LeSea Global Feed the Hungry, Inc. and Subsidiary

Consolidated Financial Statements
and
Independent Auditor's Report

December 31, 2015 and 2014

Contents

Page

Independent Auditor's Report 3

Consolidated Financial Statements

Consolidated Statements of Financial Position 4

Consolidated Statements of Activities and Net Assets 5

Consolidated Statements of Functional Expenses .... 6 - 7

Consolidated Statements of Cash Flows 8

Notes to Consolidated Financial Statements .... 9 - 13

Independent Auditor's Report

Board of Directors
LeSea Global Feed the Hungry, Inc. and Subsidiary
South Bend, Indiana

We have audited the accompanying consolidated financial statements of LeSEA Global Feed the Hungry, Inc. and its Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 financial position of LeSEA Global Feed the Hungry, Inc. and its Subsidiary as of December 31, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Tulsa, Oklahoma
May 24, 2016

Stanfield & O'Dell P.C.

Consolidated Statements of Financial Position

December 31,

		2015		2014
Assets				
Current assets				
Cash and cash equivalents	$	277,310	$	291,473
Investments		504,599		524,397
Accounts receivable, net		91,463		30,468
Inventory		1,038,956		1,395,193
Other current assets		35,239		75,321
Total current assets		1,947,567		2,316,852
Property and equipment		610,966		782,353
Less accumulated depreciation		(552,235)		(708,481)
Net property and equipment		58,731		73,872
Other assets				
Cash value life insurance		120,717		110,859
Total other assets		120,717		110,859
Total assets	$	2,127,015	$	2,501,583
Liabilities and Net Assets				
Current liabilities				
Accounts payable	$	209,165	$	139,982
Accounts payable, from related parties		20,798		284,134
Accrued payroll and related withholdings		54,491		61,391
Split interest agreements		143,000		250,100
Total current liabilities		427,454		735,607
Net assets				
Unrestricted net assets		1,699,561		1,765,976
Total liabilities and net assets	$	2,127,015	$	2,501,583

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Activities and Net Assets

Years Ended December 31,

	2015	2014
Public support and revenue		
Public Support		
Contributions	$ 2,851,522	$ 2,609,540
Contributions and other revenue from affiliates	741,886	780,517
Contributions from related party	601,987	-
In-kind contributions	14,194,638	13,161,083
Total public support	18,390,033	16,551,140
Revenue		
Sales	221,409	280,021
Investment income	3,933	25,682
Total net revenue	225,342	305,703
Total public support and revenue	18,615,375	16,856,843
Expenses		
Program		
Feed the Hungry	17,299,376	15,200,765
FTH Logistics	232,259	270,320
	17,531,635	15,471,085
Support services		
General and administrative	126,585	133,433
Fundraising	1,023,570	1,010,003
	1,150,155	1,143,436
Total expenses	18,681,790	16,614,521
Change in net assets	(66,415)	242,322
Net assets, beginning of year	1,765,976	1,523,654
Net assets, end of year	$ 1,699,561	$ 1,765,976

The accompanying notes are an integral part of these consolidated financial statements.

LeSEA Global Feed the Hungry, Inc. and Subsidiary

Consolidated Statement of Functional Expenses

Year Ended December 31, 2015

	Program Services			Supporting Services			
	Feeding the Hungry	Transportation Logistics	Total	General and Administrative	Fundraising	Total	Total Expenses
Personnel costs	$ 516,344	$ 85,745	$ 602,089	$ 40,325	$ 236,766	$ 277,091	$ 879,180
Gift-in-kind and purchased food	14,737,606	-	14,737,606	-	-	-	14,737,606
Services	232,055	500	232,555	85,778	257,222	343,000	575,555
Shipping	672,800	116,715	789,515	-	190	190	789,705
Missions and outreach	445,238	-	445,238	-	-	-	445,238
Advertising	125,140	-	125,140	-	204,353	204,353	329,493
Postage and mailings	195,246	-	195,246	-	302,185	302,185	497,431
Travel	157,817	13,159	170,976	-	16,713	16,713	187,689
Building costs	76,196	-	76,196	-	-	-	76,196
Fees and bank charges	37,773	6,260	44,033	-	3,634	3,634	47,667
Repairs and maintenance	32,848	5,928	38,776	-	604	604	39,380
Supplies	23,888	933	24,821	-	916	916	25,737
Utilities and phone	9,688	591	10,279	482	965	1,447	11,726
Other	11,699	2,428	14,127	-	22	22	14,149
Total expenses before depreciation	17,274,338	232,259	17,506,597	126,585	1,023,570	1,150,155	18,656,752
Depreciation	25,038	-	25,038	-	-	-	25,038
Total expenses	$ 17,299,376	$ 232,259	$ 17,531,635	$ 126,585	$ 1,023,570	$ 1,150,155	$ 18,681,790

The accompanying notes are an integral part of these consolidated financial statements.

