2019 and 2018, is approximately $6,800,000 and $8,900,000, respectively. The total revenue, excluding intercompany revenue, of these international affiliates was approximately $257,000 and $927,000 for the years ended June 30, 2019 and 2018, respectively.

Nonprofit affiliates in Tanzania, Uganda, Haiti, Guatemala, and Nicaragua have met applicable consolidation criteria, including either: control through direct or indirect ownership of a majority voting interest or sole corporate membership, a majority voting interest in the board of the affiliate, or contract or affiliation agreement. However, the financial statements of these affiliates are not considered to be material to the consolidated financial statements of the Organization and, accordingly, are not included in the accompanying consolidated financial statements.

Certain other international nonprofit affiliates are not included in the accompanying consolidated financial statements because they have not met the consolidation criteria. Total support provided to nonconsolidated international affiliates for the year ended June 30, 2019, was approximately $6,508,000, which is comprised of cash of $3,990,000 and gifts-in-kind contributions of $2,518,000. Total support provided to nonconsolidated international affiliates for the year ended June 30, 2018, was approximately $9,980,000, which is comprised of cash of $4,310,000 and gifts-in-kind contributions of $5,670,000.

<u>Net assets</u>

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

Without donor restrictions – Net assets without donor restrictions includes all resources that are expendable at the discretion of the Board of Directors (Board) and/or management for general operating purposes or the Organization's programs. From time to time the Board may designate a portion of these net assets for specific purposes, which makes them unavailable for general expenditures. See Note 10 for more information regarding Board-designated net assets.

With donor restrictions – Net assets with donor restrictions consist of resources whose use is limited by donor-imposed time and/or purpose restrictions. The Organization's donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is fulfilled, the net assets are reclassified to net assets without donor restrictions in the consolidated statements of activities as net assets released from restrictions. Contributions with restrictions that are fulfilled in the same time period in which the contribution is received are recorded as contributions without donor restrictions in the consolidated statements of activities. For the years ended June 30, 2019 and 2018, the Organization had no endowments or donor-imposed restrictions that were perpetual in nature. See Note 10 for more information regarding the composition of net assets with donor restrictions.

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.

With respect to loss contingencies, the Organization records a liability when it is probable that a loss has been incurred and the amount is reasonably estimable. If it is determined that a loss is reasonably possible, and the loss or range of loss can be estimated, the possible loss is disclosed.

Foreign currency translation adjustments

The United States dollar is the functional currency for the Organization's consolidated operations except for its international subsidiaries. Feed the Children Kenya and FTCHC use the Kenyan shilling as their functional currency. Feed the Children Malawi uses the Malawian kwacha as its functional currency. Assets and liabilities of these subsidiaries are converted to United States dollars using the applicable exchange rate as of the end of the reporting period. Revenues, expenses, and cash flows are converted using an average exchange rate during the reporting period. Translation adjustments, which are not material, are included in the consolidated statements of activities within other revenues.

Cash and cash equivalents

The Organization has cash deposits with several financial institutions that typically exceed U.S. federally insured limits. To date, the Organization has not experienced any losses on these accounts. At June 30, 2019 and 2018, the Organization held $460,251 and $788,412, respectively, in foreign bank accounts not covered by the Federal Deposit Insurance Corporation. Highly liquid investments with original maturities of three months or less, except those specifically classified as investments, are considered to be cash equivalents. All cash equivalents were classified as investments at June 30, 2019 or 2018.

Accounts receivable

Accounts receivable primarily consist 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. Specific accounts are written off against the allowance when amounts are determined to be uncollectible.

Contributions receivable

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

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

Government grants receivable

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

Investments

Investments in mutual funds with readily determinable fair values are reported at fair value (see Note 12). Donated investments are initially recorded at fair value at the date of donation. Life insurance policies are recorded at their cash surrender value. Certain other investments, including cash held for investment in money market accounts, are carried at cost, which approximates fair value. Investment expenses are nominal due to the types of investments held.

