FOOD FOR THE POOR, INC.
Saving Lives... Transforming Communities... Renewing Hope

FOOD FOR THE POOR, INC.

FINANCIAL STATEMENTS

Year Ended December 31, 2017

FOOD FOR THE POOR, INC.

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Financial Statements:

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Audit Committee
Food for the Poor, Inc.
Coconut Creek, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Food for the Poor, Inc. (the "Organization"), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 financial statements referred to above present fairly, in all material respects, the financial position of Food for the Poor, Inc. as of December 31, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2018 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

Mayer Hoffman McCann P.C.

Boca Raton, Florida
April 26, 2018

FOOD FOR THE POOR, INC.

STATEMENT OF FINANCIAL POSITION

December 31, 2017

ASSETS

CURRENT ASSETS		
Cash	$	22,951,252
Promises to give, net		1,182,456
Other receivable		32,500
Goods pending distribution		275,639
Prepaid expenses		1,059,751
Other assets		589,758
TOTAL CURRENT ASSETS		26,091,356
PROPERTY, BUILDING AND EQUIPMENT, at cost, less accumulated depreciation		15,486,333
TOTAL ASSETS	$	41,577,689

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$	5,325,061
TOTAL CURRENT LIABILITIES		5,325,061
NET ASSETS		
Unrestricted:		
Designated for special projects		12,788,440
Undesignated		22,031,303
Total unrestricted		34,819,743
Temporarily restricted		1,432,885
TOTAL NET ASSETS		36,252,628
TOTAL LIABILITIES AND NET ASSETS	$	41,577,689

See Notes to Financial Statements

FOOD FOR THE POOR, INC.

STATEMENT OF ACTIVITIES

Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Totals
SUPPORT AND REVENUE			
Contributions:			
Cash	$ 145,485,861	$ 107,941	$ 145,593,802
Donated goods	800,264,468	-	800,264,468
Promises to give	1,350,425	1,308,684	2,659,109
Investment earnings	86,541	-	86,541
Other income	107,147	-	107,147
Net assets released from restrictions	1,439,882	(1,439,882)	-
TOTAL SUPPORT AND REVENUE	948,734,324	(23,257)	948,711,067
EXPENSES			
Program services:			
Goods and aid supplied	898,292,414	-	898,292,414
Total program services	898,292,414	-	898,292,414
Supporting services:			
Fundraising	42,656,075	-	42,656,075
Management and general	9,423,610	-	9,423,610
Total supporting services	52,079,685	-	52,079,685
TOTAL EXPENSES	950,372,099	-	950,372,099
CHANGE IN NET ASSETS	(1,637,775)	(23,257)	(1,661,032)
NET ASSETS - Beginning	36,457,518	1,456,142	37,913,660
NET ASSETS - Ending	$ 34,819,743	$ 1,432,885	$ 36,252,628

See Notes to Financial Statements

FOOD FOR THE POOR, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended December 31, 2017

	Program	Supporting Services			
	Goods and Aid Supplied	Fundraising Expenses	Management and General Expenses	Total	Totals
Food, medical and other commodities	$ 832,130,164	$ -	$ -	$ -	$ 832,130,164
Grants and other assistance	41,357,898	-	-	-	41,357,898
Salaries and related expenses	4,361,480	14,676,567	6,224,751	20,901,318	25,262,798
Freight	19,551,081	-	-	-	19,551,081
Printed materials and publicity	26,355	15,751,433	34,271	15,785,704	15,812,059
Postage	57,446	9,048,274	20,659	9,068,933	9,126,379
Travel	231,943	1,879,144	87,234	1,966,378	2,198,321
Other office expenses	87,303	183,637	1,142,190	1,325,827	1,413,130
Professional services	66,276	509,929	436,290	946,219	1,012,495
Depreciation	125,602	83,735	389,613	473,348	598,950
Office supplies	36,313	164,721	167,460	332,181	368,494
Data processing	32,147	91,257	227,099	318,356	350,503
Repairs and maintenance	96,578	67,011	67,928	134,939	231,517
Insurance	-	1,524	192,643	194,167	194,167
Courier and miscellaneous freight	40,404	111,034	6,868	117,902	158,306
Telephone	34,948	50,158	61,462	111,620	146,568
Occupancy	56,476	37,651	40,340	77,991	134,467
Total expenses before uncollectible pledges	898,292,414	42,656,075	9,098,808	51,754,883	950,047,297
Uncollectible pledges	-	-	324,802	324,802	324,802
Total expenses	$ 898,292,414	$ 42,656,075	$ 9,423,610	$ 52,079,685	$ 950,372,099

