

*Financial statements of:*

**FEED MY STARVING CHILDREN, INC.**

Years ended  
February 28, 2022 and 2021

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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, 2022 and 2021, 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, 2022 and 2021 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.

*Schechter-Dotken-Kanter  
Andrews & Selcer Ltd.*

Minneapolis, MN

May 26, 2022

**FEED MY STARVING CHILDREN, INC.**

## STATEMENTS OF FINANCIAL POSITION

FEBRUARY 28, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 27,346,806	\$ 26,730,401
Accounts and MobilePack receivables, net (Note 3)	331,335	208,082
Other receivables	276	684
Inventory (Note 4)	5,920,505	4,067,034
Prepaid expenses	231,214	163,379
Employee retention credit refund	<u>2,227,319</u>	<u>935,601</u>
Total current assets	36,057,455	32,105,181
Property and equipment, net (Note 6)	3,759,146	3,976,140
Other assets, security deposits	<u>80,994</u>	<u>75,812</u>
	<u>\$ 39,897,595</u>	<u>\$ 36,157,133</u>
<b>Liabilities and net assets:</b>		
Current liabilities:		
Accounts payable	\$ 2,967,582	\$ 3,443,825
Accrued salaries and vacation	1,460,688	1,381,491
Deferred rent, current portion	172,492	152,733
Loan - Paycheck Protection Program (Note 7)	<u>-</u>	<u>2,587,535</u>
Total current liabilities	4,600,762	7,565,584
Long-term liability, deferred rent, net of current portion	<u>815,291</u>	<u>986,355</u>
Total liabilities	<u>5,416,053</u>	<u>8,551,939</u>
Net assets:		
Without donor restrictions	30,911,647	24,395,763
With donor restrictions (Note 8)	<u>3,569,895</u>	<u>3,209,431</u>
Total net assets	<u>34,481,542</u>	<u>27,605,194</u>
	<u>\$ 39,897,595</u>	<u>\$ 36,157,133</u>

**FEED MY STARVING CHILDREN, INC.**

 STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
 YEARS ENDED FEBRUARY 28, 2022 AND 2021

	2022			2021		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenues and other support:						
Contributions	\$ 42,301,461	\$ 2,645,682	\$ 44,947,143	\$ 37,645,158	\$ 1,305,679	\$ 38,950,837
MobilePack contributions	2,190,556	7,641,771	9,832,327	3,813,653	1,917,319	5,730,972
In-kind contributions (Note 1)	10,306,824	-	10,306,824	4,456,700	-	4,456,700
Program services - grants	272,100	-	272,100	2,720,500	-	2,720,500
MarketPlace sales	1,635,227	-	1,635,227	1,061,199	-	1,061,199
Other revenue	82,767	-	82,767	124,533	-	124,533
Paycheck Protection Program loan forgiveness	2,617,432	-	2,617,432	-	-	-
Employee Retention Credit	1,291,718	-	1,291,718	935,601	-	935,601
Special events, net of cost of direct benefits to donors of \$0 in 2022 and 2021	-	2,796,071	2,796,071	-	2,524,945	2,524,945
Net assets released from restrictions (Note 8)	12,723,060	(12,723,060)	-	5,814,336	(5,814,336)	-
<b>Total revenues and other support</b>	<b>73,421,145</b>	<b>360,464</b>	<b>73,781,609</b>	<b>56,571,680</b>	<b>(66,393)</b>	<b>56,505,287</b>
Expenses:						
Program services	60,026,446	-	60,026,446	39,103,512	-	39,103,512
Management and general	3,383,305	-	3,383,305	3,064,524	-	3,064,524
Fundraising	3,495,510	-	3,495,510	3,153,739	-	3,153,739
<b>Total expenses</b>	<b>66,905,261</b>	<b>-</b>	<b>66,905,261</b>	<b>45,321,775</b>	<b>-</b>	<b>45,321,775</b>
Changes in net assets	6,515,884	360,464	6,876,348	11,249,905	(66,393)	11,183,512
Net assets, beginning	24,395,763	3,209,431	27,605,194	13,145,858	3,275,824	16,421,682
<b>Net assets, ending</b>	<b>\$ 30,911,647</b>	<b>\$ 3,569,895</b>	<b>\$ 34,481,542</b>	<b>\$ 24,395,763</b>	<b>\$ 3,209,431</b>	<b>\$ 27,605,194</b>

See notes to financial statements.

