LeSea Global Feed the Hungry, Inc. and Subidiary

Consolidated Financial Statements and
Independent Auditor's Report

December 31, 2017 and 2016

Stanfield + O'Dell
CPAs & ADVISORS

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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 Subsidiary, which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, 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 Subsidiary as of December 31, 2017 and 2016, 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.

Stanfield + O'Dell, P.C.

Tulsa, Oklahoma
May 17, 2018

Consolidated Statements of Financial Position

December 31,

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	$ 343,516	$ 134,465
Investments	603,427	553,824
Accounts receivable, net	161,142	125,241
Inventory	649,313	857,979
Other current assets	58,687	63,215
Total current assets	1,816,085	1,734,724
Property and equipment	590,227	587,001
Less accumulated depreciation	(548,500)	(532,890)
Net property and equipment	41,727	54,111
Other assets		
Cash value of life insurance, net	172,578	134,126
Total assets	$ 2,030,390	$ 1,922,961
Liabilities and Net Assets		
Current liabilities		
Accounts payable	$ 105,864	$ 145,198
Accounts payable to related party	111,418	139,923
Accrued payroll and related withholdings	66,031	66,669
Split interest agreements	143,000	143,000
Total current liabilities	426,313	494,790
Net assets		
Unrestricted net assets	1,604,077	1,428,171
Total liabilities and net assets	$ 2,030,390	$ 1,922,961

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

Consolidated Statements of Activities

Years Ended December 31,

	2017	2016
Public support and revenue		
Public Support		
Contributions	$ 3,413,684	$ 2,612,537
Contributions and other revenue from affiliates	845,565	625,618
Contributions from related party	161,576	235,704
In-kind contributions - food	16,111,040	11,763,526
In-kind contributions - services	372,967	-
Total public support	20,904,832	15,237,385
Revenue		
Sales	231,148	203,276
Investment income	68,558	45,790
Miscellaneous revenue	100	1,468
Total revenue	299,806	250,534
Total public support and revenue	21,204,638	15,487,919
Expenses		
Program		
Feed the Hungry	19,268,281	14,626,388
FTH Logistics	218,655	217,470
	19,486,936	14,843,858
Support services		
General and administrative	99,509	105,963
Fundraising	1,442,287	809,488
	1,541,796	915,451
Total expenses	21,028,732	15,759,309
Change in net assets	175,906	(271,390)
Net assets		
Beginning of year	1,428,171	1,699,561
End of year	$ 1,604,077	$ 1,428,171

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

Consolidated Statement of Functional Expenses

Year Ended December 31, 2017

	Program Services			Supporting Services			
	Feed the Hungry	FTH Logistics	Total	General and Administrative	Fundraising	Total	Total Expenses
Personnel costs	$ 512,356	$ 86,082	$ 598,438	$ 44,772	$ 369,927	$ 414,699	$ 1,013,137
Gift-in-kind and purchased food	16,453,465	-	16,453,465	-	-	-	16,453,465
Services	256,935	900	257,835	50,033	360,748	410,781	668,616
Shipping	740,497	115,304	855,801	-	684	684	856,485
Missions and outreach	468,597	-	468,597	-	-	-	468,597
Advertising	16,885	-	16,885	-	340,634	340,634	357,519
Postage and mailings	197,957	-	197,957	71	323,400	323,471	521,428
Travel	86,190	13,354	99,544	1,480	34,267	35,747	135,291
Building costs	221,645	-	221,645	-	-	-	221,645
Fees and bank charges	64,000	4,077	68,077	691	4,695	5,386	73,463
Repairs and maintenance	39,789	6,405	46,194	-	2,425	2,425	48,619
Supplies	24,907	979	25,886	76	1,707	1,783	27,669
Utilities and phone	10,214	-	10,214	2,386	3,000	5,386	15,600
International purchased goods	142,267	-	142,267	-	-	-	142,267
Other	9,633	(8,446)	1,187	-	800	800	1,987
Total expenses before depreciation	19,245,337	218,655	19,463,992	99,509	1,442,287	1,541,796	21,005,788
Depreciation	22,944	-	22,944	-	-	-	22,944
Total expenses	$ 19,268,281	$ 218,655	$ 19,486,936	$ 99,509	$ 1,442,287	$ 1,541,796	$ 21,028,732

