

Financial statements of:

FEED MY STARVING CHILDREN, INC.

Years ended
February 28, 2023 and 2022

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Feed My Starving Children, Inc.
Coon Rapids, MN

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Feed My Starving Children, Inc. (the Organization), which comprise the statements of financial position as of February 28, 2023 and 2022, and the related statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Feed My Starving Children, Inc. as of February 28, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Emphasis of Matter

As discussed in Note 1 to the financial statements, on March 1, 2022, the Organization adopted new accounting guidance, Accounting Standards Update No. 2016-02, Leases (Topic 842). As a result of the adoption of the new lease accounting guidance, a lease liability and right-of-use assets were recorded on the statement of financial position (see Note 10). Our opinion is not modified with respect to this matter.

*Schechter-DickkenKander
Andrews & Selzer Ltd.*

May 25, 2023
Minneapolis, MN

FEED MY STARVING CHILDREN, INC.

STATEMENTS OF FINANCIAL POSITION

FEBRUARY 28

	<u>2023</u>	<u>2022</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 6,433,182	\$ 27,346,806
Investments (Note 3)	13,587,054	-
Accounts and MobilePack receivables, net (Note 4)	549,863	331,611
Inventory (Note 5)	8,164,124	5,920,505
Prepaid expenses	282,789	231,214
Employee retention credit refund	1,157,577	2,227,319
	<u>30,174,589</u>	<u>36,057,455</u>
Total current assets	30,174,589	36,057,455
Property and equipment, net (Note 6)	3,700,515	3,759,146
Right-of-use assets (Note 8)	4,493,310	-
Other assets, security deposits	81,594	80,994
	<u>\$ 38,450,008</u>	<u>\$ 39,897,595</u>
Liabilities and net assets:		
Current liabilities:		
Accounts payable	\$ 3,453,740	\$ 2,967,582
Accrued salaries and vacation	1,432,025	1,460,688
Deferred rent, current portion	-	172,492
Lease liability, current portion (Note 8)	1,392,354	-
	<u>6,278,119</u>	<u>4,600,762</u>
Total current liabilities	6,278,119	4,600,762
Long-term liabilities:		
Deferred rent, net of current portion	-	815,291
Lease liability, net of current portion (Note 8)	3,988,664	-
	<u>3,988,664</u>	<u>815,291</u>
Total long-term liabilities	3,988,664	815,291
Total liabilities	<u>10,266,783</u>	<u>5,416,053</u>
Net assets:		
Without donor restrictions	23,605,724	30,911,647
With donor restrictions (Note 9)	4,577,501	3,569,895
	<u>28,183,225</u>	<u>34,481,542</u>
Total net assets	<u>\$ 38,450,008</u>	<u>\$ 39,897,595</u>

FEED MY STARVING CHILDREN, INC.

 STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
 YEARS ENDED FEBRUARY 28

	2023			2022		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenue and other support:						
Contributions of cash and other financial assets	\$ 43,133,908	\$ 2,910,808	\$ 46,044,716	\$ 42,301,461	\$ 2,645,682	\$ 44,947,143
MobilePack contributions	64,600	13,618,316	13,682,916	2,190,556	7,641,771	9,832,327
Contributions of nonfinancial assets (Note 10)	18,933,438	4,900	18,938,338	10,306,824	-	10,306,824
Program services - grants	-	-	-	272,100	-	272,100
MarketPlace sales	2,518,914	-	2,518,914	1,635,227	-	1,635,227
Other revenue	346,260	-	346,260	82,767	-	82,767
Paycheck Protection Program loan forgiveness	-	-	-	2,617,432	-	2,617,432
Employee Retention Credit	-	-	-	1,291,718	-	1,291,718
Special events, net of cost of direct benefits to donors of \$2,700 in 2023 and \$0 in 2022	-	2,028,452	2,028,452	-	2,796,071	2,796,071
Net assets released from restrictions (Note 9)	17,554,870	(17,554,870)	-	12,723,060	(12,723,060)	-
Total revenue and other support	82,551,990	1,007,606	83,559,596	73,421,145	360,464	73,781,609
Expenses:						
Program services	81,460,814	-	81,460,814	60,026,446	-	60,026,446
Management and general	4,115,319	-	4,115,319	3,383,305	-	3,383,305
Fundraising	4,281,780	-	4,281,780	3,495,510	-	3,495,510
Total expenses	89,857,913	-	89,857,913	66,905,261	-	66,905,261
Changes in net assets	(7,305,923)	1,007,606	(6,298,317)	6,515,884	360,464	6,876,348
Net assets, beginning	30,911,647	3,569,895	34,481,542	24,395,763	3,209,431	27,605,194
Net assets, ending	\$ 23,605,724	\$ 4,577,501	\$ 28,183,225	\$ 30,911,647	\$ 3,569,895	\$ 34,481,542

See notes to financial statements.

