

Financial statements of:

FEED MY STARVING CHILDREN, INC.

Years ended
February 28, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Feed My Starving Children, Inc. (the Organization) which comprise the statements of financial position as of February 28, 2019 and 2018, and the related statements of activities and changes in net assets, cash flows and functional expenses for the years 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free of 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 auditor's 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 Organization'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 Organization'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 Feed My Starving Children, Inc. as of February 28, 2019 and 2018, 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.

Emphasis of Matter

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, provides additional information about liquidity and availability of resources, and improves the consistency in the type of information provided about expenses and investment return. ASU 2016-14 was implemented in 2019 and has been reflected in the presentation of these financial statements. The ASU has been applied retrospectively to all periods presented. The ASU did not result in changes in net assets or between net assets with donor restrictions and net assets without donor restrictions. Our opinion is not modified with respect to this matter.

*Schechter Dokken Kanter
Andrews & Selzer Ltd.*

May 20, 2019

FEED MY STARVING CHILDREN, INC.

STATEMENTS OF FINANCIAL POSITION

FEBRUARY 28

	<u>2019</u>	<u>2018</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 3,849,843	\$ 6,344,494
Accounts and MobilePack receivables, net (Note 3)	476,090	272,293
Contributions receivable, current portion, net (Note 4)	206,400	347,950
Other receivables	3,827	7,153
Inventory (Note 5)	6,087,353	4,969,931
Prepaid expenses	362,687	374,009
Investments (Note 6)	4,546,232	4,481,000
	<u>15,532,432</u>	<u>16,796,830</u>
Total current assets		
Property and equipment, net (Note 7)	5,525,160	4,213,771
Other assets:		
Contributions receivable, net of current portion (Note 4)	-	175,201
Security deposits	87,305	87,105
	<u>\$ 21,144,897</u>	<u>\$ 21,272,907</u>
Liabilities and net assets:		
Current liabilities:		
Accounts payable	\$ 2,106,240	\$ 1,438,513
Accrued salaries and vacation	1,092,078	972,580
Deferred:		
Rent, current portion	12,776	20,614
Revenue	2,997,366	2,723,610
Promissory note, current portion (Note 8)	62,946	60,633
	<u>6,271,406</u>	<u>5,215,950</u>
Total current liabilities		
Long-term liabilities:		
Deferred rent, net of current portion	1,161,728	410,049
Promissory note, net of current portion (Note 8)	753,702	816,648
	<u>8,186,836</u>	<u>6,442,647</u>
Total liabilities		
Net assets:		
Without donor restrictions:		
Undesignated	10,927,059	12,172,353
Board designated (Note 2)	-	500,000
	<u>10,927,059</u>	<u>12,672,353</u>
With donor restrictions (Note 9)	2,031,002	2,157,907
	<u>12,958,061</u>	<u>14,830,260</u>
Total net assets		
	<u>\$ 21,144,897</u>	<u>\$ 21,272,907</u>

FEED MY STARVING CHILDREN, INC.

	2019		
	Without donor restrictions	With donor restrictions	Total
Revenues and other support:			
Contributions	\$ 24,753,254	\$ 1,026,264	25,779,518
MobilePack contributions	16,417,270		16,417,270
In-kind contributions (Note 1)	28,374,422		28,374,422
MarketPlace sales	2,450,189		2,450,189
Other revenue	84,253		84,253
Special events, net of cost of direct benefits to donors of \$173,398 and \$153,627 in 2019 and 2018, respectively	1,579,209		1,579,209
Net assets released from restrictions (Note 8)	1,153,169	(1,153,169)	-
Total revenues and other support	74,811,766	(126,905)	74,684,861
Expenses:			
Program services	69,779,986	-	69,779,986
Management and general	3,171,570	-	3,171,570
Fundraising	3,605,504	-	3,605,504
Total expenses	76,557,060	-	76,557,060
Changes in net assets	(1,745,294)	(126,905)	(1,872,199)
Net assets, beginning	12,672,353	2,157,907	14,830,260
Net assets, ending	\$ 10,927,059	\$ 2,031,002	\$ 12,958,061

See notes to financial statements.