**FEED MY STARVING CHILDREN, INC.**

 STATEMENTS OF CASH FLOWS  
 YEARS ENDED FEBRUARY 28, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Changes in net assets	\$ <b>6,876,348</b>	\$ 11,183,512
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	<b>798,701</b>	948,461
Loss on disposal of property and equipment	<b>19,895</b>	4,271
Change in donated labor in inventory	<b>357,010</b>	(735,397)
Decrease in allowance for doubtful accounts	<b>(500)</b>	(8,279)
Donated marketable securities	<b>(1,742,291)</b>	(1,448,666)
Gain on sales of donated marketable securities	<b>(14,919)</b>	(3,904)
Proceeds from sale of donated marketable securities	<b>1,757,210</b>	1,452,570
Paycheck Protection Program loan forgiveness	<b>(2,587,535)</b>	-
(Increase) decrease in assets:		
Accounts, MobilePack and other receivables	<b>(122,345)</b>	466,229
Inventory	<b>(2,210,481)</b>	387,185
Prepaid expenses	<b>(67,835)</b>	179,178
Employee retention credit refund	<b>(1,291,718)</b>	(935,601)
Other assets, security deposits	<b>(5,182)</b>	2,818
Increase (decrease) in liabilities:		
Accounts payable	<b>(482,777)</b>	1,641,978
Accrued salaries and vacation	<b>79,197</b>	156,122
Deferred rent	<b>(151,305)</b>	(37,673)
Net cash provided by operating activities	<b>1,211,473</b>	13,252,804
Cash flows from investing activities:		
Purchase of property and equipment	<b>(600,268)</b>	(138,010)
Proceeds from sale of property and equipment	<b>5,200</b>	
Proceeds from redemption of investments	-	7,492,262
Net cash (used in) provided by investing activities	<b>(595,068)</b>	7,354,252
Cash flows from financing activities:		
Proceeds from Loan - Paycheck Protection Program	-	2,587,535
Payments on promissory note	-	(753,702)
Net cash provided by financing activities	-	1,833,833
Net change in cash and cash equivalents	<b>616,405</b>	22,440,889
Cash and cash equivalents, beginning of year	<b>26,730,401</b>	4,289,512
Cash and cash equivalents, end of year	<b>\$ 27,346,806</b>	\$ 26,730,401
Supplemental disclosure of cash flow information:		
Cash paid for interest	<b>\$ -</b>	\$ 25,753
Projects in process in accounts payable	<b>\$ 6,534</b>	

**FEED MY STARVING CHILDREN, INC.**

STATEMENTS OF FUNCTIONAL EXPENSES  
YEARS ENDED FEBRUARY 28, 2022 AND 2021

	2022					2021						
	Program services	Support Services			Total support services	Total expenses	Program services	Support Services			Total support services	Total expenses
		Management and general	Fundraising					Management and general	Fundraising			
Salaries	\$ 6,845,589	\$ 2,368,361	\$ 1,629,738	\$ 3,998,099	\$ 10,843,688	\$ 5,230,213	\$ 2,051,419	\$ 1,513,927	\$ 3,565,346	\$ 8,795,559		
Payroll taxes	524,592	178,545	122,926	301,471	826,063	372,195	148,890	107,817	256,707	628,902		
Employee benefits	804,570	283,424	199,821	483,245	1,287,815	742,822	275,292	198,977	474,269	1,217,091		
Cost of food:												
Raw materials	29,929,424	-	-	-	29,929,424	17,734,686	-	-	-	17,734,686		
Meal packaging - food manufacturers	6,222,547	-	-	-	6,222,547	5,581,622	-	-	-	5,581,622		
Donated production labor	9,799,583	-	-	-	9,799,583	5,081,289	-	-	-	5,081,289		
Cost of sales, Market Place	888,322	-	-	-	888,322	580,091	-	-	-	580,091		
Advertising and marketing	59,140	150	17,600	17,750	76,890	63,141	-	18,244	18,244	81,385		
Computer and software	103,797	53,069	188,546	241,615	345,412	87,535	42,318	167,148	209,466	297,001		
Charitable donations	232,556	-	-	-	232,556	14,155	-	-	-	14,155		
Occupancy	1,684,246	17,180	12,074	29,254	1,713,500	1,471,187	33,797	24,319	58,116	1,529,303		
Professional fees	258,672	282,194	138,902	421,096	679,768	236,633	252,016	49,251	301,267	537,900		
Partner Programs	219,637	-	-	-	219,637	198,300	-	-	-	198,300		
Employee recruiting	40,493	13,865	9,743	23,608	64,101	665	254	183	437	1,102		
Printing and copying	44,685	8,618	111,671	120,289	164,974	29,525	6,200	128,833	135,033	164,558		
Insurance	105,181	36,013	25,309	61,322	166,503	159,600	61,047	43,927	104,974	264,574		
Utilities	231,653	5,393	3,790	9,183	240,836	186,924	-	-	-	186,924		
Travel and meals	587,473	12,807	28,851	41,658	629,131	96,631	1,804	12,407	14,211	110,842		
Equipment rental and maintenance	223,127	6,318	8,749	15,067	238,194	167,307	-	5,166	5,166	172,473		
Telephone	86,349	4,253	3,019	7,272	93,621	87,280	705	355	1,060	88,340		
Postage and shipping	32,794	3,405	117,833	121,238	154,032	22,039	2,332	110,935	113,267	135,306		
Training and staff development	22,502	1,455	4,860	6,315	28,817	9,462	348	163	511	9,973		
Supplies	202,083	2,321	2,067	4,388	206,471	80,999	3,305	1,788	5,093	86,092		
Donor appreciation	-	-	236,519	236,519	236,519	1	-	98,750	98,750	98,751		
Bank and credit card processing	110,764	33,844	556,982	590,826	701,590	74,208	18,454	538,581	557,035	631,243		
Special events	-	-	35,212	35,212	35,212	-	-	58,636	58,636	58,636		
Bad debt expense	-	-	-	-	-	-	-	5,282	5,282	5,282		
Interest expense	-	6,530	-	6,530	6,530	-	48,267	-	48,267	48,267		
Depreciation	710,865	59,314	37,904	97,218	808,083	752,345	98,081	65,089	163,170	915,515		
Miscellaneous	55,802	6,246	3,394	9,640	65,442	42,657	19,995	3,961	23,956	66,613		
<b>Total functional expenses</b>	<b>\$ 60,026,446</b>	<b>\$ 3,383,305</b>	<b>\$ 3,495,510</b>	<b>\$ 6,878,815</b>	<b>\$ 66,905,261</b>	<b>\$ 39,103,512</b>	<b>\$ 3,064,524</b>	<b>\$ 3,153,739</b>	<b>\$ 6,218,263</b>	<b>\$ 45,321,775</b>		
Percentages of total	<u>90%</u>	<u>5%</u>	<u>5%</u>	<u>10%</u>	<u>100%</u>	<u>86%</u>	<u>7%</u>	<u>7%</u>	<u>14%</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 also leases warehouse space in Pennsylvania. The Organization also has mobile packing events in numerous other states. During 2022 and 2021, approximately 478,000 and 195,000 volunteers packed meals and the Organization provided 388.5 million and 267.5 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.