FEED MY STARVING CHILDREN, INC.

 STATEMENTS OF CASH FLOWS
 YEARS ENDED FEBRUARY 28

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Changes in net assets	\$ (6,298,317)	\$ 6,876,348
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	707,013	798,701
(Gain) loss on disposal of property and equipment	(1,000)	19,895
Change in donated labor in inventory	710,399	357,010
Increase (decrease) in allowance for doubtful accounts	6,112	(500)
Donated marketable securities	(977,019)	(1,742,291)
Loss (gain) on sales of donated marketable securities	2,764	(14,919)
Proceeds from sale of donated marketable securities	974,255	1,757,210
Paycheck Protection Program loan forgiveness	-	(2,587,535)
(Increase) decrease in assets:		
Accounts and MobilePack receivables	(224,364)	(122,345)
Inventory	(2,954,018)	(2,210,481)
Prepaid expenses	(51,575)	(67,835)
Employee retention credit refund	1,069,742	(1,291,718)
Other assets, security deposits	(600)	(5,182)
Increase (decrease) in liabilities:		
Accounts payable	478,993	(482,777)
Accrued salaries and vacation	(28,663)	79,197
Change in operating leases, right-of-use assets and lease liabilities, and deferred rent	(100,075)	(151,305)
Net cash (used in) provided by operating activities	<u>(6,686,353)</u>	<u>1,211,473</u>
Cash flows from investing activities:		
Purchase of:		
Investments	(36,086,351)	-
Property and equipment	(641,217)	(600,268)
Proceeds from:		
Sale of property and equipment	1,000	5,200
Redemption of investments	22,499,297	-
Net cash used in investing activities	<u>(14,227,271)</u>	<u>(595,068)</u>
Net change in cash and cash equivalents	(20,913,624)	616,405
Cash and cash equivalents, beginning of year	<u>27,346,806</u>	<u>26,730,401</u>
Cash and cash equivalents, end of year	<u>\$ 6,433,182</u>	<u>\$ 27,346,806</u>
Non-cash investing and financing activity:		
Projects in process in accounts payable	<u>\$ 7,165</u>	<u>\$ 6,534</u>

FEED MY STARVING CHILDREN, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED FEBRUARY 28