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

2018		
Without donor restrictions	With donor restrictions	Total
\$ 22,603,400	\$ 2,493,641	\$ 25,097,041
14,208,054	-	14,208,054
26,409,297	-	26,409,297
2,304,404	-	2,304,404
60,795	-	60,795
1,613,333	-	1,613,333
1,894,097	(1,894,097)	-
<u>69,093,380</u>	<u>599,544</u>	<u>69,692,924</u>
60,278,812	-	60,278,812
2,757,340	-	2,757,340
<u>3,371,314</u>	<u>-</u>	<u>3,371,314</u>
<u>66,407,466</u>	<u>-</u>	<u>66,407,466</u>
2,685,914	599,544	3,285,458
<u>9,986,439</u>	<u>1,558,363</u>	<u>11,544,802</u>
<u>\$ 12,672,353</u>	<u>\$ 2,157,907</u>	<u>\$ 14,830,260</u>

FEED MY STARVING CHILDREN, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED FEBRUARY 28

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Changes in net assets	\$ (1,872,199)	\$ 3,285,458
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	847,872	636,306
Loss on disposal of property and equipment	36,177	-
Change in donated labor in inventory	320,853	897,434
(Decrease) increase in allowance for doubtful accounts	(23,700)	17,476
Donated marketable securities	(323,638)	(614,445)
Loss (gain) on sales of donated marketable securities	3,344	(1,651)
Proceeds from sale of donated marketable securities	320,294	616,096
(Increase) decrease in assets:		
Accounts, MobilePack and other receivables	(168,771)	237,169
Contributions receivable	308,751	367,995
Inventory	(1,438,275)	(3,001,937)
Prepaid expenses	11,322	3,365
Other assets, security deposits	(200)	(12,196)
Increase (decrease) in liabilities:		
Accounts payable	667,727	(381,304)
Accrued salaries and vacation	119,498	129,526
Deferred:		
Rent	8,841	(9,381)
Revenue	273,756	367,639
Net cash (used in) provided by operating activities	<u>(908,348)</u>	<u>2,537,550</u>
Cash flows from investing activities:		
Purchase of:		
Investments	(4,634,232)	(6,608,000)
Property and equipment	(1,460,438)	(679,460)
Proceeds from redemption of investments	4,569,000	4,080,000
Net cash used in investing activities	<u>(1,525,670)</u>	<u>(3,207,460)</u>
Cash flows from financing activities, payments on promissory note	<u>(60,633)</u>	<u>(179,598)</u>
Net decrease in cash and cash equivalents	<u>(2,494,651)</u>	<u>(849,508)</u>
Cash and cash equivalents, beginning of year	<u>6,344,494</u>	<u>7,194,002</u>
Cash and cash equivalents, end of year	<u>\$ 3,849,843</u>	<u>\$ 6,344,494</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 31,863</u>	<u>\$ 38,232</u>
Projects in process in accounts payable	<u>\$ -</u>	<u>\$ 68,032</u>
Non-cash investing activity:		
Leasehold improvements provided by landlord	<u>\$ 735,000</u>	<u>\$ -</u>

See notes to financial statements.

FEED MY STARVING CHILDREN, INC.

	2019					
	Program services	Support Services			Total support services	Total expenses
		Management and general	Fundraising			
Salaries	\$ 6,802,758	\$ 2,188,236	\$ 1,603,446	\$ 3,791,682	\$ 10,594,440	
Payroll taxes	524,632	161,796	117,299	279,095	803,727	
Employee benefits	805,738	182,752	224,479	407,231	1,212,969	
Cost of food:						
Raw materials	25,724,112	-	-	-	25,724,112	
Donated production labor	27,847,439	-	-	-	27,847,439	
Cost of sales, Market Place	1,296,415	-	-	-	1,296,415	
Advertising and marketing	220,796	11,596	131,982	143,578	364,374	
Computer and software	115,083	30,455	96,422	126,877	241,960	
Charitable donations and donated shipping costs	584,262	-	-	-	584,262	
Occupancy	1,439,268	10,363	7,604	17,967	1,457,235	
Professional fees	270,350	227,987	28,033	256,020	526,370	
Employee recruiting	2,802	923	677	1,600	4,402	
Printing and copying	95,036	31,003	171,395	202,398	297,434	
Insurance	173,924	57,264	42,019	99,283	273,207	
Utilities	260,098	4,985	3,658	8,643	268,741	
Travel and meals	1,683,400	51,531	100,117	151,648	1,835,048	
Equipment rental and maintenance	382,475	6,709	8,102	14,811	397,286	
Telephone	83,424	5,024	4,002	9,026	92,450	
Postage and shipping	96,062	9,281	105,733	115,014	211,076	
Training and staff development	54,390	12,099	17,129	29,228	83,618	
Supplies	284,439	4,829	11,425	16,254	300,693	
Donor appreciation	-	-	252,731	252,731	252,731	
Bank and credit card processing	100,661	22,971	297,844	320,815	421,476	
Special events	-	173,398	288,472	461,870	461,870	
Bad debt expense (recovery)	135,000	-	8,000	8,000	143,000	
Interest expense	-	31,863	-	31,863	31,863	
Depreciation	673,981	96,058	72,455	168,513	842,494	
Miscellaneous	123,441	23,845	12,480	36,325	159,766	
Total functional expenses	69,779,986	3,344,968	3,605,504	6,950,472	76,730,458	
Less cost of direct benefits to donors	-	(173,398)	-	(173,398)	(173,398)	
Total expenses - statement of activities	\$ 69,779,986	\$ 3,171,570	\$ 3,605,504	\$ 6,777,074	\$ 76,557,060	
Percentages of total	<u>91%</u>	<u>4%</u>	<u>5%</u>	<u>9%</u>	<u>100%</u>	

