

Financial statements of:

FEED MY STARVING CHILDREN, INC.

Years ended
February 28, 2021 and February 29, 2020

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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, 2021 and February 29, 2020, 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, 2021 and February 29, 2020, 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.

*Schechter Dokken Kanter
Andrews & Selzer Ltd.*

May 25, 2021

FEED MY STARVING CHILDREN, INC.STATEMENTS OF FINANCIAL POSITION
FEBRUARY 28, 2021 AND FEBRUARY 29, 2020

	<u>2021</u>	<u>2020</u>
Assets:		
Current assets:		
Cash and cash equivalents	\$ 26,730,401	\$ 4,289,512
Accounts and MobilePack receivables, net (Note 3)	208,082	661,019
Other receivables	684	5,697
Inventory (Note 4)	4,067,034	3,718,822
Prepaid expenses	163,379	342,557
Employee retention credit refund	935,601	-
Investments (Note 5)	-	7,492,262
	<hr/>	<hr/>
Total current assets	32,105,181	16,509,869
Property and equipment, net (Note 6)	3,976,140	4,790,862
Other assets, security deposits	75,812	78,630
	<hr/>	<hr/>
	\$ 36,157,133	\$ 21,379,361
	<hr/>	<hr/>
Liabilities and net assets:		
Current liabilities:		
Accounts payable	\$ 3,443,825	\$ 1,801,847
Accrued salaries and vacation	1,381,491	1,225,369
Deferred rent, current portion	152,733	63,833
Loan - Paycheck Protection Program (Note 7)	2,587,535	-
Promissory note, current portion (Note 7)	-	65,348
	<hr/>	<hr/>
Total current liabilities	7,565,584	3,156,397
Long-term liabilities:		
Deferred rent, net of current portion	986,355	1,112,928
Promissory note, net of current portion (Note 7)	-	688,354
	<hr/>	<hr/>
Total liabilities	8,551,939	4,957,679
Net assets:		
Without donor restrictions	24,395,763	13,145,858
With donor restrictions (Note 8)	3,209,431	3,275,824
	<hr/>	<hr/>
Total net assets	27,605,194	16,421,682
	<hr/>	<hr/>
	\$ 36,157,133	\$ 21,379,361
	<hr/>	<hr/>

FEED MY STARVING CHILDREN, INC.

 STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
 YEARS ENDED FEBRUARY 28, 2021 AND FEBRUARY 29, 2020

	2021			2020		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Revenues and other support:						
Contributions	\$ 37,645,158	\$ 1,305,679	\$ 38,950,837	\$ 28,422,163	\$ 1,019,406	\$ 29,441,569
MobilePack contributions	3,813,653	1,917,319	5,730,972	-	16,973,973	16,973,973
In-kind contributions (Note 1)	4,456,700	-	4,456,700	30,541,294	-	30,541,294
Program services - grants	2,720,500	-	2,720,500	-	-	-
MarketPlace sales	1,061,199	-	1,061,199	2,638,095	-	2,638,095
Other revenue	124,533	-	124,533	120,140	-	120,140
Special events, net of cost of direct benefits to donors of \$0 and \$160,941 in 2021 and 2020, respectively	-	2,524,945	2,524,945	-	1,872,812	1,872,812
Net assets released from restrictions (Note 8)	5,814,336	(5,814,336)	-	21,618,735	(21,618,735)	-
Total revenues and other support	55,636,079	(66,393)	55,569,686	83,340,427	(1,752,544)	81,587,883
Expenses:						
Program services	38,479,350	-	38,479,350	73,834,976	-	73,834,976
Management and general	2,877,234	-	2,877,234	3,455,804	-	3,455,804
Fundraising	3,029,590	-	3,029,590	3,830,848	-	3,830,848
Total expenses	44,386,174	-	44,386,174	81,121,628	-	81,121,628
Changes in net assets	11,249,905	(66,393)	11,183,512	2,218,799	(1,752,544)	466,255
Net assets, beginning	13,145,858	3,275,824	16,421,682	10,927,059	5,028,368	15,955,427
Net assets, ending	\$ 24,395,763	\$ 3,209,431	\$ 27,605,194	\$ 13,145,858	\$ 3,275,824	\$ 16,421,682

See notes to financial statements.

FEED MY STARVING CHILDREN, INC.