	2023					2022					
	Support Services				Total support services	Support Services				Total support services	Total expenses
	Program services	Management and general	Fundraising	Total expenses		Program services	Management and general	Fundraising	Total expenses		
Salaries	\$ 8,497,200	\$ 2,883,870	\$ 1,967,806	\$ 4,851,676	\$ 13,348,876	\$ 6,845,589	\$ 2,368,361	\$ 1,629,738	\$ 3,998,099	10,843,688	
Payroll taxes	649,301	191,135	161,651	352,786	1,002,087	524,592	178,545	122,926	301,471	826,063	
Employee benefits	1,007,864	286,096	290,664	576,760	1,584,624	804,570	283,424	199,821	483,245	1,287,815	
Cost of food:											
Raw materials	39,367,196	-	-	-	39,367,196	29,856,880	-	-	-	29,856,880	
Meal packaging - food manufacturers	5,054,869	-	-	-	5,054,869	6,222,547	-	-	-	6,222,547	
Donated production labor	18,341,151	-	-	-	18,341,151	9,872,127	-	-	-	9,872,127	
Cost of sales, Market Place	1,407,525	-	-	-	1,407,525	888,322	-	-	-	888,322	
Advertising and marketing	56,210	-	36,473	36,473	92,683	59,140	150	17,600	17,750	76,890	
Computer and software	170,112	96,011	211,644	307,655	477,767	103,797	53,069	188,546	241,615	345,412	
Charitable donations	428,127	-	-	-	428,127	232,556	-	-	-	232,556	
Occupancy	1,891,729	14,251	9,683	23,934	1,915,663	1,684,246	17,180	12,074	29,254	1,713,500	
Professional fees	432,561	350,723	170,126	520,849	953,410	258,672	282,194	138,902	421,096	679,768	
Partner Programs	442,822	-	-	-	442,822	219,637	-	-	-	219,637	
Employee recruiting	56,028	18,816	12,785	31,601	87,629	40,493	13,865	9,743	23,608	64,101	
Printing and copying	79,110	14,939	186,681	201,620	280,730	44,685	8,618	111,671	120,289	164,974	
Insurance	169,426	56,564	38,431	94,995	264,421	105,181	36,013	25,309	61,322	166,503	
Utilities	310,288	5,965	4,053	10,018	320,306	231,653	5,393	3,790	9,183	240,836	
Travel and meals	1,413,290	33,396	79,852	113,248	1,526,538	587,473	12,807	28,851	41,658	629,131	
Equipment rental and maintenance	403,387	7,089	8,816	15,905	419,292	223,127	6,318	8,749	15,067	238,194	
Telephone	111,147	3,758	2,499	6,257	117,404	86,349	4,253	3,019	7,272	93,621	
Postage and shipping	42,391	1,358	109,620	110,978	153,369	32,794	3,405	117,833	121,238	154,032	
Training and staff development	27,894	448	371	819	28,713	22,502	1,455	4,860	6,315	28,817	
Supplies	214,309	3,733	4,173	7,906	222,215	202,083	2,321	2,067	4,388	206,471	
Donor appreciation	-	-	285,430	285,430	285,430	-	-	236,519	236,519	236,519	
Bank and credit card processing	146,748	22,444	624,030	646,474	793,222	110,764	33,844	556,982	590,826	701,590	
Special events	-	-	54,441	54,441	54,441	-	-	35,212	35,212	35,212	
Bad debt expense	-	57,998	-	57,998	57,998	-	-	-	-	-	
Interest expense	-	-	-	-	-	-	6,530	-	6,530	6,530	
Depreciation	644,905	37,123	17,762	54,885	699,790	710,865	59,314	37,904	97,218	808,083	
Miscellaneous	95,224	29,602	7,489	37,091	132,315	55,802	6,246	3,394	9,640	65,442	
Total functional expenses	\$ 81,460,814	\$ 4,115,319	\$ 4,284,480	\$ 8,399,799	\$ 89,860,613	\$ 60,026,446	\$ 3,383,305	\$ 3,495,510	\$ 6,878,815	\$ 66,905,261	
Less cost of direct benefits to donors	-	-	(2,700)	(2,700)	(2,700)	-	-	-	-	-	
Total expenses - statement of activities	\$ 81,460,814	\$ 4,115,319	\$ 4,281,780	\$ 8,397,099	\$ 89,857,913	\$ 60,026,446	\$ 3,383,305	\$ 3,495,510	\$ 6,878,815	\$ 66,905,261	
Percentages of total	<u>91%</u>	<u>4%</u>	<u>5%</u>	<u>9%</u>	<u>100%</u>	<u>90%</u>	<u>5%</u>	<u>5%</u>	<u>10%</u>	<u>100%</u>	

See notes to financial statements.

1. Nature of business and summary of significant accounting policies:

Nature of business:

Feed My Starving Children, Inc. (the Organization) was incorporated as a Minnesota nonprofit corporation in 1987. Its mission is to feed God's starving children hungry in body and spirit. With God's help, the Organization will reduce the number of starving children throughout the world by helping to instill compassion in people that hear and respond to the cries of those in need.

The Organization packages a unique food supply for distribution around the world at permanent sites in certain communities of Minnesota, Illinois, Arizona and Texas. The Organization also leases warehouse space in Pennsylvania. The Organization also has mobile packing events in numerous other states. During 2023 and 2022, approximately 911,000 and 478,000 volunteers packed meals and the Organization provided 447.5 million and 388.5 million meals, respectively.

The Organization also supports economies where it distributes meals by purchasing handmade crafts and reselling them in its MarketPlace, available at all packing sites, online and at most MobilePack events.

COVID-19:

On March 11, 2020, the World Health Organization ("WHO") recognized COVID-19 as a global pandemic, prompting many national, regional and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures and wide-sweeping quarantines and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact upon many sectors of the economy.