See notes to financial statements.

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED FEBRUARY 28

2018				
Program services	Support Services		Total support services	Total expenses
	Management and general	Fundraising		
\$ 5,608,327	\$ 1,897,395	\$ 1,358,131	\$ 3,255,526	\$ 8,863,853
434,188	138,187	98,515	236,702	670,890
677,088	172,686	183,157	355,843	1,032,931
22,055,407	-	-	-	22,055,407
25,140,548	-	-	-	25,140,548
1,184,569	-	-	-	1,184,569
298,456	8,785	117,135	125,920	424,376
90,918	26,955	71,694	98,649	189,567
661,650	-	-	-	661,650
1,115,901	20,786	15,207	35,993	1,151,894
240,295	201,830	23,670	225,500	465,795
1,396	460	337	797	2,193
92,625	31,316	240,393	271,709	364,334
144,347	47,611	34,832	82,443	226,790
241,009	5,195	3,800	8,995	250,004
1,392,119	42,838	75,038	117,876	1,509,995
216,151	4,931	4,623	9,554	225,705
70,910	6,049	7,258	13,307	84,217
55,894	11,481	130,819	142,300	198,194
22,539	3,996	22,629	26,625	49,164
195,075	4,532	9,853	14,385	209,460
-	-	281,976	281,976	281,976
89,388	15,623	371,097	386,720	476,108
-	153,627	257,048	410,675	410,675
(314,550)	-	-	-	(314,550)
-	37,026	-	37,026	37,026
513,702	64,662	50,007	114,669	628,371
50,860	14,996	14,095	29,091	79,951
60,278,812	2,910,967	3,371,314	6,282,281	66,561,093
-	(153,627)	-	(153,627)	(153,627)
<u>\$ 60,278,812</u>	<u>\$ 2,757,340</u>	<u>\$ 3,371,314</u>	<u>\$ 6,128,654</u>	<u>\$ 66,407,466</u>
<u>91%</u>	<u>4%</u>	<u>5%</u>	<u>9%</u>	<u>100%</u>

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 1986. 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 leases warehouse space in Georgia and Pennsylvania. The Organization also has mobile packing events in numerous other states. During 2019 and 2018, approximately 1,306,000 and 1,222,000 volunteers produced 364.7 million and 333.4 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.

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.

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

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 2019 and 2018.

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:

As of February 28, 2019, investments consisted of certificates of deposit traded in financial markets and U.S. treasury bills. As of February 28, 2018, investments consisted of non-negotiable certificates of deposit, which were time deposits held at various banks and stated at amortized cost. These certificates of deposit with original maturities of less than 90 days are classified as cash and cash equivalents.

The Organization records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at their fair values in the statements of financial position. Net investment income return/(loss) is reported in the statements of activities as other revenue and consists of interest and dividend income, realized and unrealized capital gains and losses, less external investment expenses.

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

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 post 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. An allowance for doubtful accounts related to contributions receivable of \$8,000 and \$0 has been recorded as of February 28, 2019 and 2018, respectively.

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

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

Deferred revenue:

Funds for MobilePack and Gala events are often paid to the Organization prior to the date of the event. Revenue is recognized in the accounting period when the related MobilePack or Gala event occurs. Until the event has occurred, revenue received for a future event is recorded as deferred revenue.

Contributions:

Contributions, 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.