Interest, dividends and net realized and unrealized gains and losses, less investment management fees, are reflected as part of investment income and are included in the change in net assets without donor restrictions in the accompanying consolidated statements of activities, unless their use is 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 cost. Donated inventory is 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). 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 $117,395 and $258,000 at June 30, 2019 and 2018, respectively.

Prepaid expenses and other assets

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

Capitalized software costs

In December 2016, Feed the Children's Board approved a project to update the Organization's donor management system. The Organization contracted with a software provider to customize a software application specific to the Organization's unique needs. External costs and certain direct internal costs incurred to develop this internal-use software during the application development stage have been capitalized and are included in the consolidated statements of financial position. Subsequent to the application development stage, external and direct internal costs are expensed when incurred. During the year ended June 30, 2019, the software project was substantially complete and ready for its intended use. Amortization is computed by the straight-line method over the estimated useful life of the asset. Amortization expense totaled $980,578 for the year ended June 30, 2019 and is included in the consolidated statement of functional expenses within information technology. No amortization expense was recorded for the year ended June 30, 2018, as the software was still in the application development stage and was not yet ready for its intended use.

Assets held for sale

Certain assets consisting of land and buildings are classified as held for sale in the accompanying consolidated statements of financial position. At June 30, 2018, $5,484,733 in assets held for sale included $3,594,102 of idle warehouse facilities within the United States and $1,890,631 of land and buildings located in Nairobi, Kenya. During the year ended June 30, 2019, a portion of the idle warehouse facilities within the United States was sold for approximately $3,311,000. The carrying value of the assets was approximately $3,121,000. The resulting gain of approximately $190,000 is reported within net gain on disposition of assets in the consolidating statement of activities for the year ended June 30, 2019.

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.

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 net assets with donor restrictions to net assets without donor restrictions at that time.

Impairment of long-lived assets

The Organization reviews long-lived assets for potential impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. In performing the review for impairment, future cash flows expected to result from the use of the asset and its eventual disposal are estimated. If the undiscounted future cash flows are less than the carrying amount of the assets, there is an indication that the asset may be impaired. The amount of the impairment is measured as the difference between the carrying value and the estimated fair value of the asset. The fair value is determined either through the use of an external valuation, or by means of an analysis of discounted future cash flows based on expected utilization. An impairment loss would be recognized for the excess of the asset's carrying value as compared to its estimated fair value. No impairment for long-lived assets was recognized for the years ended June 30, 2019 or 2018.

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 to give, are recognized as revenue when the donor's unconditional commitment is received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met.

The Organization receives donations of food, medical supplies, clothing and other goods for use in its 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 wholesale 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.

For the year ended June 30, 2018, gifts-in-kind from one donor represented approximately 11% of total gifts-in-kind revenue. There were no significant gifts-in-kind revenue concentrations for the year ended June 30, 2019.

Certain projects of the Organization are funded primarily by grants from the 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. The Organization currently has a major federal program ongoing in Malawi funded from a USAID grant awarded during the year ended June 30, 2017. Cumulative expenditures related to this program since inception were approximately $12.8 million as of June 30, 2019.

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

Advertising expenses, which primarily consist of direct mail appeals and related postage, are recognized when such appeals are mailed. These expenses are considered to be solely related to fundraising; accordingly, no joint costs are associated with these activities that requires allocation.

Income taxes

Feed the Children is a nonprofit organization exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. International subsidiaries and affiliates are domiciled in their respective countries of operations. With the exception of FTCHC, other international subsidiaries and affiliates are organized as nonprofit entities and are exempt from income taxes in their respective countries. Feed the Children is subject to U.S. federal income tax on any unrelated business taxable income; however, such activity is limited, and therefore, no provision for income taxes has been made in the financial statements. FTCHC is a for-profit holding company for land and property in Kenya and may be subject to country and local income tax; however, such taxes are not significant to the financial statements.