As a result of the world-wide pandemic (COVID-19), the Organization modified its operations significantly during fiscal year 2021. The Organization had no volunteers at its packing sites from mid-March through June 2020. Beginning in July 2020, the Organization began to invite volunteers to pack food in a socially distanced manner and capped volunteers at approximately twenty-five percent of the prior year. In addition, all MobilePack events were cancelled from mid-March of 2020 through the remainder of the fiscal year. The constraints of COVID-19 continued into fiscal year 2022. During 2022, volunteer packing at sites increased to approximately forty percent of pre COVID-19 levels. The Organization also restarted MobilePack events during fiscal year 2022. The Organization hired, at an additional cost, food manufacturers to package the ingredients for MannaPack Rice meals. These food manufacturers packaged 244.8 million and 191.3 million meals during 2022 and 2021, respectively. In 2022, the Organization developed a machine packing line within one of its permanent sites to produce MannaPack Rice meals.

The extent to which the COVID-19 pandemic impacts the Organization's future results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and actions taken to contain the coronavirus or its impact, among others.

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 2022 and 2021.

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.

## 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. No allowance for doubtful accounts related to contributions receivable was recorded as of February 28, 2022 or February 28, 2021.

## 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.

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

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:

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.

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.

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. Since MobilePack events were cancelled for most of fiscal year 2021, a number of MobilePack hosts gave unrestricted contributions to the Organization to fund the packaging of meals by food manufacturers and at permanent sites.

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

## 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.

## 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 2022 and 2021, the following donated goods and services were received:

	<u>2022</u>	<u>2021</u>
Donated labor (\$11.51 per volunteer hour for both 2022 and 2021)	\$ 10,126,824	\$ 4,342,130
Equipment	54,982	-
Advertising, supplies and other professional fees	<u>125,018</u>	<u>114,570</u>
	<u>\$ 10,306,824</u>	<u>\$ 4,456,700</u>

## 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 \$76,890 and \$81,385 were expensed as incurred during 2022 and 2021, respectively.

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 statements 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.

## 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.

## Reclassifications:

Certain reclassifications have been made to the 2021 financial statements to conform to the 2022 presentation.

## 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 years ended February 28, 2022 and 2021, and recorded credits of \$1,291,718 and \$935,601, respectively. These were included in revenues and other support in the statement of activities.

