LeSEA Global Feed the Hungry, Inc. and Subsidiary

Consolidated Financial Statements and
Independent Auditor's Report

December 31, 2018 and 2017

Contents

Page

Independent Auditor's Report .... 3 - 4

Consolidated Financial Statements

Consolidated Statements of Financial Position 5

Consolidated Statements of Activities 6

Consolidated Statements of Functional Expenses .... 7 - 8

Consolidated Statements of Cash Flows 9

Notes to Consolidated Financial Statements .... 10 - 15

Independent Auditor's Report

Board of Directors
LeSEA Global Feed the Hungry, Inc.
South Bend, Indiana

We have audited the accompanying consolidated financial statements of LeSEA Global Feed the Hungry, Inc. and Subsidiary (the Organization), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, 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 the Organization as of December 31, 2018 and 2017, 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.

Emphasis of Matter

As discussed in Note A.15 to the financial statements, in 2018, the Organization adopted new accounting guidance affecting the presentation and disclosures for not-for-profit entities. Our opinion is not modified with respect to this matter.

Tulsa, Oklahoma
July 26, 2019

Stanfield + O'Dell, P.C.

Consolidated Statements of Financial Position

December 31,

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	$ 420,388	$ 343,516
Investments	742,310	603,427
Accounts receivable, net	123,924	161,142
Inventory	279,155	649,313
Other current assets	15,320	58,687
Total current assets	1,581,097	1,816,085
Property and equipment	615,224	590,227
Less accumulated depreciation	(563,343)	(548,500)
Net property and equipment	51,881	41,727
Other assets		
Cash value of life insurance, net	95,143	172,578
Total assets	$ 1,728,121	$ 2,030,390
Liabilities and net assets		
Current liabilities		
Accounts payable	$ 174,233	$ 105,864
Accounts payable to related party	18,629	111,418
Accrued payroll and related withholdings	81,075	66,031
Split interest agreements	143,000	143,000
Total current liabilities	416,937	426,313
Net assets		
Net assets without donor restrictions	1,311,184	1,604,077
Total liabilities and net assets	$ 1,728,121	$ 2,030,390

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

Consolidated Statements of Activities

Years Ended December 31,

	2018	2017
Public support and revenue		
Public Support		
Contributions	$ 3,132,382	$ 3,413,684
Contributions and other revenue from affiliates	870,675	845,565
Contributions from related party	155,330	161,576
In-kind contributions - food	19,827,168	16,111,040
In-kind contributions - services	1,000	372,967
Total public support	23,986,555	20,904,832
Revenue		
Sales	195,263	231,148
Investment income (loss)	(41,752)	68,558
Miscellaneous revenue	56	100
Total revenue	153,567	299,806
Total public support and revenue	24,140,122	21,204,638
Expenses		
Program		
Feed the Hungry	22,976,333	19,268,207
FTH Logistics	227,532	218,655
	23,203,865	19,486,862
Support services		
General and administrative	106,686	100,383
Fundraising	1,122,464	1,441,487
	1,229,150	1,541,870
Total expenses	24,433,015	21,028,732
Change in net assets	(292,893)	175,906
Net assets		
Beginning of year	1,604,077	1,428,171
End of year	$ 1,311,184	$ 1,604,077

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, 2018

	Program Services			Supporting Services			
	Feed the Hungry	FTH Logistics	Total	General and Administrative	Fundraising	Total	Total Expenses
Personnel costs	$ 500,213	$ 80,986	$ 581,199	$ 48,191	$ 427,482	$ 475,673	$ 1,056,872
Gift-in-kind and purchased food	20,251,175	-	20,251,175	-	-	-	20,251,175
Services	250,563	900	251,463	53,540	362,819	416,359	667,822
Shipping	941,760	112,394	1,054,154	-	949	949	1,055,103
Missions and outreach	436,893	-	436,893	-	-	-	436,893
Advertising	13,000	-	13,000	-	1,587	1,587	14,587
Postage and mailings	170,206	-	170,206	676	289,004	289,680	459,886
Travel	84,731	11,153	95,884	738	30,584	31,322	127,206
Building costs	132,122	-	132,122	-	-	-	132,122
Fees and bank charges	55,089	4,251	59,340	702	4,457	5,159	64,499
Repairs and maintenance	18,395	6,372	24,767	-	823	823	25,590
Supplies	19,659	637	20,296	84	1,732	1,816	22,112
Utilities and phone	9,869	-	9,869	2,461	3,027	5,488	15,357
International purchased goods	71,316	-	71,316	-	-	-	71,316
Other	10,399	6,939	17,338	294	-	294	17,632
Total expenses before depreciation	22,965,390	223,632	23,189,022	106,686	1,122,464	1,229,150	24,418,172
Depreciation	10,943	3,900	14,843	-	-	-	14,843
Total expenses	$ 22,976,333	$ 227,532	$23,203,865	$ 106,686	$ 1,122,464	$ 1,229,150	$ 24,433,015

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	9,559	(8,446)	1,113	874	-	874	1,987
Total expenses before depreciation	19,245,263	218,655	19,463,918	100,383	1,441,487	1,541,870	21,005,788
Depreciation	22,944	-	22,944	-	-	-	22,944
Total expenses	$ 19,268,207	$ 218,655	$ 19,486,862	$ 100,383	$ 1,441,487	$ 1,541,870	$ 21,028,732