Because of the worldwide pandemic (COVID-19), the Organization modified its operations significantly during fiscal year 2021. During fiscal years 2023 and 2022, volunteer packing at sites increased to approximately 65% and 40% of pre COVID-19 levels, respectively. The Organization also restarted MobilePack events during fiscal year 2022 (19 million meals) and continued to add events in fiscal year 2023 (45.5 million meals). The Organization contracted, at an additional cost, food manufacturers to package the ingredients for MannaPack Rice meals. These food manufacturers packaged 175.6 and 244.8 million meals during fiscal year 2023 and 2022, respectively. In fiscal year 2022, the Organization developed a machine packing line within one of its permanent sites to produce MannaPack Rice meals. In fiscal year 2023 and 2022, this line packaged 36.7 and 12 million meals, respectively.

1. Nature of business and summary of significant accounting policies (continued):

Basis of presentation:

Net assets, revenues, expenses and gains and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations, not subject to donor (or certain grantor) restrictions, and resources over which the Board of Directors has full discretionary control.

Net assets with donor restrictions – Net assets subject to donor or grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are released from restriction when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenues are reported as increases in net assets without donor restrictions unless the use of the related assets are limited by donor-restrictions. Expirations of net assets with donor restrictions (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions, unless their use is restricted by explicit donor stipulation.

Concentration of credit risk:

Financial instruments, which potentially subject the Organization to concentration of credit risk, consist primarily of cash deposits. The Organization maintains cash accounts at financial institutions where at times the cash balances exceed the federally insured limit of \$250,000. The Organization has not experienced any loss associated with the practice.

Vendor concentrations:

The Organization has mitigated its supplier risk by qualifying a minimum of two vendors for each major food ingredient. However, the vitamins are single-sourced by a vendor with one production facility. The Organization is prepared to transfer production to a qualified backup supplier in the event the existing supply is disrupted.

Donated marketable securities:

The Organization's policy is to convert donated marketable securities into cash within days of receipt.

1. Nature of business and summary of significant accounting policies (continued):

Income taxes:

The Organization is classified as a tax-exempt public charity under Section 501(c)(3) of the Internal Revenue Code and comparable sections of certain state tax statutes and, as such, is subject to income tax only on net unrelated business income. The Organization had no unrelated business income in fiscal year 2023 and 2022.

Management evaluated the Organization's tax positions and concluded there were no uncertain tax positions (including unrelated business income) that require adjustment to the financial statements.

Sales taxes:

When applicable, the Organization collects sales taxes from its customers and remits the entire amount to the various governmental units. The Organization's accounting policy is to exclude the tax collected from revenue and the remittances from cost of revenue.

Cash and cash equivalents:

We consider all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Investments:

Investment purchases are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair value in the statements of financial position. Net investment income or loss, including realized gains and losses on investments, interest and dividends, is included in other revenue included in the change in net assets in the statements of activities.

MobilePack receivables:

MobilePack receivables are the result of signed agreements that the Organization has with MobilePack hosts who agree to fund a MobilePack event. MobilePack hosts are invoiced 90 and 45 days prior to the event and 50 days after the event for the contracted meals to be packed. The Organization determines the allowance for doubtful accounts based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Receivables are written off when deemed uncollectible. Collections of receivables previously written off are recorded as bad debt recoveries.

Contributions receivable:

Contributions receivable represent unconditional promises to give from donors for which payment is reasonably assured. Contributions receivable that are expected to be collected within one year are recorded at their net realizable value. Contributions receivable that are expected to be collected in future years are recorded initially at fair market value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. We determine the allowance for doubtful accounts based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Contributions receivable are written off when deemed uncollectible. No allowance for doubtful accounts related to contributions receivable was recorded as of February 28, 2023 or 2022.

1. Nature of business and summary of significant accounting policies (continued):

Inventory:

Inventory consists of program-related food to be gifted and is stated at cost determined by the first-in first-out method. Since inventory is not sold, but rather is gifted, cost is used to value food. Additionally, packaged food inventory includes donated labor, which is estimated based on industry data of the average cost to hire personnel to pack the food.

Property and equipment and depreciation methods:

The Organization capitalizes property and equipment in excess of \$1,000 at original cost or estimated fair market value, if donated. Depreciation expense is computed using the straight-line method over the estimated useful lives as follows:

<u>Asset type</u>	<u>Years</u>
Computers/software	3
Equipment	5-7
Furniture	7
Building	25
Leasehold improvements	Lesser of estimated life or lease term

Contributions of cash and other financial assets:

Contributions of cash and other financial assets, which include unconditional promises to give, are recognized as support in the period in which payment is received or promised. All contributions are available for general use unless specifically restricted by the donor.