LeSEA Global Feed the Hungry, Inc. and Subsidiary

Consolidated Statement of Functional Expenses

Year Ended December 31, 2014

	Program Services			Supporting Services			
	Feeding the Hungry	Transportation Logistics	Total	General and Administrative	Fundraising	Total	Total Expenses
Personnel costs	$ 456,182	$ 80,908	$ 537,090	$ 39,577	$ 221,836	$ 261,413	$ 798,503
Gift-in-kind and purchased food	12,543,438	-	12,543,438	-	-	-	12,543,438
Services	221,846	1,200	223,046	93,340	311,473	404,813	627,859
Shipping	813,397	164,892	978,289	-	54	54	978,343
Missions and outreach	460,402	-	460,402	-	-	-	460,402
Advertising	107,698	-	107,698	-	210,213	210,213	317,911
Postage and mailings	227,250	-	227,250	-	252,982	252,982	480,232
Travel	170,566	13,449	184,015	-	7,928	7,928	191,943
Building costs	65,035	-	65,035	-	-	-	65,035
Fees and bank charges	38,798	2,977	41,775	-	4,144	4,144	45,919
Repairs and maintenance	16,258	7,077	23,335	-	-	-	23,335
Supplies	22,158	1,380	23,538	-	364	364	23,902
Utilities and phone	12,181	651	12,832	516	1,009	1,525	14,357
Other	14,645	(3,084)	11,561	-	-	-	11,561
Total expenses before depreciation	15,169,854	269,450	15,439,304	133,433	1,010,003	1,143,436	16,582,740
Depreciation	30,911	870	31,781	-	-	-	31,781
Total expenses	$ 15,200,765	$ 270,320	$ 15,471,085	$ 133,433	$ 1,010,003	$ 1,143,436	$ 16,614,521

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended December 31,

	2015	2014
Cash flows from operating activities		
Increase (decrease) in net assets	$ (66,415)	$ 242,322
Adjustments to reconcile net increase (decrease) in net assets to net cash from operating activities:		
Depreciation	25,038	31,781
Gifts in-kind used from inventory	356,237	(758,703)
Contribution of services	(301,987)	-
Net unrealized gains	8,693	(21,686)
Adjustments for changes in operating assets and liabilities:		
Related party accounts receivable and payable	38,651	503,042
Accounts receivable, net	(60,995)	(1,311)
Other current assets	40,082	(8,714)
Accounts payable	69,183	36,055
Accrued payroll and related withholdings	(6,900)	20,588
Split interest agreements	(107,100)	-
Net cash provided by (used in) operating activities	(5,513)	43,374
Cash flows from investing activities		
Purchase of property and equipment	(9,897)	(33,130)
Proceeds from sale of investments	45,702	-
Purchase of investments	(34,597)	-
Change in cash value of life insurance	(9,858)	(12,645)
Net cash used in investing activities	(8,650)	(45,775)
Decrease in cash and cash equivalents	(14,163)	(2,401)
Cash and cash equivalents, beginning of year	291,473	293,874
Cash and cash equivalents, end of year	$ 277,310	$ 291,473

The accompanying notes are an integral part of these consolidated financial statements.

Note A – Description of Organization and Summary of Significant Accounting Policies

1. *Description of Organization*

LeSEA Global Feed the Hungry, Inc. (the Organization) is located in South Bend, Indiana and is incorporated under the laws of the State of Indiana as a not-for-profit corporation. The primary objective and mission since Dr. Lester Sumrall started the Organization has been a clear focus on bringing help by distributing food and relief supplies to those in need due to poverty, famine, drought, flood, war, or other natural disaster. Food and relief supplies have been distributed throughout the world through the Pastor-to-Pastor and Church-to-Church programs. Each distribution of food and supplies also provides an opportunity to touch the spirit and soul of those in need through prayer, encouragement, and sharing the Gospel of Jesus Christ.