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

Consolidated Statements of Cash Flows

Years Ended December 31,

	2018	2017
Cash flows from operating activities		
Increase (decrease) in net assets	$ (292,893)	$ 175,906
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	14,843	22,944
Gifts in-kind used from inventory	370,158	208,666
Net unrealized gains on investments	(158,794)	(26,749)
Adjustments for changes in operating assets and liabilities:		
Accounts receivable, net	37,218	(35,901)
Other current assets	43,367	4,528
Accounts payable	68,369	(39,334)
Accounts payable to related party	(92,789)	(28,505)
Accrued payroll and related withholdings	15,044	(638)
Net cash provided by operating activities	4,523	280,917
Cash flows from investing activities		
Purchase of property and equipment	(24,997)	(10,560)
Proceeds from sale of investments	225,000	268,169
Purchase of investments	(205,089)	(291,023)
Change in cash value of life insurance	77,435	(38,452)
Net cash provided by (used in) investing activities	72,349	(71,866)
Increase in cash and cash equivalents	76,872	209,051
Cash and cash equivalents, beginning of year	343,516	134,465
Cash and cash equivalents, end of year	$ 420,388	$ 343,516

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 two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized.

At December 31, 2018 and December 31, 2017 and for the years then ended, all net assets were deemed without donor restrictions.

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 consist of mutual funds. Gains and losses are reflected as increases or decreases in net assets without donor restrictions unless the donor or relevant laws place temporary or permanent restrictions on the gains and losses.

Realized and unrealized gains and losses are included in investment income on the accompanying statements of activities. For 2018 and 2017, interest (including interest on receivables) and dividends totaled $35,658 and $21,837, respectively, and there were realized gains of $33,645 and $123,918, unrealized losses of $105,752 and $71,949, and investment fees of $5,303 and $5,248, 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, 2018 and December 31, 2017, the allowance for doubtful accounts, as estimated and recorded by management, was $6,939 and $1,777, respectively. Factors considered in determining collectability include customers' past collection history, an aged analysis of receivables, and 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 expense for the years ended December 31, 2018 and 2017 was $14,843 and $22,944, respectively.

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

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

The Organization records impairment of property and equipment when it becomes probable that the carrying value of the assets will not be fully recovered over their estimated useful life. Impairments are recorded to reduce the carrying value of the assets to their net realizable value based on facts and circumstances in existence at the time of the determination. No impairments were recorded during the years ended December 31, 2018 or 2017.

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.

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 2018 and 2017, 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.

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

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 2018 and 2017, in-kind contributions of food totaled $19,827,168 and $16,111,040, respectively, and in-kind expense was $20,197,325 and $16,353,406, respectively.

The Organization also received contributed in-kind services, primarily for advertising. Such services in the amounts of $1,000 and $372,967 were contributed during 2018 and 2017, respectively, 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, 2018 and 2017 were $14,587 and $357,519, respectively.

14. *Allocation of Expenses and Joint Costs*

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

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, 2018 and 2017 were $889,461 and $958,999, respectively, of which $303,687 and $338,031, respectively, were allocated to program and $585,774 and $620,968, respectively, were allocated to fundraising.

15. *Change in Accounting Principle*

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-For-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

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

16. *Subsequent Events*

The Organization has evaluated subsequent events through July 26, 2019, the date on which the financial statements were available to be issued.

Note B – Liquidity and Availability

Net financial assets available without restrictions limiting their use are presented as current assets and current liabilities on the statements of financial position. These assets are available for general expenditures and reflect net working capital of $1,164,160 and $1,389,772 as of December 31, 2018 and 2017, respectively.

The Organization manages its liquidity and reserves operating within a prudent range of financial soundness and stability, sustaining adequate liquid assets to fund operating needs and maintain reserves. Funds are also available from related parties (see Note D) in the event of an unanticipated liquidity need.

The Organization operates without long-term obligations, utilizing its short-term investments as a reserve. Two separate investment accounts are maintained. One account is utilized to match the approximate liability for revocable split interest agreements while the second account is an accumulation of unrestricted donations to be used as needed. Investment balances as of the balance sheet date are:

Short-Term Investments:	2018	2017
Split Interest Agreements	$ 134,258	$ 148,710
Unrestricted Investments – Donated	608,052	454,717
	$ 742,310	$ 603,427

The inventory balance is related to the Organization's in-kind activities described in Note A.12, and therefore does not represent a liquid asset.

Note C – Property and Equipment

Property and equipment includes the following at December 31:

	2018	2017
Land and land improvements	$ 6,670	$ 6,670
Buildings and improvements	467,641	462,144
Equipment	112,713	112,713
Vehicles	28,200	8,700
	615,224	590,227
Less: Accumulated depreciation	(563,343)	(548,500)
	$ 51,881	$ 41,727

Note D – Related Party Activity

The Organization shares some accounting and operational functions with Family Broadcasting Corporation (Broadcasting) and LeSEA, Inc. Each organization has a separate board and executive management. The Organization purchased approximately $136,000 of accounting and administrative services from Broadcasting during 2018 and 2017.

The Organization had an outstanding receivable from Broadcasting for $5,793 as of December 31, 2018 and a payable to Broadcasting of $84,154 as of December 31, 2017. During 2018 and 2017, Broadcasting elected to contribute a portion of the unpaid balance of purchased accounting and administrative services to the Organization. As a result, contribution revenue of $137,330 and $137,576 was recognized during 2018 and 2017, respectively.

The Organization had an outstanding payable to LeSEA, Inc. for $24,430 and $27,264 as of December 31, 2018 and 2017, respectively. 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 $18,000 and $24,000 to the Organization during 2018 and 2017, respectively.

Note E – 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, 2018 and 2017, 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 F – 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 2018 and 2017, the Organization received approximately $871,000 and $846,000, respectively, in contributions from these affiliates and paid approximately $437,000 and $469,000, 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.