Contributions with donor-imposed restrictions, such as time or purpose, are recorded as net assets with donor restrictions. When a donor-imposed restriction is fulfilled, the net assets with donor restrictions are reclassified to net assets without donor restrictions. This reclassification is reported as net assets released from restrictions within the statement of activities.

Bequests:

Direct gifts of assets are recorded at their estimated fair value as contributions revenue when the Organization has received an unconditional promise to give. The Organization considers a bequest unconditional when the probate court declares the testamentary instrument valid and the proceeds are measurable.

1. Nature of business and summary of significant accounting policies (continued):**MobilePack:**

The Organization provides a remote volunteer opportunity called MobilePack, where staff provide a volunteer experience similar to that at the Organization's permanent locations. When a host team contacts the Organization to set up a MobilePack, the Organization sends the host a contract. The contract is for an agreed upon date and amount and allows the host to raise funds on the Organization's behalf with the intent to feed children through the Organization's feeding programs. Typically, all funds received for an event are recorded as revenue with donor restrictions until the MobilePack has occurred, at which point the revenue received up to the value of the contracted event is released from restriction. All additional funds received over the contracted amount can be applied to a future event, in which case the funds will remain restricted. If the host chooses not to host a future event, the additional funds are released from restriction and may be utilized at the discretion of the Organization in any of its feeding programs.

Contributions of nonfinancial assets:

The Organization recognizes contributed nonfinancial assets within revenues and other support, which mainly includes donated labor for meal packing and professional legal services. The Organization's policy is to use these contributions to carry out their mission and generally not to monetize them; however, certain contributions given for fundraising purposes, such as, donated auction items are monetized. The use of these nonfinancial assets including if there are donor imposed restrictions and the related valuation technique and inputs are shown in Note 10.

MarketPlace:

The Organization operates a MarketPlace at its permanent volunteer locations, MobilePack events, and online. Revenues are recognized when products are transferred to customers in an amount equal to the market price of the item. Sales taxes are imposed on all of the Organization's sales to nonexempt customers. The Organization collects the taxes from customers and remits the entire amounts to the local governmental authorities.

Employee retention credit refund:

The Coronavirus Aid, Relief and Economic Security Act (Cares Act) was signed into law on March 27, 2020. One aspect of the Cares Act allowed eligible employers to claim the Employee Retention Tax Credit (ERTC) if certain requirements were met. On December 27, 2020, the Taxpayer Certainty and Disaster Tax Relief Act of 2020 (Relief Act) was signed into law. The Relief Act extended the ERTC through the first two quarters of 2021 and modified some of the requirements for qualifying and calculating the credit. The Organization determined that it met the requirements of the ERTC for the fiscal year ended February 28, 2022, and recorded credits of \$1,291,718 that were included in revenues and other support in the statement of activities. As of February 28, 2023 and 2022, \$1,157,577 and \$2,227,319 remained outstanding, respectively, and the 2023 balance was collected subsequent to year end.

1. Nature of business and summary of significant accounting policies (continued):

Special Events:

For special events, cash received as a contribution before, during, or after the event is recorded as donor restricted revenue following the same guidelines as contributions throughout the year. Amounts received in exchange for event tickets or other consideration are recorded in two portions. The first portion is equal to the market value of the consideration and is recorded as deferred revenue until the special event occurs. The second portion is equal to the total gift less the amount allocated to the consideration and is recorded as a donor restricted contributions from the special event. The restricted contributions are reclassified to net assets without donor restrictions after the event has taken place and the restriction is met.

Freight costs:

All inbound shipping and handling costs are paid by the Organization and included in cost of food and cost of sales. The Organization also pays outbound shipping and handling costs of MobilePack events, which is also included in the cost of food and cost of sales.

Advertising:

Advertising costs of \$92,683 and \$76,890 were expensed as incurred during 2023 and 2022, respectively.

Functional allocation of expenses:

The costs associated with program and supporting services have been presented on a functional basis in the statements of activities. Program services are defined as activities to fulfill the Organization's mission, which is meal production. The statements of functional expenses present the natural classification detail of expenses by function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, payroll taxes, benefits, advertising, computer and software, professional fees, recruitment, printing, insurance, travel, equipment rental, postage, training, supplies, bank and credit card fees are allocated on the basis of estimates of time and effort. Occupancy, utilities and repairs are allocated based on square footage.

Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Donated labor is considered a significant estimate.