The Organization established FTH Logistics, Inc., a for-profit entity assisting the Organization with its initiatives to ship food and relief supplies across the world.

2. *Principles of Consolidation*

The consolidated financial statements include the accounts of LeSEA Global Feed the Hungry, Inc. and its Subsidiary, FTH Logistics, Inc. which was formed to provide transportation logistic services related to the Organization's mission. All significant intercompany accounts and transactions have been eliminated in consolidation.

3. *Revenue Recognition*

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets.

Contributions received are presented as restricted support if they are received with donor stipulations that limit the use of the contributions. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the contribution is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. At December 31, 2015 and December 31, 2014 and for the years then ended, all net assets were deemed unrestricted.

4. *Use of Estimates*

The preparation of the consolidated 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.

Note A – Description of Organization and Summary of Significant Accounting Policies – Continued

5. *Cash and Cash Equivalents*

Cash and cash equivalents include cash on hand and cash on deposit with financial institutions. The Organization has deposits with financial institutions that periodically exceed FDIC insurance limits. No losses have been incurred or are expected on these funds.

6. *Investments*

In accordance with FASB Accounting Standards Code (ASC) 820, *Fair Value Measurements and Disclosures*, the Organization has reviewed its investments and considers all as "Level 1 Inputs" and has recognized all investments at fair value on the statement of financial position. Fair values have been calculated utilizing quotes for identical items in active markets. Investments at December 31, 2015 consist of stocks of $138,779 and mutual funds of $365,820. Investments at December 31, 2014 consist of stocks of $109,388 and mutual funds of $415,009. Gains and losses are reflected as increases or decreases in the unrestricted class of net assets unless the donor or relevant laws place temporary or permanent restrictions on the gains and losses.

The net change in realized and unrealized gains and losses is presented as investment income on the accompanying statements of activities. For 2015 and 2014, interest (including interest on receivables) and dividends totaled $26,410 and $21,650, respectively, and there were realized (losses) and gains of $(17,050) and $13,982, unrealized losses of $(693) and $(5,282), and investment fees of $4,734 and $4,668, respectively.

The various investments in securities and mutual funds are exposed to a variety of uncertainties, including interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is possible that changes in the values of these investments could occur in the near term. Such changes could materially affect the amounts reported in the financial statements of the Organization.

7. *Accounts Receivable*

Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. At December 31, 2015 and December 31, 2014, the allowance for doubtful accounts was estimated by management to be $5,331 and $8,576, respectively. Factors considered in determining collectability include customers past collection history, an aged analysis of receivables, economic conditions, as well as the financial health of its customers. The Organization does not normally charge interest on past due accounts.

8. *Inventory*

Inventory consists of donated goods, including food, office supplies, and other items. Inventories are stated at the lower of cost or net realizable value. Cost is estimated based on fair value for donated goods and is determined using the first-in, first-out method.

Note A – Description of Organization and Summary of Significant Accounting Policies – Continued

9. *Property and Equipment*

Purchased property and equipment are stated at cost. Expenditures for additions, improvements, and replacements are added to the property and equipment accounts. Repairs and maintenance are charged to expense as incurred. When equipment is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts and any gains or losses arising from the disposition are reflected in income. Depreciation is provided for over the estimated useful lives of the assets on the straight-line basis. Depreciation expense for the years ended December 31, 2015 and 2014 was $25,038 and $31,781, respectively.

A summary of the range of lives by asset category is as follows:

Land and land improvements	10 - 40 years
Building and building improvements	5 - 40 years
Equipment	3 - 10 years
Vehicles	5 years

10. *Income Taxes*

The Organization is a not-for-profit organization exempt from federal and state income taxes under provisions of Section 501(c)(3) of the Internal Revenue Code and corresponding state provisions. The Organization is subject to taxes on the business income, when incurred, from FTH Logistics, Inc. During 2015 and 2014, there were no taxes on unrelated business income or on the for-profit entity because all applicable activities produced a taxable loss. Accordingly, no tax provision has been recorded in these financial statements. The Organization's information returns are open for examination for a period of three years from the date filed.