 STATEMENTS OF CASH FLOWS
 YEARS ENDED FEBRUARY 28, 2021 AND FEBRUARY 29, 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Changes in net assets	\$ 11,183,512	\$ 466,255
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	948,461	1,047,125
Loss on disposal of property and equipment	4,271	-
Change in donated labor in inventory	(735,397)	(853,836)
Decrease in allowance for doubtful accounts	(8,279)	(12,264)
Donated marketable securities	(1,448,666)	(876,621)
(Gain) loss on sales of donated marketable securities	(3,904)	285
Proceeds from sale of donated marketable securities	1,452,570	876,336
(Increase) decrease in assets:		
Accounts, MobilePack and other receivables	466,229	(182,535)
Contributions receivable	-	214,400
Inventory	387,185	3,222,367
Prepaid expenses	179,178	20,130
Employee retention credit refund	(935,601)	
Other assets, security deposits	2,818	8,675
Increase (decrease) in liabilities:		
Accounts payable	1,641,978	(310,435)
Accrued salaries and vacation	156,122	133,291
Deferred rent	(37,673)	(6,858)
Net cash provided by operating activities	<u>13,252,804</u>	<u>3,746,315</u>
Cash flows from investing activities:		
Purchase of:		
Investments	-	(10,035,669)
Property and equipment	(138,010)	(297,670)
Proceeds from redemption of investments	7,492,262	7,089,639
Net cash provided by (used in) investing activities	<u>7,354,252</u>	<u>(3,243,700)</u>
Cash flows from financing activities:		
Proceeds from Loan - Paycheck Protection Program	2,587,535	-
Payments on promissory note	(753,702)	(62,946)
Net cash provided by (used in) financing activities	<u>1,833,833</u>	<u>(62,946)</u>
Net change in cash and cash equivalents	22,440,889	439,669
Cash and cash equivalents, beginning of year	4,289,512	3,849,843
Cash and cash equivalents, end of year	<u>\$ 26,730,401</u>	<u>\$ 4,289,512</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 25,753</u>	<u>\$ 29,550</u>
Projects in process in accounts payable		<u>\$ 6,042</u>
Non-cash investing activity:		
Leasehold improvements provided by landlord		<u>\$ 9,115</u>

See notes to financial statements.

FEED MY STARVING CHILDREN, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED FEBRUARY 28, 2021 AND FEBRUARY 29, 2020

	2021					2020					
	Support Services				Total support services	Support Services				Total support services	Total expenses
	Program services	Management and general	Fundraising	Total expenses		Program services	Management and general	Fundraising	Total expenses		
Salaries	\$ 4,606,051	\$ 1,864,129	\$ 1,389,778	\$ 3,253,907	\$ 7,859,958	\$ 7,734,980	\$ 2,438,940	\$ 1,738,392	\$ 4,177,332	\$ 11,912,312	
Payroll taxes	372,195	148,890	107,817	256,707	628,902	567,356	177,314	123,272	300,586	867,942	
Employee benefits	742,822	275,292	198,977	474,269	1,217,091	881,867	210,517	249,941	460,458	1,342,325	
Cost of food:											
Raw materials	17,734,686	-	-	-	17,734,686	26,215,870	-	-	-	26,215,870	
Meal packaging - food manufacturers	5,581,622	-	-	-	5,581,622	-	-	-	-	-	
Donated production labor	5,081,289	-	-	-	5,081,289	31,053,124	-	-	-	31,053,124	
Cost of sales, Market Place	580,091	-	-	-	580,091	1,389,973	-	-	-	1,389,973	
Advertising and marketing	63,141	-	18,244	18,244	81,385	131,483	2,525	31,695	34,220	165,703	
Computer and software	87,535	42,318	167,148	209,466	297,001	113,043	35,048	111,527	146,575	259,618	
Charitable donations	14,155	-	-	-	14,155	44,286	-	-	-	44,286	
Occupancy	1,471,187	33,797	24,319	58,116	1,529,303	1,772,406	32,237	23,205	55,442	1,827,848	
Professional fees	236,633	252,016	49,251	301,267	537,900	329,384	267,943	40,900	308,843	638,227	
Partner Programs	198,300	-	-	-	198,300	190,469	-	-	-	190,469	
Employee recruiting	665	254	183	437	1,102	1,758	573	412	985	2,743	
Printing and copying	29,525	6,200	128,833	135,033	164,558	42,091	10,342	135,265	145,607	187,698	
Insurance	159,600	61,047	43,927	104,974	264,574	149,538	48,741	35,085	83,826	233,364	
Utilities	186,924	-	-	-	186,924	256,554	5,337	3,842	9,179	265,733	
Travel and meals	96,631	1,804	12,407	14,211	110,842	1,171,506	21,779	78,841	100,620	1,272,126	
Equipment rental and maintenance	167,307	-	5,166	5,166	172,473	342,832	5,173	9,251	14,424	357,256	
Telephone	87,280	705	355	1,060	88,340	81,961	5,329	3,103	8,432	90,393	
Postage and shipping	22,039	2,332	110,935	113,267	135,306	49,928	4,273	122,913	127,186	177,114	
Training and staff development	9,462	348	163	511	9,973	18,702	2,376	3,796	6,172	24,874	
Supplies	80,999	3,305	1,788	5,093	86,092	202,759	4,158	4,273	8,431	211,190	
Donor appreciation	1	-	98,750	98,750	98,751	-	-	306,300	306,300	306,300	
Bank and credit card processing	74,208	18,454	538,581	557,035	631,243	140,392	23,899	429,460	453,359	593,751	
Special events	-	-	58,636	58,636	58,636	-	160,941	293,573	454,514	454,514	
Bad debt expense	-	-	5,282	5,282	5,282	30,000	-	1,150	1,150	31,150	
Interest expense	-	48,267	-	48,267	48,267	-	29,550	-	29,550	29,550	
Depreciation	752,345	98,081	65,089	163,170	915,515	865,673	112,890	79,519	192,409	1,058,082	
Miscellaneous	42,657	19,995	3,961	23,956	66,613	57,041	16,860	5,133	21,993	79,034	
Total functional expenses	38,479,350	2,877,234	3,029,590	5,906,824	44,386,174	73,834,976	3,616,745	3,830,848	7,447,593	81,282,569	
Less cost of direct benefits to donors	-	-	-	-	-	-	(160,941)	-	(160,941)	(160,941)	
Total expenses - statement of activities	\$ 38,479,350	\$ 2,877,234	\$ 3,029,590	\$ 5,906,824	\$ 44,386,174	\$ 73,834,976	\$ 3,455,804	\$ 3,830,848	\$ 7,286,652	\$ 81,121,628	
Percentages of total	<u>87%</u>	<u>6%</u>	<u>7%</u>	<u>13%</u>	<u>100%</u>	<u>91%</u>	<u>4%</u>	<u>5%</u>	<u>9%</u>	<u>100%</u>	