1. Nature of business and summary of significant accounting policies (continued):

Change in accounting principles:

On March 1, 2022, the Organization adopted Accounting Standards Update No. 2016-02 Leases (Topic 842). Under this new standard, the Organization's leases with terms of more than twelve months are required to be recognized as assets and liabilities. The adoption of the new standard resulted in right-of-use assets of \$4,493,310 and a lease liability of \$5,381,018 on the Organization's statement of financial position as of February 28, 2023 (see Note 10). The adoption did not result in a significant effect on the amounts reported in the statement of activities in 2023.

The Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2020-07 (Update), *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This update affects the presentation and disclosure of nonfinancial assets. The amendments in this Update require that a Not-for-Profit:

- (1) present contributed nonfinancial assets as a separate line in the statement of activities, apart from contributions of cash and other financial assets, and
- (2) disclose:
 - a. a disaggregation of the amount of contributed nonfinancial assets recognized within the statement of activities by category that depicts the type of contributed nonfinancial assets, and
 - b. for each category of contributed nonfinancial assets recognized (as identified in (a)):
 - i. qualitative information about whether the contributed nonfinancial assets were either monetized or utilized during the reporting period. If utilized, a not-for-profit will disclose a description of the programs or other activities in which those assets were used.
 - ii. The not-for-profit's policy about monetizing rather than utilizing contributed nonfinancial assets.
 - iii. A description of any donor-imposed restrictions associated with the contributed nonfinancial assets.
 - iv. A description of the valuation techniques and inputs used to arrive at a fair value measure, in accordance with the requirements in Topic 820, Fair Value Measurement, at initial recognition.
 - v. The principal market (or most advantageous market) used to arrive at a fair value measure if it is a market in which the recipient not-for-profit is prohibited by a donor-imposed restriction from selling or using the contributed nonfinancial assets. This update was implemented in 2023 and has been reflected in the presentation of these financial statements. The update has been applied retrospectively to all periods presented.

Reclassifications:

Certain reclassifications have been made to the 2022 financial statements to conform to the 2023 presentation.

Subsequent events:

The Organization evaluated for subsequent events through May 25, 2023, the date the financial statements were available for issuance.

2. Liquidity and availability:

The Organization's financial assets available for general expenditure, within one year of the statement of financial position date, are as follows:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 6,433,182	\$ 27,346,806
Investments	13,587,054	-
Accounts and MobilePack receivables, net	549,863	331,611
Employee retention credit refund	<u>1,157,577</u>	<u>2,227,319</u>
	21,727,676	29,905,736
Less donor-imposed restrictions	<u>(4,577,501)</u>	<u>(3,569,895)</u>
Financial assets available for general expenditure within one year	<u>\$ 17,150,175</u>	<u>\$ 26,335,841</u>

Donor-imposed restrictions pertain primarily to permanent site development, country specific meal donations and future MobilePack and special events (See Note 8). Expenditures for country specific meal donations are expected over the next one to two years. MobilePack and special events are expected over the next year.

To balance the need for feeding more children with the ability to meet the Organization's short term expenditures, the Organization has established a range of cash and investments held between 37.5 to 75 days of average daily expenses held in reserve. This is calculated using the next fiscal year's budgeted operating expenses less contributions of non-financial assets expenditures.

The availability of cash and investments is monitored monthly and compared to the approved budgeted cash flow. If forecasted cash flow deviates from budgeted cash flow by more than 10%, the Executive Committee of the Board must be notified. If more than 20% below the budgeted cash flow, management is required, within thirty days, to prepare a detailed cash flow plan with options for curtailed spending or additional sources of revenue. If more than 20% above the maximum, management will present a plan for producing additional meals or investments in other activities to fulfill its mission.

3. Investments and fair value measurements:

The Organization’s investments are measured at estimated fair value using inputs from the three levels of the fair value hierarchy as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3: Unobservable inputs that reflect management’s estimates about the assumptions that market participants would use in pricing the asset or liability. These inputs are developed based on the best information available, including internally-developed data.

The Organization invested in U.S. Treasury bills and notes with maturity dates greater than three months but less than 12 months traded through the Organization’s financial institution. The U.S. Treasury bills and notes have quoted prices in active markets for identical assets and are classified within Level 1.