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, 2016

	Program Services			Supporting Services			
	Feed the Hungry	FTH Logistics	Total	General and Administrative	Fundraising	Total	Total Expenses
Personnel costs	$ 544,303	$ 83,231	$ 627,534	$ 43,204	$ 253,649	$ 296,853	$ 924,387
Gift-in-kind and purchased food	12,174,277	-	12,174,277	-	-	-	12,174,277
Services	216,261	600	216,861	60,357	273,301	333,658	550,519
Shipping	752,889	99,876	852,765	-	272	272	853,037
Missions and outreach	461,912	-	461,912	-	-	-	461,912
Advertising	3,464	-	3,464	-	2,503	2,503	5,967
Postage and mailings	170,477	-	170,477	49	259,455	259,504	429,981
Travel	88,971	11,620	100,591	1,845	14,414	16,259	116,850
Building costs	80,017	-	80,017	-	-	-	80,017
Fees and bank charges	48,336	6,257	54,593	-	4,128	4,128	58,721
Repairs and maintenance	19,964	4,067	24,031	-	467	467	24,498
Supplies	22,235	593	22,828	-	560	560	23,388
Utilities and phone	7,193	273	7,466	508	739	1,247	8,713
Other	10,919	10,953	21,872	-	-	-	21,872
Total expenses before depreciation	14,601,218	217,470	14,818,688	105,963	809,488	915,451	15,734,139
Depreciation	25,170	-	25,170	-	-	-	25,170
Total expenses	$ 14,626,388	$ 217,470	$ 14,843,858	$ 105,963	$ 809,488	$ 915,451	$ 15,759,309

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

Consolidated Statements of Cash Flows

Years Ended December 31,

	2017	2016
Cash flows from operating activities		
Increase (decrease) in net assets	$ 175,906	$ (271,390)
Adjustments to reconcile net increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	22,944	25,170
Gifts in-kind used from inventory	208,666	180,977
Net unrealized gains on investments	(26,749)	(44,518)
Adjustments for changes in operating assets and liabilities:		
Accounts receivable, net	(35,901)	(33,778)
Other current assets	4,528	(27,976)
Accounts payable	(39,334)	(63,967)
Accounts payable to related party	(28,505)	119,125
Accrued payroll and related withholdings	(638)	12,178
Net cash provided by (used in) operating activities	280,917	(104,179)
Cash flows from investing activities		
Purchase of property and equipment	(10,560)	(20,550)
Proceeds from sale of investments	268,169	170,986
Purchase of investments	(291,023)	(175,693)
Change in cash value of life insurance	(38,452)	(13,409)
Net cash used in investing activities	(71,866)	(38,666)
Increase (decrease) in cash and cash equivalents	209,051	(142,845)
Cash and cash equivalents, beginning of year	134,465	277,310
Cash and cash equivalents, end of year	$ 343,516	$ 134,465

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 logistics 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, 2017 and December 31, 2016 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 to be classified 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, 2017 consist of mutual funds of $603,427. Investments at December 31, 2016 consist of stocks of $155,856 and mutual funds of $397,968. 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.

