

*Financial statements of:*

**FEED MY STARVING CHILDREN, INC.**

Years ended  
February 29, 2020 and February 28, 2019

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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 29, 2020 and February 28, 2019, 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 29, 2020 and February 28, 2019, 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

As discussed in Note 1 to the financial statements, on March 1, 2019, the Organization adopted new accounting guidance, ASC 606 – Revenue from Contracts with Customers. The Organization also adopted the Financial Accounting Standards Board’s Accounting Standards (ASU) 2018-08, *Not-for-Profit Entities (Topic 958) – Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The requirements of the new accounting standards have been applied retrospectively to all periods presented. In accordance with the adoption of the accounting guidance, deferred revenue previously recorded is now recorded when received as an increase in revenue with donor restrictions and released from restriction based on time. This change led to a restatement of the 2019 financial statements as described in Note 12. Our opinion is not modified with respect to this matter.

*Schechter Dokken Kanter  
Andrews + Silver Ltd.*

May 20, 2020

**FEED MY STARVING CHILDREN, INC.**

## STATEMENTS OF FINANCIAL POSITION

FEBRUARY 29 AND 28

	<u>2020</u>	<u>2019</u>
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 4,289,512	\$ 3,849,843
Accounts and MobilePack receivables, net (Note 3)	661,019	476,090
Contributions receivable, net (Note 4)	-	206,400
Other receivables	5,697	3,827
Inventory (Note 5)	3,718,822	6,087,353
Prepaid expenses	342,557	362,687
Investments (Note 6)	7,492,262	4,546,232
	<u>16,509,869</u>	<u>15,532,432</u>
Total current assets	<u>16,509,869</u>	<u>15,532,432</u>
Property and equipment, net (Note 7)	4,790,862	5,525,160
Other assets, security deposits	78,630	87,305
	<u>\$ 21,379,361</u>	<u>\$ 21,144,897</u>
<b>Liabilities and net assets:</b>		
Current liabilities:		
Accounts payable	\$ 1,801,847	\$ 2,106,240
Accrued salaries and vacation	1,225,369	1,092,078
Deferred rent, current portion	63,833	12,776
Promissory note, current portion (Note 8)	65,348	62,946
	<u>3,156,397</u>	<u>3,274,040</u>
Total current liabilities	<u>3,156,397</u>	<u>3,274,040</u>
Long-term liabilities:		
Deferred rent, net of current portion	1,112,928	1,161,728
Promissory note, net of current portion (Note 8)	688,354	753,702
	<u>4,957,679</u>	<u>5,189,470</u>
Total liabilities	<u>4,957,679</u>	<u>5,189,470</u>
Net assets:		
Without donor restrictions	13,145,858	10,927,059
With donor restrictions (Note 9)	3,275,824	5,028,368
	<u>16,421,682</u>	<u>15,955,427</u>
Total net assets	<u>\$ 21,379,361</u>	<u>\$ 21,144,897</u>

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**FEED MY STARVING CHILDREN, INC.**

	2020		
	Without donor restrictions	With donor restrictions	Total
Revenues and other support:			
Contributions	\$ 28,422,163	\$ 1,019,406	29,441,569
MobilePack contributions	-	16,973,973	16,973,973
In-kind contributions (Note 1)	30,541,294	-	30,541,294
MarketPlace sales	2,638,095	-	2,638,095
Other revenue	120,140	-	120,140
Special events, net of cost of direct benefits to donors of \$160,941 and \$173,398 in 2020 and 2019, respectively	-	1,872,812	1,872,812
Net assets released from restrictions (Note 9)	21,618,735	(21,618,735)	-
Total revenues and other support	83,340,427	(1,752,544)	81,587,883
Expenses:			
Program services	73,834,976	-	73,834,976
Management and general	3,455,804	-	3,455,804
Fundraising	3,830,848	-	3,830,848
Total expenses	81,121,628	-	81,121,628
Changes in net assets	2,218,799	(1,752,544)	466,255
Net assets, beginning	10,927,059	5,028,368	15,955,427
Net assets, ending	\$ 13,145,858	\$ 3,275,824	\$ 16,421,682

See notes to financial statements.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
YEARS ENDED FEBRUARY 29 AND 28

2019		
Without donor restrictions	With donor restrictions	Total
\$ 24,753,256	\$ 1,026,262	\$ 25,779,518
-	16,743,550	16,743,550
28,374,422	-	28,374,422
2,450,189	-	2,450,189
84,253	-	84,253
-	1,526,685	1,526,685
19,149,646	(19,149,646)	-
74,811,766	146,851	74,958,617
69,779,986	-	69,779,986
3,171,570	-	3,171,570
3,605,504	-	3,605,504
76,557,060	-	76,557,060
(1,745,294)	146,851	(1,598,443)
12,672,353	4,881,517	17,553,870
<u>\$ 10,927,059</u>	<u>\$ 5,028,368</u>	<u>\$ 15,955,427</u>