Investments and fair value measurements at February 28, 2023 are as follows:

	<u>2023</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income, U.S. Treasury bills/notes	<u>\$ 13,587,054</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,587,054</u>

4. Accounts and MobilePack receivables:

Accounts and MobilePack receivables as of February 28, 2023 and 2022 consisted of:

	<u>2023</u>	<u>2022</u>
MobilePack	\$ 467,299	\$ 337,739
Accounts and other donations	<u>101,736</u>	<u>6,932</u>
Total	569,035	344,671
Less allowance for doubtful accounts	<u>(19,172)</u>	<u>(13,060)</u>
Accounts and MobilePack receivables, net	<u>\$ 549,863</u>	<u>\$ 331,611</u>

5. Inventory:

Packaged food inventory includes the estimated fair value of donated volunteer time and raw materials incurred to produce the meals. Packaged food inventory included \$1,475,036 and \$764,637 of donated labor as of February 28, 2023 and 2022, respectively.

Inventory consisted of the following at February 28, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Raw materials	\$ 2,577,063	\$ 2,129,998
Work in process	34,408	105,528
Packaged food	3,793,612	2,447,379
Overhead allocated to packaged food	1,111,628	827,890
MarketPlace	<u>647,413</u>	<u>409,710</u>
	<u>\$ 8,164,124</u>	<u>\$ 5,920,505</u>

6. Property and equipment, net:

Property and equipment consisted of the following at February 28, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Property and equipment:		
Land	\$ 214,200	\$ 214,200
Furniture and equipment	1,523,983	1,417,536
Computers and software	2,973,907	2,701,122
Building	1,388,286	1,388,286
Leasehold improvements	4,530,078	4,267,701
Projects in process	<u>62,664</u>	<u>68,239</u>
	10,693,118	10,057,084
Less accumulated depreciation	<u>(6,992,603)</u>	<u>(6,297,938)</u>
Net property and equipment	<u>\$ 3,700,515</u>	<u>\$ 3,759,146</u>

7. Promissory note:

On April 18, 2020, the Organization received a Paycheck Protection Program loan from the Small Business Administration (SBA) for \$2,587,535. Under the program, the loan may be forgiven for the portion of funds spent on eligible expenses. The Organization submitted its application for forgiveness to the bank in March 2021, through which it obtained the loan. On June 15, 2021, the SBA notified the Organization that the loan and accrued interest of \$29,897 had been forgiven. During the year ended February 28, 2022, the forgiven loan and accrued interest are recorded in revenues and other support on the statement of activities.

8. Operating leases:

As of March 1, 2022, the Organization adopted *ASU 2016-12 – Leases* (Topic 842) under the modified retrospective approach and has chosen the transition method of not adjusting comparative periods. Under this standard, the Organization determines if an arrangement is a lease at inception. The Organization also elected not to reassess at adoption (i) expired or existing contracts to determine whether they are or contain a lease, (ii) the lease classification of any existing leases or (iii) initial direct costs for existing leases.

The Organization leases property for its offices and warehouses. These qualify as operating leases and are included in operating lease right-of-use (“ROU”) assets, current portion of operating lease liabilities and long-term portion of operating lease liabilities in its statement of financial position. Operating lease ROU assets and operating lease liabilities are recognized based on the present value of lease payments over the lease term at the commencement date. Because most of the Organization’s operating leases do not provide an implicit rate of return, the Organization has elected the option to use the risk-free rate using a period comparable to the lease terms. The Organization uses the three, five, seven, and ten-year U.S. Treasury Note rates respective to the life of the lease based on the information available at commencement date in determining the present value of lease payments. Operating lease ROU assets are reduced by lease incentives received. The Organization has adopted other accounting policy elections related to this standard including election to treat non-lease components and lease components as a single combined lease and election of not recognizing right-of-use assets and lease liabilities arising from short-term leases for any class of underlying assets.

The Organization leases warehouse and office space under non-cancellable operating leases. The Organization is also responsible for its share of common area operating expenses, including property taxes, for the real estate. Total occupancy expense was \$1,915,663 and \$1,713,500 for the years ended February 28, 2023 and 2022, respectively.

Noncash investing and financing transactions related to new leases after the adoption of Topic 842 resulted in the addition of an operating lease right of use assets and a lease liability of \$306,841 during the year ended February 28, 2023.

8. Operating leases (continued):

The Organization has the following warehouse and office space leases:

<u>Lease Inception</u>	<u>Expiration date</u>
2015	February 28, 2025
2018	March 31, 2028
2019	October 31, 2024
2019	February 28, 2031*
2020	June 30, 2027
2021	February 29, 2024
2021	April 30, 2024
2023	February 28, 2026*

* Each lease has one, five-year extension period.