11. *Contributions*

The Organization receives donated food and supplies (in-kind contributions) from various donors. The Organization records the value of in-kind contributions as revenue for the programs or activities benefited at their estimated fair values at the date of receipt. Expense is recognized when inventory is shipped to a recipient. For 2015 and 2014, in-kind contributions totaled $14,194,638 and $13,161,083, respectively, and in-kind expense was $14,550,875 and $12,402,380, respectively.

12. *Advertising Expense*

Various costs relating to advertising are considered period costs and are expensed as incurred. Advertising costs for the years ended December 31, 2015 and 2014 were $329,493 and $317,911, respectively. Advertising costs at December 31, 2015 and 2014 include advertising services valued at $300,000 received from LeSEA Broadcasting, Inc. In exchange for these services, the Organization reduced the balance of the receivable due from LeSEA Broadcasting, Inc.

Note A – Description of Organization and Summary of Significant Accounting Policies – Continued

13. *Allocation of Expenses*

The program activities and supporting services of the Organization have certain expenses that have been allocated among the programs and supporting services benefited.

14. *Allocation of Joint Costs*

The Organization conducts activities that include requests for contributions as well as program components. These activities include direct mail letters, television time, newsletters, brochures, and other such items. The costs of conducting these activities are not specifically attributable to particular components of the activities (joint costs). Material costs and television time are allocated to fundraising based on the actual percentage of the item or time of the event used for fundraising. Personnel costs are allocated based on estimates of the percent of annual time worked on the aforementioned activities and publications. Total joint costs for the years ended December 31, 2015 and 2014 were $1,138,055 and $1,090,814, respectively, of which $424,546 and $382,730, respectively, were allocated to program and $713,509 and $708,084, respectively, were allocated to fundraising.

15. *Reclassifications*

Certain prior year amounts have been reclassified to conform to the current year's presentation. The reclassifications had no effect on the previously reported increase in net assets.

16. *Subsequent Events*

The Organization has evaluated subsequent events through May 24, 2016, the date which the financial statements were available to be issued.

Note B – Property and Equipment

Property and equipment includes the following at December 31:

	2015	2014
Land and land improvements	$ 6,670	$ 6,670
Buildings and improvements	455,066	455,066
Equipment	115,302	286,689
Vehicles	33,928	33,928
	610,966	782,353
Less: Accumulated depreciation	(552,235)	(708,481)
	$ 58,731	$ 73,872

Note C – Related Party Activity

The Organization purchased $300,000 in advertising services and approximately $88,800 of accounting and administrative services annually from Broadcasting during 2015 and 2014.

The Organization has an outstanding payable to Broadcasting for $20,798 and $284,134 as of December 31, 2015 and 2014, respectively. At December 31, 2015, Broadcasting elected to contribute the unpaid balance of purchased accounting and advertising services to the Organization. As a result, contribution revenue of $601,987 has been recognized.

The Organization has an outstanding receivable from LeSEA, Inc. (the Church) for $4,238 and $17,000 as of December 31, 2015 and 2014, respectively.

Note D – Split Interest Liabilities

The split interest liabilities include liabilities related to life loans, which are revocable. Split interest liabilities are amounts held on behalf of donors and managed by the Organization. Donors receive the interest earned on the investments up to 6 percent. Upon the death of the donors, the funds become the property of the Organization. The liability of life loans totaled $143,000 and $250,100 at December 31, 2015 and 2014, and represents the principal amount that may be withdrawn with 90 days notice. Funds retained to cover payments to beneficiaries are included in the Organization's investments.

Note E – Affiliated Entities

The Organization has established a network of international affiliated entities to assist with distributing necessities to people in need throughout the world. During 2015 and 2014, the Organization received approximately $742,000 and $781,000, respectively, in contributions from these affiliates and paid approximately $445,000 and $460,000, respectively, to assist affiliate organizations. All expenses incurred by the Organization on behalf of these affiliates have been recognized as program services in the statement of functional expenses.

Note F – Subsequent Event

The Organization has been named in a suit filed on April 25, 2016, by the personal representative of a deceased person’s estate. The suit alleges a private individual misused power of attorney over the estate resulting in the Organization being unjustly enriched. Management has refuted the claims based on documentation to support their position and will defend against the allegation.