Realized and unrealized gains and losses are presented as investment income on the accompanying statements of activities. For 2017 and 2016, interest (including interest on receivables) and dividends totaled $21,837 and $14,369, respectively, and there were realized gains (losses) of $123,918 and $(8,293), unrealized gains (losses) of $(71,949) and $44,518, and investment fees of $5,248 and $4,804, 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*

Accounts receivable are stated at the amount management expects to collect from outstanding balances. At December 31, 2017 and December 31, 2016, the allowance for doubtful accounts, as estimated and recorded by management, was $1,777 and $16,284, 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 at the time of donation 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*

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 expenses for the years ended December 31, 2017 and 2016 were $22,944 and $25,170, 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. *Cash Value of Life Insurance, Net of Policy Loans*

The Organization has purchased insurance on the lives of certain individuals. As beneficiary, the Organization receives the cash surrender value if the policy is terminated and, upon death of the insured, receives all benefits payable. Cash value of life insurance is reported in the financial statements net of policy loans. The cash surrender value of life insurance was $172,578 and $164,826 at December 31, 2017 and 2016, respectively. The policy loan balance outstanding was $30,700 at December 31, 2016, and the net cash value of life insurance was $172,578 and $134,126 at December 31, 2017 and 2016, respectively.

11. *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 2017 and 2016, 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.

12. *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 2017 and 2016, in-kind contributions of food totaled $16,111,040 and $11,763,526, respectively, and in-kind expense was $16,353,406 and $11,944,503, respectively.

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

12. *Contributions – Continued*

The Organization also received contributed in-kind services, primarily for advertising. Such services in the amount of $372,967 were contributed during 2017, by unrelated third parties.

13. *Advertising Expense*

Various costs relating to advertising are considered period costs and are expensed as incurred. Advertising costs for the years ended December 31, 2017 and 2016 were $357,519 and $5,967, respectively.

14. *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.

15. *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, 2017 and 2016 were $958,999 and $788,077, respectively, of which $338,031 and $291,020, respectively, were allocated to program and $620,968 and $497,057, respectively, were allocated to fundraising.

16. *Subsequent Events*

The Organization has evaluated subsequent events through May 17, 2018, the date on which the financial statements were available to be issued.

Note B – Property and Equipment

Property and equipment includes the following at December 31:

	2017	2016
Land and land improvements	$ 6,670	$ 6,670
Buildings and improvements	462,144	454,665
Equipment	112,713	109,633
Vehicles	8,700	16,033
	590,227	587,001
Less: Accumulated depreciation	(548,500)	(532,890)
	$ 41,727	$ 54,111

Note C – Related Party Activity

The Organization purchased approximately $88,800 of accounting and administrative services annually from LeSEA Broadcasting (Broadcasting) during 2017 and 2016.

The quantity of long form airings provided by Broadcasting declined over 90 percent in 2016, with any unsold slots provided given to the Organization. As a result, it was determined that no value was provided for advertising services. Broadcasting owns television, radio, and shortwave stations which broadcast the religious and family-oriented message of LeSEA and that of other organizations.

The Organization has an outstanding payable to Broadcasting for $84,154 and $139,923 as of December 31, 2017 and 2016, respectively. During 2017 and 2016, Broadcasting elected to contribute a portion of the unpaid balance of purchased accounting and advertising services to the Organization. As a result, contribution revenue of $137,576 and $216,519 was recognized during 2017 and 2016, respectively.

The Organization had an outstanding payable to LeSEA, Inc. for $27,264 as of December 31, 2017. LeSEA, Inc. represents the Christian Center Church, which is the local church outreach to the communities of South Bend and Mishawaka, Indiana. LeSEA, Inc. provided donations of $24,000 and $19,185 to the Organization during 2017 and 2016, respectively.

Note D – Split Interest Agreements

Split interest agreements represent liabilities related to life loans, which are revocable. Split interest agreements 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 at both December 31, 2017 and 2016, 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 2017 and 2016, the Organization received approximately $846,000 and $626,000, respectively, in contributions from these affiliates and paid approximately $469,000 and $462,000, 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 – Contingencies

In April 2016, the Organization was named in a lawsuit filed 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. It is the opinion of management that the ultimate resolution of these claims will not adversely affect the Organization’s financial condition, cash flows, or operational activities.