The extension periods are not included in the ROU assets and lease liabilities as at the lease commencement dates the Organization was not reasonably certain that they will exercise those options.

The future maturities of operating lease liabilities as of February 28, 2023, are as follows:

<u>Year ending February 28</u>	<u>Amount</u>
2024	\$ 1,502,514
2025	1,266,431
2026	752,440
2027	647,641
2028	560,780
Thereafter	<u>1,018,322</u>
	5,748,128
Less amount representing interest	<u>367,110</u>
Total operating lease liabilities	<u>\$ 5,381,018</u>

The weighted-average remaining lease term is 5.33 years or (64 months) for operating leases, as of February 28, 2023. The weighted-average discount rate is 2.36% for operating leases, as of February 28, 2023.

9. Net assets:

Net assets with donor restrictions:

Net assets with donor restrictions are available for the following purposes at February 28, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Permanent site development	\$ 24,482	\$ 16,514
Contributions for headquarters building	-	77,716
Country specific donations and shipping	136,720	43,793
Purchase of equipment and supplies	7,312	17,757
Future events – MobilePack and Special	<u>4,408,987</u>	<u>3,414,115</u>
	<u>\$ 4,577,501</u>	<u>\$ 3,569,895</u>

The following net assets with donor restrictions were released from restrictions during 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Contributions for headquarters building	\$ 102,716	\$ -
Country specific donations and shipping	2,647,274	2,442,371
Purchases of equipment and supplies	23,084	380,973
Events – MobilePack and Special	<u>14,781,796</u>	<u>9,899,716</u>
	<u>\$ 17,554,870</u>	<u>\$ 12,723,060</u>

10. Contributions of nonfinancial assets:

During the years ended February 28, 2023 and 2022, contributed nonfinancial assets recognized within the statement of activities included:

	<u>2023</u>	<u>2022</u>
Donated labor (\$11.51 per volunteer hour for both 2023 and 2022)	\$ 18,845,634	\$ 10,126,824
Professional services	72,730	39,604
Commodities/ingredients	3,346	42,463
Equipment/supplies	11,728	63,664
Donated auction items	4,900	-
Occupancy costs	<u>-</u>	<u>34,269</u>
	<u>\$ 18,938,338</u>	<u>\$ 10,306,824</u>

10. Contributions of nonfinancial assets (continued):

	<u>Revenue recognized</u>		<u>Utilization in programs/activities</u>	<u>Donor restrictions</u>	<u>Valuation technique and inputs</u>
	<u>Fiscal year 2023</u>	<u>Fiscal year 2022</u>			
Volunteer labor	\$ 18,845,634	\$ 10,126,824	Meal packing	No donor restrictions	National market survey to determine average cost to hire similar positions to package food.
Professional services, legal	49,267	32,313	Administrative and fundraising	No donor restrictions	Contributed services from attorneys are recorded at the estimated fair value based on current rates for similar legal services.
Professional services, other	21,123	7,291	Meal packing locations	No donor restrictions	Contributed services from contractors performing work at packing sites, recorded at the estimated fair value for similar services.
Professional services, other	2,340	-	Fundraising	No donor restrictions	Contributed services from contractors performing work at a fundraising event recorded at the estimated fair value for similar services.
Commodities/ingredients	3,346	42,463	Meal packing	No donor restrictions	Donated ingredients from vendors who supply raw materials for food packaging, based on current pricing for the ingredients.
Equipment/supplies	11,728	63,664	Meal packing	No donor restrictions	Equipment and supplies donated by vendors in support of food packaging process recorded at current pricing for similar supplies and equipment.
Occupancy costs	-	34,269	Meal packing locations	No donor restrictions	Food packaging site operating costs per the agreement, were in part, not charged to the organization as a result of landlord's decision to pay themselves.
Donated auction items	4,900	-	Fundraising	Donor restricted, time restriction	Auction items donated for a future fundraising event, valued at estimated fair market value for similar goods and services.

11. Employee benefit plan:

The Organization has a 401(k) retirement plan. The 401(k) plan is a safe harbor plan and the Organization is committed to making matching contributions equal to 100% of eligible salary deferrals up to 3% of compensation plus 50% of eligible salary deferrals between 3% and 5% of compensation. The Organization made employer matching contributions to the Plan of \$ 421,902 and \$319,176 during 2023 and 2022, respectively.

12. Purchase commitments:

As of February 28, 2023, the Organization's future obligation for the purchase of raw materials under contracts totaled approximately \$20 million.