FTCT is a U.S. for-profit corporation subject to federal income taxes. 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 financial statements.

Functional allocation of expenses

The costs of program services and supporting activities are summarized in the statements of activities on a functional basis. Expenses attributable to more than one functional category require allocation on a reasonable basis that is consistently applied. Expenses have been allocated among program services and supporting activities classifications on the basis of direct cost allocations, employee time records and indirect cost allocation estimates.

Adoption of accounting pronouncement

In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which provides more relevant information about available resources (and the changes in those resources) to donors, grantors, creditors and other users. The most significant aspects of the standard are as follows: the standard (1) replaced the previous 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) expanded 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) required expenses to be presented by nature and function, as well as an analysis of the allocation of these expenses; (4) required specific quantitative and qualitative disclosures to improve the ability of financial statement users to assess the entity's available financial resources and the methods by which it manages liquidity and liquidity risk; and (5) required investment returns to be presented net of external and direct internal investment expenses. The Organization adopted the provisions of this standard as of and for the year ended June 30, 2019, with retrospective application for the 2018 financial statements. As a result, the Organization changed its presentation of its net asset classes, presented investment income net of investment expenses, and expanded the footnote disclosures required by the standard.

Accounting pronouncements not yet adopted

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The update provides guidance concerning the recognition and measurement of revenue from contracts with customers. Its objective is to increase the usefulness of information in the financial statements regarding the nature, timing and uncertainty of revenues. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. As deferred by ASU No. 2015-14, the update is effective for the Organization for the year ending June 30, 2020. The standard permits the use of either the retrospective or cumulative effect transition method. The Organization is still evaluating the impact the standard will have on its financial statements and related disclosures; however, it will apply the guidance using the cumulative effect transition method. The cumulative effect (if any) of applying the standard will be accounted for as an adjustment to the opening balance of net assets at the date of initial application.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall* (*Subtopic 825-10*): *Recognition and Measurement of Financial Assets and Financial Liabilities*. The standard applies to all entities that hold financial assets or owe financial liabilities. The most significant aspects of the standard are as follows: the standard (1) requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (2) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (3) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables); and (4) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The standard is effective for the Organization for the year ending June 30, 2020, and early adoption is permitted. The Organization is currently evaluating the impact the standard will have on its financial statements and related disclosures; however, the Organization has elected to omit certain disclosures related to the fair value of financial instruments in the accompanying June 30, 2019 and 2018, financial statements, as permitted.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. Under the new guidance, at the commencement date, lessees will be required to recognize a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discount basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The new guidance is not applicable for lease with a term of 12 months or less. Lessor accounting is largely unchanged. As deferred by the FASB in October 2019, the standard is effective for the Organization for the year ending June 30, 2022, and early adoption is permitted. The standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The Organization has not yet evaluated the impact the standard will have on its financial statements and related disclosures.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* The amendment clarifies and improves the scope and accounting guidance around contributions of cash and other assets received and made by not-for-profit organizations and business enterprises. Specifically, the standard provides additional guidance to clarify contributions vs. exchange transactions and provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. The requirements are effective for the Organization for transactions in which the entity serves as a resource recipient for the year ending June 30, 2020. For transactions in which the Organization serves as the resource provider, the requirements are effective for the year ending June 30, 2021, with early adoption permitted. The Organization has not yet evaluated the impact the standard will have on its financial statements and related disclosures.

Reclassifications

Certain amounts in the 2018 financial statements have been reclassified to conform to the 2019 presentation. Such reclassifications include changes to the presentation of program services in the consolidated statement of activities and the consolidated statement of functional expenses, as well as nominal changes in the reported amount of supporting activities due to the reclassification of investment expenses in accordance with ASU 2016-14. These reclassifications had no impact on the previously reported change in net assets.

Subsequent events

Management has evaluated subsequent events through February 10, 2020, the date the financial statements were available to be issued.