## Emerging standard:

In February 2016, the FASB issued amended guidance for the treatment of leases. The guidance requires lessees to recognize a right-of-use asset and a corresponding lease liability for all operating and financing leases with lease terms greater than one year. The accounting for lessors will remain relatively unchanged. The guidance changes the accounting for sale and leaseback transactions to conform to the new revenue recognition standards. The guidance also requires both qualitative and quantitative disclosures regarding the nature of the entity's leasing activities.

Given the impact of the COVID-19 pandemic, FASB has issued Leases (Topic 842), allowing for a delay in implementing the lease standard for this Organization until the year ending February 28, 2023.

## Subsequent events:

The Organization evaluated for subsequent events through May 26, 2022, 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>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 27,346,806	\$ 26,730,401
Accounts and MobilePack receivables, net	331,335	208,082
Other receivables	276	684
Employee retention credit refund	<u>2,227,319</u>	<u>935,601</u>
	<b>29,905,736</b>	27,874,768
Less donor-imposed restrictions	<u>(3,569,895)</u>	<u>(3,209,431)</u>
Financial assets available for general expenditure within one year	<u>\$ 26,335,841</u>	<u>\$ 24,665,337</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 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 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. Accounts and MobilePack receivables:

Accounts and MobilePack receivables as of 2022 and 2021 consisted of:

	<u>2022</u>	<u>2021</u>
MobilePack	\$ 337,739	\$ 71,215
Accounts and other donations	<u>6,656</u>	<u>150,427</u>
Total	<b>344,395</b>	221,642
Less allowance for doubtful accounts	<u>(13,060)</u>	<u>(13,560)</u>
Accounts and MobilePack receivables, net	<u>\$ 331,335</u>	<u>\$ 208,082</u>

**4. 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 \$764,637 and \$407,627 of donated labor as of February 28, 2022 and 2021, respectively.

Inventory consisted of the following at February 28, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Raw materials	\$ 2,129,998	\$ 1,919,428
Work in process	105,528	5,169
Packaged food	2,447,379	1,198,660
Overhead allocated to packaged food	827,890	614,870
MarketPlace	<u>409,710</u>	<u>328,907</u>
	<u>\$ 5,920,505</u>	<u>\$ 4,067,034</u>

**6. Property and equipment, net:**

Property and equipment consisted of the following at February 28, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Property and equipment:		
Land	\$ 214,200	\$ 214,200
Furniture and equipment	1,417,536	1,114,187
Computers and software	2,701,122	2,680,995
Building	1,388,286	1,388,286
Leasehold improvements	4,267,701	4,077,773
Projects in process	<u>68,239</u>	<u>47,933</u>
	10,057,084	9,523,374
Less accumulated depreciation	<u>(6,297,938)</u>	<u>(5,547,234)</u>
Net property and equipment	<u>\$ 3,759,146</u>	<u>\$ 3,976,140</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. Net assets:

Net assets with donor restrictions:

Net assets with donor restrictions are available for the following purposes at February 28, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Permanent site development	\$ 16,514	\$ 10,091
Contributions for headquarters building	77,716	77,716
Country specific donations and shipping	43,793	195,086
Purchase of equipment and supplies	17,757	50,547
Future events – MobilePack and Special	<u>3,414,115</u>	<u>2,875,991</u>
	<u>\$ 3,569,895</u>	<u>\$ 3,209,431</u>

The following net assets with donor restrictions were released from restrictions during 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Permanent site development	\$ -	\$ 110
Contributions for headquarters building	-	779,455
Country specific donations and shipping	2,442,371	650,991
Purchases of equipment and supplies	380,973	39,000
Events – MobilePack and Special	<u>9,899,716</u>	<u>4,344,780</u>
	<u>\$ 12,723,060</u>	<u>\$ 5,814,336</u>

9. 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 \$319,176 and \$287,165 during 2022 and 2021, respectively.

10. Commitments:

Operating leases:

As of February 28, 2022, the Organization maintained operating lease agreements for seven of its eight permanent sites and one MobilePack warehouse. The leases require base monthly rents ranging from \$4,221 to \$27,060, 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, for the occasional storage of finished product, the Organization has three warehouse leases, which are month-to-month leases.

10. Commitments (continued):

## Operating leases (continued):

The future minimum lease payments are as follows:

<u>Year ending February 28</u>	<u>Amount</u>
2023	\$ 1,332,852
2024	1,268,169
2025	1,027,747
2026	616,509
2027	616,509
Thereafter	<u>1,487,787</u>
	<u>\$ 6,349,573</u>

Occupancy expense and related costs were \$1,713,500 and \$1,529,303 for the years ended 2022 and 2021, respectively.

## Purchase commitments:

As of February 28, 2022, the Organization's future obligation for the purchase of raw materials under contracts totaled approximately \$14.2 million.