See Notes to Financial Statements

FOOD FOR THE POOR, INC.

STATEMENT OF CASH FLOWS

Year Ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$	(1,661,032)
Adjustments to reconcile change in net assets to net cash		
Depreciation		598,950
(Gain) loss on disposal of fixed assets		(198)
Provision for losses on promises to give		324,802
In-kind goods pending distribution		8,378,170
Decrease (increase) in operating assets:		
Promises to give		(255,297)
Other receivable		(17,500)
Goods pending distribution		(140,055)
Prepaid expenses		(410,885)
Other assets		(223,499)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued liabilities		(718,816)
NET CASH FLOWS FROM OPERATING ACTIVITIES		5,874,640
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale of property and equipment		16,729
Acquisition of property and equipment		(543,728)
NET CASH FLOWS FROM INVESTING ACTIVITIES		(526,999)
NET INCREASE IN CASH		5,347,641
CASH, BEGINNING OF YEAR		17,603,611
CASH, END OF YEAR	$	22,951,252
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Non-cash investment and financing activities		
Acquisition of property and equipment included in accounts payable and accrued expenses	$	324,875

See Notes to Financial Statements

(1) Nature of activities and summary of significant accounting policies

Nature of activities - Food for the Poor, Inc. (the "Organization") is a not-for-profit corporation engaged in the collection and distribution of money, food, clothing, medicine and other goods to improve the health, economic and social conditions of indigent poor throughout the world. Activities are concentrated in the Caribbean and Latin America.

Food for the Poor of Canada, Inc. ("FFP - Canada") is a not-for-profit organization incorporated under the laws of Canada. Its purpose is to help those less fortunate in the Caribbean and Latin America by providing food, shelter and other basic needs. FFP - Canada is affiliated to the Organization by common control because two officers of the Organization are also directors of FFP - Canada. Consolidated statements have not been prepared since the economic interest that is provided to FFP - Canada is not deemed material to the results of the Organization. In 2017, the Organization provided a grant and other financial support of approximately $64,000 to support the operations of FFP - Canada.

Basis of accounting - The financial statements of the Organization have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Organization had no permanently restricted net assets as of December 31, 2017.

Basis of presentation - The Organization classifies program services into the following category:

Goods and Aid Supplied Program - The Organization distributes the majority of its contributions directly to programs that help the poor.

Cash equivalents - The Organization considers all highly liquid investments, except for those held for long-term investment, with maturities of three months or less when purchased to be cash equivalents.

Goods pending distribution - The Organization's goods that are pending distribution consist of both donated and purchased goods. Donated goods are valued at their estimated fair value at the date of donation and the purchased goods are stated at cost at the time of purchase. At December 31, 2017, the Organization had $275,639 of goods pending distribution.

(1) Nature of activities and summary of significant accounting policies (continued)

Property, building and equipment - Acquisitions of property, building and equipment in excess of $1,500 and expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of the assets are capitalized. Property, building and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Land is reported at cost. When assets are sold or retired, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is recognized currently. Other repairs and maintenance are charged to expense as incurred.

Donations of property, building and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated assets to a specific purpose.

Contributions - Contributions are recorded as unrestricted, temporarily restricted or permanently restricted, depending on the donor intent.