In-kind contributions:

Donated goods and services are recorded at their estimated fair value. Donated services are recognized in the financial statements when they create or enhance the value of non-financial assets. Donated labor is estimated based on industry data of the average cost to hire personnel to pack the food.

During 2019 and 2018, the following donated goods and services were received:

	<u>2019</u>	<u>2018</u>
Donated labor (\$11.38 per volunteer hour for both, 2019 and 2018)	\$ 28,132,688	\$ 26,167,435
Raw materials	19,764	0
Equipment	6,768	28,372
Rent	1,330	0
Advertising, supplies and other professional fees	<u>213,872</u>	<u>213,490</u>
	<u>\$ 28,374,422</u>	<u>\$ 26,409,297</u>

1. Nature of business and summary of significant accounting policies (continued):**Functional allocation of expenses:**

The costs associated with program and supporting services have been presented on a functional basis in the statement of activities. 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.

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 \$364,374 and \$424,376 were expensed as incurred during 2019 and 2018, respectively.

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.

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, provides additional information about liquidity and availability of resources, and improves the consistency in the type of information provided about expenses and investment return. ASU 2016-14 was implemented in 2019 and has been reflected in the presentation of these financial statements. The ASU has been applied retrospectively to all periods presented. The ASU did not result in changes in net assets or between net assets with donor restrictions and net assets without donor restrictions.

Reclassifications:

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 presentation.

Subsequent events:

Management has evaluated for subsequent events through May 20, 2019, 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>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 3,849,843	\$ 6,344,494
Accounts and MobilePack receivables	476,090	272,293
Contributions receivable, current portion	206,400	347,950
Other receivables	3,827	7,153
Certificates of deposit	<u>4,546,232</u>	<u>4,481,000</u>
	9,082,392	11,452,890
Less donor-imposed restrictions	<u>(2,031,002)</u>	<u>(2,157,907)</u>
	7,051,390	9,294,983
Less board of directors designations	<u>0</u>	<u>(500,000)</u>
Financial assets available for general expenditure within one year	<u>\$ 7,051,390</u>	<u>\$ 8,794,983</u>

Donor-imposed restrictions pertain primarily to permanent site development and country specific meal donations (See Note 9). Expenditures related to permanent site development are expected over the next one to three years. Expenditures for country specific meal donations are expected over the next one to two years.

Board of Directors designations in prior year were for permanent site development and expenditures related to this designation. Board designated funds were expended in fiscal year 2019 for specified designation.

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 cash on hand. This is calculated using the next fiscal year's budgeted operating expenses less gift-in-kind 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 the forecast deviates by more than 20%, management is required, within thirty days, to present a plan to reduce expenses, capital expenditures or increase revenue to bring forecasted cash flow closer to the approved budget.

3. Accounts and MobilePack receivables:

Accounts and MobilePack receivables as of 2019 and 2018 consisted of:

	<u>2019</u>	<u>2018</u>
MobilePack	\$ 417,281	\$ 257,464
Accounts and other donations	<u>84,912</u>	<u>72,631</u>
Total	502,193	330,095
Less allowance for doubtful accounts	<u>(26,103)</u>	<u>(57,802)</u>
Accounts and MobilePack receivables, net	<u>\$ 476,090</u>	<u>\$ 272,293</u>

4. Contributions receivable:

Unconditional promises to give are recorded as contributions receivable and revenue of the appropriate net asset category. The discount rate used on contributions receivable was between 0.77% and 1.73% in 2018.

	<u>2019</u>	<u>2018</u>
Contributions receivable for headquarters building	\$ 0	\$ 249,667
Other contributions receivable	<u>214,400</u>	<u>280,350</u>
Gross contributions receivable	214,400	530,017
Less allowance for doubtful accounts	(8,000)	0
Less discounts to net present value	<u>0</u>	<u>(6,866)</u>
Contributions receivable, net	<u>\$ 206,400</u>	<u>\$ 523,151</u>
Amounts due in:		
Less than one year	\$ 206,400	\$ 347,950
One to five years	\$ 0	\$ 182,067

As of February 28, 2019 and 2018, two donors and one donor accounted for 70% and 72% of contributions receivable, respectively.

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 \$1,996,859 and \$1,676,006 of donated labor as of February 28, 2019 and 2018, respectively.

Inventory consisted of the following at February 28:

	<u>2019</u>	<u>2018</u>
Raw materials	\$ 1,127,852	\$ 939,715
Work in process	218,000	119,249
Packaged food	3,454,167	2,812,815
Overhead allocated to packaged food	737,414	491,101
Market Place	<u>549,920</u>	<u>607,051</u>
	<u>\$ 6,087,353</u>	<u>\$ 4,969,931</u>

6. 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 quotes 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.