Note 3 – Liquidity and Availability of Financial Assets

The Organization regularly monitors liquidity required to meet its general operating needs while also striving to maintain sufficient reserves to meet operating needs during periods of uncertainty and to assure longer term commitments will continue to be met. The Organization's strategy is to operate within a balanced budget that anticipates collecting sufficient revenue to cover general expenditures. Revenues available to meet general expenditures include all revenues, gains and other support generated from ongoing operations, but exclude proceeds from the sale of investments or assets held for sale, unless authorized by the Board.

The Board has designated certain assets as reserves to provide assurance that long term commitments and obligations will continue to be met and ensure sustainability of the Organization. Board-designated assets include investments and assets held for sale. Liquidation of these assets and any proceeds from sale may only be approved and spent at the discretion of the Board.

The Board meets annually to review and approve the annual budget prepared by management. Board-designated financial assets may be earmarked for inclusion in the annual budget when deemed necessary, at the discretion of, and approval by, the Board. For the years ended June 30, 2019 and 2018, $2,104,792 and $3,431,000 of investments were authorized for general expenditures and strategic initiatives by the Board.

The Organization's financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, are as follows at June 30:

	2019	2018
Cash and cash equivalents	$ 1,640,483	$ 1,573,595
Accounts receivable	529,348	510,700
Pledges receivable, net	2,547,108	2,188,914
Government grants receivable	6,403	3,769
Investments	25,483,563	28,212,670
Total financial assets available	30,206,905	32,489,648
Less:		
Amounts unavailable for general expenditures within one year:		
Amounts restricted by donors with purpose restrictions	1,705,022	3,187,145
Amounts unavailable to management without Board approval:		
Investments	23,378,771	24,781,670
Total financial assets available to meet general expenditures within the next 12 months	$ 5,123,112	$ 4,520,833

In addition to Board-designated assets that could be made available for current operations upon approval from the Board (see Note 10), the Organization maintains a line of credit of $4,000,000 that is available to help manage seasonal liquidity needs (see Note 7).

Note 4 – Contributions Receivable

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

	2019	2018
Gifts-in-kind receivable	$ 2,540,736	$ 4,730,351
Pledges receivable, net	2,547,108	2,188,914
	$ 5,087,844	$ 6,919,265

Note 5 – Investments

Investments consist of the following at June 30:

	2019	2018
Mutual funds	$ 22,036,764	$ 24,688,014
Money market accounts	154,283	128,081
Key man life insurance policies	3,292,516	3,396,575
	$ 25,483,563	$ 28,212,670

Net investment income consists of the following at June 30:

	2019	2018
Interest and dividends	$ 708,126	$ 636,101
Net realized and unrealized gain	432,823	930,770
Fees, net of other income	(240,635)	(169,581)
	$ 900,314	$ 1,397,290

Note 6 – Property and Equipment

Property and equipment consist of the following at June 30:

	Estimated Useful Life	2019	2018
Land		$ 3,472,280	$ 3,472,280
Buildings and improvements	5-40	26,140,479	26,016,691
Furniture, fixtures and equipment	3-5	11,834,131	11,619,329
Vehicles	3-7	1,867,274	2,214,236
Transportation equipment	3-7	6,374,231	5,955,348
		49,688,395	49,277,884
Accumulated depreciation		(29,395,072)	(28,830,525)
		$ 20,293,323	$ 20,447,359

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

	2019	2018
Property and equipment, net	$ 20,293,323	$ 20,447,359
Less: related debt	(2,715,403)	(1,990,163)
	$ 17,577,920	$ 18,457,196

Note 7 – Line of Credit

The Organization has 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 the Organization: Prime Rate plus 0.75%, payable monthly, or LIBOR Rate plus 1.5% when the outstanding principal balance is less than $1,000,000 and 1.25% when the outstanding principal balance is equal to or exceeds $1,000,000, payable at the end of each interest period. Borrowings against the line of credit at June 30, 2019 and 2018, were $2,500,000 and $1,500,000, respectively.