Contributed services are recognized as contributions at their estimated fair value, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. Services provided by volunteers throughout the year are not recognized as contributions in the financial statements since these services are not susceptible to objective measurement or valuation.

The Organization classifies contributions received with restrictions where the restrictions are satisfied in the same reporting period as unrestricted contributions.

Promises to give - Contributions are recognized at fair value when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are transferred to unrestricted net assets.

The Organization uses the allowance method to determine the estimated unconditional promises receivable that are doubtful of collection. The allowance is based on prior years' experience and management's analysis of specific promises made. The Organization also discounts to present value the estimated future cash flows using an appropriate market rate of interest for its promises to give greater than one year. Therefore, promises to give are recorded at their net realizable value.

Gifts-in-kind - Gifts-in-kind (“GIK”) received through private donations are recorded and valued as revenue 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 or most advantageous market, even though, in fulfillment of its mission, the Organization may not distribute goods in the principal or most advantageous market.

(1) Nature of activities and summary of significant accounting policies (continued)

Gifts-in-kind (continued)

Non-pharmaceutical GIK contributions received are valued at their estimated wholesale value as provided by the donor or, in the absence of the donor's reasonable valuation, estimated by the Organization using like-kind analyses and past donation history.

Pharmaceutical GIK contributions received are valued using costing data acquired from recognized and published resources and are valued at their estimated wholesale acquisition cost ("WAC") on a drug by drug basis. If WAC is not available in any published source, the Organization will refer to the donor's value. This valuation policy most resembles one used by a wholesale distributor of goods, which is the market role the Organization has in the acquisition and shipment of pharmaceutical donations. Pharmaceutical GIK contributions acquired from non-U.S. donors for products legally permissible to be sold outside the United States are valued in U.S. dollars based upon the wholesale market price of the countries representing the principal exit markets for those products.

GIK expenses are recorded when the goods are shipped for program use, generally to third party aid organizations.

Freight - Shipping and handling costs are included in goods pending distribution in the accompanying statement of financial position upon receipt of goods and are expensed and included in goods and aid supplied in the accompanying statement of activities upon the shipment to recipients.

Functional expenses - Directly identifiable expenses are charged to program and supporting services. Expenses related to more than one function are charged to programs and supporting services primarily based on a percentage of estimated utilized square footage of the Organization's facility. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Advertising - Advertising costs are expensed as incurred and were $450,321 for the year ended December 31, 2017 and are included with printed materials and publicity in the accompanying statement of functional expenses.

Use of estimates - The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). In preparing the financial statements, management is required 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual events and results could differ from those assumptions and estimates. The most significant of these estimates relates to the estimation of the fair value of GIK and the allowance for uncollectible promises to give.

(1) Nature of activities and summary of significant accounting policies (continued)

Use of estimates (continued)

Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

Income taxes - The Organization is a not-for-profit organization and a public charity, as described in Section 501(c)(3) and 509(a) of the Internal Revenue Code, and is exempt from Federal income taxes, except that unrelated business income is taxable. The Organization had no material unrelated business income tax during the year ended December 31, 2017. U.S. GAAP requires management to evaluate tax positions taken and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken and has concluded that as of December 31, 2017, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. If the Organization were to incur an income tax liability in the future, interest and penalties would be reported as income taxes. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes the Organization is no longer subject to income tax examinations for the years prior to 2014.

(2) Concentrations of risk

Financial instruments, which potentially subject the Organization to concentrations of risk, consist principally of cash and support from major contributors.

Cash - As of December 31, 2017, the Organization had cash balances of $15,279,959 in excess of federally insured limits. The Organization maintains its cash with high quality financial institutions which the Organization believes limits its risks.

Support from major contributors - The Organization received approximately 44% of total support and revenue from three donors during 2017. These contributions were in the form of donated goods.