**FEED MY STARVING CHILDREN, INC.**STATEMENTS OF CASH FLOWS  
YEARS ENDED FEBRUARY 29 AND 28

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Changes in net assets	\$ 466,255	\$ (1,598,443)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation	1,047,125	847,872
Loss on disposal of property and equipment	-	36,177
Change in donated labor in inventory	(853,836)	320,853
Decrease in allowance for doubtful accounts	(12,264)	(23,700)
Donated marketable securities	(876,621)	(323,638)
Loss on sales of donated marketable securities	285	3,344
Proceeds from sale of donated marketable securities	876,336	320,294
(Increase) decrease in assets:		
Accounts, MobilePack and other receivables	(182,535)	(168,771)
Contributions receivable	214,400	308,751
Inventory	3,222,367	(1,438,275)
Prepaid expenses	20,130	11,322
Other assets, security deposits	8,675	(200)
Increase (decrease) in liabilities:		
Accounts payable	(310,435)	667,727
Accrued salaries and vacation	133,291	119,498
Deferred rent	(6,858)	8,841
Net cash provided by (used in) operating activities	<u>3,746,315</u>	<u>(908,348)</u>
Cash flows from investing activities:		
Purchase of:		
Investments	(10,035,669)	(4,634,232)
Property and equipment	(297,670)	(1,460,438)
Proceeds from redemption of investments	7,089,639	4,569,000
Net cash used in investing activities	<u>(3,243,700)</u>	<u>(1,525,670)</u>
Cash flows from financing activities, payments on promissory note	<u>(62,946)</u>	<u>(60,633)</u>
Net increase (decrease) in cash and cash equivalents	439,669	(2,494,651)
Cash and cash equivalents, beginning of year	3,849,843	6,344,494
Cash and cash equivalents, end of year	<u>\$ 4,289,512</u>	<u>\$ 3,849,843</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 29,550</u>	<u>\$ 31,863</u>
Projects in process in accounts payable	<u>\$ 6,042</u>	<u>\$ -</u>
Non-cash investing activity:		
Leasehold improvements provided by landlord	<u>\$ 9,115</u>	<u>\$ 735,000</u>

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**FEED MY STARVING CHILDREN, INC.**

	2020					
	Program services	Support Services			Total support services	Total expenses
		Management and general	Fundraising			
Salaries	\$ 7,734,980	\$ 2,438,940	\$ 1,738,392	\$ 4,177,332	\$ 11,912,312	
Payroll taxes	567,356	177,314	123,272	300,586	867,942	
Employee benefits	881,867	210,517	249,941	460,458	1,342,325	
Cost of food:				-		
Raw materials	26,215,870	-	-	-	26,215,870	
Donated production labor	31,053,124	-	-	-	31,053,124	
Cost of sales, Market Place	1,389,973	-	-	-	1,389,973	
Advertising and marketing	131,483	2,525	31,695	34,220	165,703	
Computer and software	113,043	35,048	111,527	146,575	259,618	
Charitable donations and donated shipping costs	234,755	-	-	-	234,755	
Occupancy	1,772,406	32,237	23,205	55,442	1,827,848	
Professional fees	329,384	267,943	40,900	308,843	638,227	
Employee recruiting	1,758	573	412	985	2,743	
Printing and copying	42,091	10,342	135,265	145,607	187,698	
Insurance	149,538	48,741	35,085	83,826	233,364	
Utilities	256,554	5,337	3,842	9,179	265,733	
Travel and meals	1,171,506	21,779	78,841	100,620	1,272,126	
Equipment rental and maintenance	342,832	5,173	9,251	14,424	357,256	
Telephone	81,961	5,329	3,103	8,432	90,393	
Postage and shipping	49,928	4,273	122,913	127,186	177,114	
Training and staff development	18,702	2,376	3,796	6,172	24,874	
Supplies	202,759	4,158	4,273	8,431	211,190	
Donor appreciation	-	-	306,300	306,300	306,300	
Bank and credit card processing	140,392	23,899	429,460	453,359	593,751	
Special events	-	160,941	293,573	454,514	454,514	
Bad debt expense	30,000	-	1,150	1,150	31,150	
Interest expense	-	29,550	-	29,550	29,550	
Depreciation	865,673	112,890	79,519	192,409	1,058,082	
Miscellaneous	57,041	16,860	5,133	21,993	79,034	
<b>Total functional expenses</b>	<b>73,834,976</b>	<b>3,616,745</b>	<b>3,830,848</b>	<b>7,447,593</b>	<b>81,282,569</b>	
Less cost of direct benefits to donors	-	(160,941)	-	(160,941)	(160,941)	
<b>Total expenses - statement of activities</b>	<b>\$ 73,834,976</b>	<b>\$ 3,455,804</b>	<b>\$ 3,830,848</b>	<b>\$ 7,286,652</b>	<b>\$ 81,121,628</b>	
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 29 AND 28