Note 8 – Notes Payable

Notes payable consist of the following at June 30:

	2019	2018
FTCT notes payable to Daimler, collateralized by certain transportation equipment of FTCT, maturity dates ranging from August 2019 to April 2024, principal and interest payable monthly, interest ranging from 2.65% to 5.75% as of June 30, 2019.	$ 2,715,403	$ 1,990,163

Future maturities of notes payable at June 30, 2019, are as follows:

Year ending June 30,	Amount
2020	$ 844,509
2021	753,411
2022	586,934
2023	434,373
2024	96,176
	$ 2,715,403

Note 9 – Split-Interest Agreements

Feed the Children maintains a charitable gift annuity program whereby donors contribute assets in exchange for the right to receive a fixed dollar annual return during their lifetimes. The difference between the amount provided for the annuity contract and the discounted liability for future payments, determined on an actuarial basis, is recognized as contribution revenue at the date of the gift if Feed the Children is the ultimate beneficiary, or as a liability if another charity is the beneficiary. Upon the death of the annuitant, income distributions cease. The actuarial liability for annuities payable is calculated annually using published mortality rate tables adopted by the Internal Revenue Service at an assumed rate of return of 5.8%. The resulting actuarial gain or loss is recorded as a component of the change in value of split-interest agreements and reported in other revenue in the consolidated statements of activities. The present value of the estimated future payments at June 30, 2019 and 2018, is $167,093 and $148,737, respectively. These estimated future payments are included in the liability for split-interest agreements in the consolidated statements of financial position.

Note 10 – Net Assets

The Organization's net assets without donor restrictions is comprised of undesignated and Board-designated amounts for the following purposes at June 30:

	2019	2018
Available for operations	$ 38,141,779	$ 59,266,556
Net investment in property and equipment	17,577,920	18,457,196
Board-designated:		
Investments	25,483,563	28,212,670
Assets held for sale	2,363,513	5,484,733
Total Board-designated net assets	27,847,076	33,697,403
	$ 83,566,775	$ 111,421,155

Net assets with donor restrictions consist of the following at June 30:

	2019	2018
Residential care	$ 1,636,995	$ 3,172,429
Child-focused community development	59,710	6,399
Other	8,317	8,317
Total purpose restrictions	1,705,022	3,187,145
Time-restricted contributions receivable, primarily gifts-in-kind	5,087,844	6,919,265
	$ 6,792,866	$ 10,106,410

Note 11 – Employee Benefits

The Organization provides retirement benefits to employees under two separate qualified defined contribution plans, which cover all full-time 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, 2019 and 2018, collective contributions to the plans were $361,121 and $341,247, respectively.

Note 12 – Fair Value Measurements

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

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

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

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

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

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. There were no significant transfers into or out of Level 1, 2 or 3 measurements for the years ended June 30, 2019 and 2018.

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

	Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
2019:				
Mutual funds	$ 22,036,764	$ 22,036,764	$ -	$ -

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

Note 13 – Commitments and Contingencies

During the year ended June 30, 2017, the Organization entered into a three-year contractual commitment with a software provider for certain software services. The total commitment under the three-year term was approximately $2,300,000. As of June 30, 2019, the Organization had purchased approximately $1,701,000 in software services and remained obligated to purchase additional software services of approximately $599,000.

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

During the year ended June 30, 2017, the Organization was named as a defendant in a lawsuit filed by its former Chief Executive Officer. This matter was confidentially resolved during the year ended June 30, 2019.

During the year ended June 30, 2019, the Organization became aware of potential inappropriate activity that may have resulted in instances of noncompliance with its major federal program in Malawi. The Organization responded by informing its granting agency, initiating an investigation into the matter and enhancing its processes over federal grant compliance to deter such activity. The outcome of the matter is subject to significant uncertainties and could be material to the Organization's operations and financial statements. An estimate of the possible loss or range of loss cannot presently be determined.