As of February 28, 2019, the Organization invested in certificates of deposit traded in the financial markets. Those certificates of deposit and U.S. Treasury bills are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates, and market-rate assumptions, are classified within Level 2.

As of February 28, 2018, the Organization's investments consisted of certificates of deposit held at various banks and were stated at amortized cost and therefore not subject to the fair value measurements leveling.

6. Investments and fair value measurements (continued):

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

	<u>2019</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Fixed income:				
U.S. Treasury bills		\$ 1,639,789		\$ 1,639,789
Certificates of deposit		<u>2,906,443</u>		<u>2,906,443</u>
		<u>\$ 4,546,232</u>		<u>\$ 4,546,232</u>

7. Property and equipment, net:

Property and equipment consisted of the following at February 28:

	<u>2019</u>	<u>2018</u>
Property and equipment:		
Land	\$ 214,200	\$ 214,200
Furniture and equipment	914,856	814,636
Computers and software	2,556,237	1,373,111
Building	1,388,286	1,388,286
Leasehold improvements	4,004,181	2,440,281
Projects in process	<u>4,476</u>	<u>774,729</u>
	9,082,236	7,005,243
Less accumulated depreciation	<u>(3,557,076)</u>	<u>(2,791,472)</u>
Net property and equipment	<u>\$ 5,525,160</u>	<u>\$ 4,213,771</u>

8. Promissory note:

On January 8, 2016 the Organization purchased the Coon Rapids facility of approximately 29,700 square feet and 2.7 acres of land from the landlord for \$1,575,000. The Organization secured a promissory note of \$1,300,000 from Thrivent Financial to finance a portion of the purchase. The promissory note is amortized over twenty years and requires monthly installments of \$7,708 including interest at 3.75%. The interest rate may be adjusted on January 15, 2026 to Thrivent Financial's current rate for similar agreements. The note is collateralized by a first security interest in the property, improvements, fixtures, equipment and personal property therein.

8. Promissory note (continued):

Future maturities of long-term debt are as follows:

<u>Year ending February 28</u>	<u>Amount</u>
2020	\$ 62,946
2021	65,348
2022	67,841
2023	70,429
2024	73,116
Thereafter	<u>476,968</u>
	<u>\$ 816,648</u>

9. Net assets:

Net assets with donor restrictions:

Net assets with donor restrictions are available for the following purposes at February 28:

	<u>2019</u>	<u>2018</u>
Permanent site development	\$ 1,438,737	\$ 1,639,535
Contributions for headquarters building	249,667	244,013
Country specific donations and shipping	302,503	246,322
Purchase of equipment and supplies	<u>40,095</u>	<u>28,037</u>
	<u>\$ 2,031,002</u>	<u>\$ 2,157,907</u>

The following net assets with donor restrictions were released from restrictions during 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Permanent site development	\$ 409,295	\$ 0
Contributions for headquarters building	0	125,333
Country specific donations and shipping	712,457	1,682,333
Purchases of equipment and supplies	<u>31,417</u>	<u>86,431</u>
	<u>\$ 1,153,169</u>	<u>\$ 1,894,097</u>

10. 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 \$302,430 and \$264,811 during 2019 and 2018, respectively.

11. Commitments:

Operating leases:

As of February 28, 2019, the Organization maintained operating lease agreements for seven of its eight permanent sites and two MobilePack warehouses. The leases require base monthly rents ranging from \$2,847 and \$28,342, including escalating payments, and as a result, deferred rent has been recorded for these leases. The agreements expire at various dates through January 2031. The Organization must also pay a certain proportionate share of operating expenses including utilities and real estate taxes. Additionally, the Organization has three warehouse leases, which are month-to-month leases.

The future minimum lease payments are as follows:

<u>Year ending</u> <u>February 28</u>	<u>Amount</u>
2020	\$ 1,276,112
2021	1,257,355
2022	1,095,708
2023	1,096,398
2024	1,049,570
Thereafter	<u>3,727,715</u>
	<u>\$ 9,502,858</u>

Occupancy expense and related costs were \$1,457,235 and \$1,151,894 for the years ended 2019 and 2018, respectively.

Purchase commitments:

As of February 28, 2019, the Organization's future obligation for the purchase of raw materials under contracts totaled approximately \$7.7 million.