2019				
Program services	Support Services		Total support services	Total expenses
	Management and general	Fundraising		
\$ 6,802,758	\$ 2,188,236	\$ 1,603,446	\$ 3,791,682	\$ 10,594,440
524,632	161,796	117,299	279,095	803,727
805,738	182,752	224,479	407,231	1,212,969
25,724,112	-	-	-	25,724,112
27,847,439	-	-	-	27,847,439
1,296,415	-	-	-	1,296,415
220,796	11,596	131,982	143,578	364,374
115,083	30,455	96,422	126,877	241,960
584,262	-	-	-	584,262
1,439,268	10,363	7,604	17,967	1,457,235
270,350	227,987	28,033	256,020	526,370
2,802	923	677	1,600	4,402
95,036	31,003	171,395	202,398	297,434
173,924	57,264	42,019	99,283	273,207
260,098	4,985	3,658	8,643	268,741
1,683,400	51,531	100,117	151,648	1,835,048
382,475	6,709	8,102	14,811	397,286
83,424	5,024	4,002	9,026	92,450
96,062	9,281	105,733	115,014	211,076
54,390	12,099	17,129	29,228	83,618
284,439	4,829	11,425	16,254	300,693
-	-	252,731	252,731	252,731
100,661	22,971	297,844	320,815	421,476
-	173,398	288,472	461,870	461,870
135,000	-	8,000	8,000	143,000
-	31,863	-	31,863	31,863
673,981	96,058	72,455	168,513	842,494
123,441	23,845	12,480	36,325	159,766
69,779,986	3,344,968	3,605,504	6,950,472	76,730,458
-	(173,398)	-	(173,398)	(173,398)
<u>\$ 69,779,986</u>	<u>\$ 3,171,570</u>	<u>\$ 3,605,504</u>	<u>\$ 6,777,074</u>	<u>\$ 76,557,060</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 2020 and 2019, approximately 1,431,000 and 1,306,000 volunteers packed meals and the Organization provided 368.4 million and 359.6 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 2020 and 2019.

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:

Investments consisted of certificates of deposit traded through the Organization's financial institution and U.S. treasury bills.

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 \$0 and \$8,000 has been recorded as of February 29, 2020 and February 28, 2019, 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):**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. 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.

**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.



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

## 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 2020 and 2019, the following donated goods and services were received:

	<u>2020</u>	<u>2019</u>
Donated labor (\$11.38 per volunteer hour for both, 2020 and 2019)	<b>\$ 30,243,593</b>	\$ 28,132,688
Raw materials	<b>0</b>	19,764
Equipment	<b>79,740</b>	6,768
Rent	<b>0</b>	1,330
Advertising, supplies and other professional fees	<b><u>217,961</u></b>	<u>213,872</u>
	<b><u>\$ 30,541,294</u></b>	<b><u>\$ 28,374,422</u></b>

## 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 \$165,703 and \$364,374 were expensed as incurred during 2020 and 2019, 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. 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.

**1. Nature of business and summary of significant accounting policies (continued):****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 March 1, 2019 the Organization adopted Revenue from Contracts with Customers (Topic 606). Topic 606 is a comprehensive new revenue recognition standard that superseded most existing revenue recognition guidance under accounting principles generally accepted in the United States of America (GAAP). The standard's core principle is that an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Topic 606 prescribes a five step process to accomplish this core principle, including:

- Identification of the contract with the customer
- Identification of the performance obligation(s) under the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the identified performance obligation(s); and
- Recognition of revenue as(or when) an entity satisfies the identified performance obligation(s).

This framework requires entities to make greater use of judgements and estimates than previously required under GAAP. Topic 606 also prescribes additional disclosures and financial statement presentations.

On March 1, 2019 the Organization also adopted ASU 2018-08, Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. ASU 2018-08 establishes standards for evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to Topic 606 and if a contribution, determining whether a contribution is conditional.