(3) Promises to give

At December 31, 2017, promises to give consist of the following:

Receivable in less than one year	$ 960,631
Receivable in one to five years	620,395
Receivable in more than five years	15,314
Total promises to give	1,596,340
Less: allowance for uncollectible promises to give	(392,986)
Less: discount to present value	(20,898)
Net promises to give	$ 1,182,456

Promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 1.98%.

(4) Property, building and equipment

At December 31, 2017, property, building and equipment consist of the following:

		Estimated Useful Lives
Land	$ 6,140,388	-
Land improvements	1,003,525	20 years
Building	9,997,938	40 years
Furniture and fixtures	743,978	7 years
Equipment	2,793,434	5-10 years
Vehicles	288,527	5 years
	20,967,790	
Less: accumulated depreciation	(5,481,457)	
Total property, building and equipment, net	$ 15,486,333	

Depreciation expense for the year ended December 31, 2017 was $598,950.

(5) Gift annuities

The Organization entered into several gift annuity agreements, which provided for unrestricted cash of approximately $152,000 at December 31, 2017 and called for the Organization to make fixed annual payments to the donors in future years. The Organization has agreements with two top rated insurance companies whereby the insurance companies would assume the annuity payment liabilities. The liability represents the present value of the future payouts using an average discount rate of 2.20%. The Organization pays the insurance company the present value of the annuities.

The Organization remains contingently liable for the future payments on the gift annuities in the event that the insurance companies defaults on the payments. As of December 31, 2017, the Organization was contingently liable for reinsured gift annuities totaling approximately $6,037,000.

(6) Line of credit

The Organization has a revolving line of credit, as amended, which expires on August 10, 2018, and provides for the issuance of commercial letters of credit and direct advances for short-term working capital needs up to $8 million. Interest is charged at one-month LIBOR plus 1.75% (for an effective rate of 3.10% at December 31, 2017) and is payable monthly. There were no direct or contingent liabilities under the line of credit as of December 31, 2017. The line of credit is collateralized by substantially all assets of the Organization, except for the corporate headquarters and warehouse and contains financial and non-financial covenants.

(7) Net assets

To help fulfill its mission, the Organization establishes projects throughout the year. These non-contractual programs are budgeted and are funded over the course of the year. However, funding for some of these projects may extend beyond the year end. At each year end, the Organization reports the unexpended portion of the project budgets as net assets designated for special projects. The balance to be apportioned based on these project budgets as of December 31, 2017 was $12,788,440 and will be categorized as goods and aid supplied in the statement of activities.

Temporarily restricted net assets are available for the following as of December 31, 2017:

Promises to give (time restrictions)	$ 1,196,185
Goods and aid	236,700
Total temporarily restricted net assets	$ 1,432,885

(7) Net assets (continued)

Temporarily restricted net assets were released from restrictions during the year ended December 31, 2017 for the following purposes:

Net assets satisfied:		
Satisfactions of promises to give (time and purpose restrictions)	$	1,364,462
Goods and aid distributed		75,420
Total net assets released from restrictions	$	1,439,882

(8) Related parties and other organizations

Associated charities - The Organization is associated with three charities. These charities were established with the name “Food for the Poor – (country name)” and are based in Jamaica, Haiti and Guyana. Each of the charities operates distribution centers in their base country. The Organization has no ownership or voting interest in these charities. In 2017, the Organization made distributions of $434,255,530 to these associated charities.

Related charities - The Organization distributes goods through various charities in which some board members hold executive positions. In 2017, the Organization made distributions of $2,057,603 through these related charities.

Distributions - Goods and aid supplied in the accompanying statement of activities includes the distributions made to associated and related charities totaling $436,313,133, of which $27,190,776 was in cash and $409,122,357 was in goods.