In accordance with the newly adopted revenue standards, the Organization has determined that the timing of contributions related to MobilePack events and special events previously recorded as deferred revenue until the time of the event should be recorded when received as an increase in revenue with donor restrictions and released from restriction at the time of the event. This change led to a restatement of the 2019 financial statements as described in Note 12.

**Reclassifications:**

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 presentation.

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>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 4,289,512	\$ 3,849,843
Accounts and MobilePack receivables	661,019	476,090
Contributions receivable	0	206,400
Other receivables	5,697	3,827
Investments	<u>7,492,262</u>	<u>4,546,232</u>
	<b>12,448,490</b>	9,082,392
Less donor-imposed restrictions	<u>(3,275,824)</u>	<u>(5,028,368)</u>
Financial assets available for general expenditure within one year	<u>\$ 9,172,666</u>	<u>\$ 4,054,024</u>

Donor-imposed restrictions pertain primarily to permanent site development, country specific meal donations and future MobilePack and special events (See Note 9). Expenditures related to permanent site development were incurred in 2019. 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 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 2020 and 2019 consisted of:

	<u>2020</u>	<u>2019</u>
MobilePack	\$ 559,485	\$ 417,281
Accounts and other donations	<u>123,373</u>	<u>84,912</u>
Total	<b>682,858</b>	502,193
Less allowance for doubtful accounts	<u>(21,839)</u>	<u>(26,103)</u>
Accounts and MobilePack receivables, net	<u><b>\$ 661,019</b></u>	<u>\$ 476,090</u>

4. Contributions receivable:

Unconditional promises to give are recorded as contributions receivable and revenue of the appropriate net asset category.

	<u>2020</u>	<u>2019</u>
Gross contributions receivable	\$ 0	214,400
Less allowance for doubtful accounts	<u>0</u>	<u>(8,000)</u>
Contributions receivable, net	<u><b>\$ 0</b></u>	<u>\$ 206,400</u>

As of February 28, 2019, two donors accounted for 70% of contributions receivable.

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 \$ 1,143,024 and \$1,996,859 of donated labor as of February 29, 2020 and February 28, 2019, respectively.

Inventory consisted of the following at February 29, 2020 and February 28, 2019:

	<u>2020</u>	<u>2019</u>
Raw materials	\$ 975,236	\$ 1,127,852
Work in process	461,245	218,000
Packaged food	1,527,641	3,454,167
Overhead allocated to packaged food	341,480	737,414
MarketPlace	<u>413,220</u>	<u>549,920</u>
	<u>\$ 3,718,822</u>	<u>\$ 6,087,353</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 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 certificates of deposit traded through the Organization’s financial institution and U.S. Treasury bills. The U.S. Treasury bills have quoted prices in active markets for identical assets and are classified within Level 1. The certificates of deposit 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.

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6. Investments and fair value measurements (continued):

Investments and fair value measurements at February 29, 2020 and February 28, 2019 are as follows:

	<u>2020</u>			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Fixed income:				
U.S. Treasury bills	\$ 3,972,262			\$ 3,972,262
Certificates of deposit		\$ 3,520,000		3,520,000
	<u>\$ 3,972,262</u>	<u>\$ 3,520,000</u>	<u>\$ 0</u>	<u>\$ 7,492,262</u>
	<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		\$ 2,906,443		2,906,443
	<u>\$ 1,639,789</u>	<u>\$ 2,906,443</u>	<u>\$ 0</u>	<u>\$ 4,546,232</u>

7. Property and equipment, net:

Property and equipment consisted of the following at February 29, 2020 and February 28, 2019:

	<u>2020</u>	<u>2019</u>
Property and equipment:		
Land	\$ 214,200	\$ 214,200
Furniture and equipment	1,084,539	914,856
Computers and software	2,581,194	2,556,237
Building	1,388,286	1,388,286
Leasehold improvements	4,087,472	4,004,181
Projects in process	<u>39,372</u>	<u>4,476</u>
	<u>9,395,063</u>	9,082,236
Less accumulated depreciation	<u>(4,604,201)</u>	<u>(3,557,076)</u>
Net property and equipment	<u>\$ 4,790,862</u>	<u>\$ 5,525,160</u>

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## 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.