(9) Contingencies and subsequent event

Grants and contracts awarded to the Organization are subject to the funding agencies’ criteria, contract terms and regulations under which expenditures may be charged. Expenditures are subject to audit under such terms, regulations and criteria. Occasionally, such audits may determine that certain costs incurred against the grants do not comply with the established criteria that govern them. In such cases, the Organization could be held responsible for repayments to the funding agency for the costs or be subject to the reductions of future funding in the amount of the costs. Management does not anticipate any material questioned costs for the contracts and grants administered through the year ended December 31, 2017.

(9) Contingencies and subsequent event (continued)

Certain grants awarded by the U.S. Government are subject to appropriations and funding thereof that may result in delays or even suspension of funding as a result of U.S. Government budgetary constraints imposed by the U.S. Congress.

The Organization has received letters from various State Attorney General Offices requesting information and documents relating to the Organization's fundraising and solicitation activities for specified periods of time. Some of these letters have also called into question the Organization's valuation of certain GIK transactions and representations made by the Organization on its gift solicitations.

On December 19, 2017, the Michigan Attorney General issued a Notice of Intended Action and Cease and Desist Order against the Organization requiring the Organization to no longer engage in what the state deems "unlawful solicitations." The Organization denies any wrong doing and in connection with ongoing settlement negotiations and a $500,000 civil penalty proposed by the Michigan Attorney General, the Organization has retained legal counsel. The deadline to respond to the settlement offer is April 27, 2018. No amounts related to this matter have been accrued in the Organization's financial statements as of December 31, 2017 as the Organization is unable to determine the manner in which this matter will be resolved. Pending final resolution, the Organization has complied with the directive from the Michigan Attorney General since the aforementioned notice and will continue to do so until this matter is resolved.

On March 12, 2018, the Organization received a Cease and Desist Order (the "Order") from the Attorney General of California requiring the Organization, among other things, to remove certain specific language from its solicitations and provide a copy of the Order to parties specified in the Order. The Order also seeks the revocation of the Organization's California charity registration. Furthermore, the Order seeks the payment of penalties totaling $1,088,000 based upon the state's allegations of violations of certain state charitable solicitation laws. The California Attorney General is also seeking reimbursement of attorney's fees and costs claimed to be $775,000. The Organization denies any wrongdoing and has retained legal counsel who, on behalf of the Organization filed an appeal on April 10, 2018 denying the allegations made in the Order. No amounts related to this matter have been accrued in the Organization's financial statements as of December 31, 2017 as the Organization is unable to determine the probability that the California Attorney General's findings will be upheld. The Organization is complying with the terms of the respective Cease and Desist Order and will continue to do so until this matter is resolved.

Management believes that if any of the claims by the states result in losses, the Organization's insurance policy, subject to policy limitations, would cover such losses. However, it is at least reasonably possible that the Organization's estimate of any liability with respect to these matters may change in the near term.

(9) Contingencies and subsequent event (continued)

State charity regulators in Minnesota and South Carolina have requested information from the Organization in a prior year, however, to date, no additional information has been requested and no action has been taken against the Organization, nor has the Organization been notified that any such action is imminent.

(10) Retirement plan

The Organization maintains a 403(b)(7) ERISA Title 1 Plan which covers all employees. Participants may elect to contribute up to 100% of their wages, as limited by current federal tax law. Additionally, the Organization matches 50% of participating employees' contributions up to the first 6% of their salary deferral. For 2017, the Organization accrued $352,718 of contributions to this plan all of which is included in accounts payable and accrued liabilities in the accompanying statement of financial position and salaries and related expenses in the accompanying statement of functional expenses. The assets of the 403(b)(7) Plan are the property of the Plan's participants and their beneficiaries; therefore, the assets of this plan are not included in the accompanying financial statements.

(11) Subsequent events

Management has evaluated subsequent events through April 26, 2018, which is the date that the financial statements were available to be issued. Expect for the matters disclosed in Note 9, the Organization is not aware of any events that have occurred subsequent to the balance sheet that would require adjustment to, or disclosure in, the accompanying financial statements.