Future maturities of long-term debt are as follows:

Year ending February 29/28	Amount
2021	\$ 65,348
2022	67,841
2023	70,429
2024	73,116
2025	75,906
Thereafter	<u>401,062</u>
	<u>\$ 753,702</u>

## 9. Net assets:

Net assets with donor restrictions:

Net assets with donor restrictions are available for the following purposes at February 29, 2020 and February 28, 2019:

	<u>2020</u>	<u>2019</u>
Permanent site development	\$ 0	\$ 1,438,739
Contributions for headquarters building	157,172	249,665
Country specific donations and shipping	264,099	302,503
Purchase of equipment and supplies	76,047	40,095
Future events – MobilePack and Special	<u>2,778,506</u>	<u>2,997,366</u>
	<u>\$ 3,275,824</u>	<u>\$ 5,028,368</u>

**9. Net assets (continued):**

## Net assets with donor restrictions (continued):

The following net assets with donor restrictions were released from restrictions during February 29, 2020 and February 28, 2019:

	<u>2020</u>	<u>2019</u>
Permanent site development	\$ 1,500,030	\$ 409,295
Contributions for headquarters building	92,496	0
Country specific donations and shipping	819,217	712,457
Purchases of equipment and supplies	141,348	31,417
Events – MobilePack and Special	<u>19,065,644</u>	<u>17,996,477</u>
	<u>\$ 21,618,735</u>	<u>\$ 19,149,646</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 \$345,723 and \$302,430 during February 29, 2020 and February 28, 2019, respectively.

**11. Commitments:**

## Operating leases:

As of February 29, 2020, 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 \$2,936 and \$28,626, 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.



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**11. Commitments (continued):**

## Operating leases (continued):

The future minimum lease payments are as follows:

<u>Year ending February 29/28</u>	<u>Amount</u>
2021	\$ 1,648,116
2022	1,534,509
2023	1,542,176
2024	1,502,472
2025	1,455,311
Thereafter	<u>5,016,261</u>
	<u>\$ 12,698,845</u>

Occupancy expense and related costs were \$1,827,848 and \$1,457,235 for the years ended February 29, 2020 and February 28, 2019, respectively.

## Purchase commitments:

As of February 29, 2020, the Organization's future obligation for the purchase of raw materials under contracts totaled approximately \$7.4 million.

**12. Restatement:**

As described in Note 1, the Organization adopted Topic 606 and ASU 2018-08 as of March 1, 2019. The Organization chose to retrospectively apply the adoption to the 2019 financial statements and restate the financial statements as noted below:

<u>Statement of financial position</u>	<u>As previously reported</u>	<u>Adjustment</u>	<u>Restated</u>
Total assets	\$ 21,144,897		\$ 21,144,897
Deferred revenue	2,997,366	\$ (2,997,366)	0
Total current liabilities	6,271,406	(2,997,366)	3,274,040
Total liabilities	8,186,836	(2,997,366)	5,189,470
Net assets with donor restrictions	2,031,002	2,997,366	5,028,368
Total net assets	12,958,061	2,997,366	15,955,427
Total liabilities and net assets	21,144,897		21,144,897

12. Restatement (continued):

<u>Statement of activities and changes in net assets</u>	<u>As previously reported</u>	<u>Adjustment</u>	<u>Restated</u>
MobilePack contributions	\$ 16,417,270	\$ 326,280	\$ 16,743,550
Special events, net of cost of direct benefit to donors	1,579,209	(52,524)	1,526,685
Total revenues and other support	74,684,861	273,756	74,958,617
Releases from restrictions	1,153,169	17,996,477	19,149,646
Changes in net assets without donor restrictions	(1,745,294)	-	(1,745,294)
Changes in net assets with donor restrictions	(126,905)	273,756	146,851
Total Changes in net assets	(1,872,199)	273,756	(1,598,443)
Net assets, beginning	14,830,260	2,723,610	17,553,870
Net assets, ending	12,958,061	2,997,366	15,955,427

13. Subsequent event:

Management has evaluated for subsequent events through May 20, 2020, the date the financial statements were available for issuance.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a “Public Health Emergency of International Concern” and on March 10, 2020, declared COVID-19 a pandemic. The impact of COVID-19 could negatively impact the Organization’s operations, suppliers or other vendors, and customer base. The operations for the Organization’s services could be negatively impacted by the regional and global outbreak of COVID-19. Any quarantines, labor shortages or other disruptions to the Organization’s operations, may adversely impact the Organization’s ability to provide its services and operating results. In addition, a significant outbreak of epidemic, pandemic or contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries. The extent to which the coronavirus impacts the Organization’s 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.

Subsequent to fiscal year end the Organization received a Paycheck Protection Program loan from the Small Business Administration for \$2,587,535 on April 18, 2020. Under the program, the loan will be forgiven for the portion of funds spent on eligible expenses. Based on the tracking of eligible expenses, management believes the loan will be partially forgiven based on current guidelines provided by the Small Business Administration. The remaining loan funds not spent on eligible expense has a maturity date of April 18, 2022 and an interest rate of 1% per annum. Payments are deferred until six months from the date of the first disbursement of loan proceeds.