See notes to financial statements.

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

Nature of business:

Feed My Starving Children, Inc. (the Organization) was incorporated as a Minnesota nonprofit corporation in 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 2021 and 2020, approximately 195,000 and 1,431,000 volunteers packed meals and the Organization provided 267.5 million and 368.4 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.

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, 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. As a result, the Organization hired, at an additional cost, food manufacturers to package the ingredients for MannaPack Rice meals. These food manufacturers packaged 187.2 million of the 267.5 million provided in fiscal year 2021.

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.

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.

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

Basis of presentation (continued):

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.

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 2021 and 2020.

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.

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

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 has been recorded as of February 28, 2021 or February 29, 2020.

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 2021 and 2020, the following donated goods and services were received:

	<u>2021</u>	<u>2020</u>
Donated labor (\$11.51 per volunteer hour for 2021, and 11.38 per volunteer hour for 2020)	\$ 4,342,130	\$ 30,243,593
Equipment	-	79,740
Advertising, supplies and other professional fees	<u>114,570</u>	<u>217,961</u>
	<u>\$ 4,456,700</u>	<u>\$ 30,541,294</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 \$81,385 and \$165,703 were expensed as incurred during 2021 and 2020, 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 2020 financial statements to conform to the 2021 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 year ended February 28, 2021 and recorded credits of \$935,601. These credits were netted against salaries expense.

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 delay in implementing these standards for this Organization until the year ending February 28, 2023.

Subsequent events:

The Organization evaluated for subsequent events through May 25, 2021, 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>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 26,730,401	\$ 4,289,512
Accounts and MobilePack receivables	208,082	661,019
Other receivables	684	5,697
Employee retention credit refund	935,601	-
Investments	<u>-</u>	<u>7,492,262</u>
	27,874,768	12,448,490
Less donor-imposed restrictions	<u>(3,209,431)</u>	<u>(3,275,824)</u>
Financial assets available for general expenditure within one year	<u>\$ 24,665,337</u>	<u>\$ 9,172,666</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 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 2021 and 2020 consisted of:

	<u>2021</u>	<u>2020</u>
MobilePack	\$ 71,215	\$ 559,485
Accounts and other donations	<u>150,427</u>	<u>123,373</u>
Total	221,642	682,858
Less allowance for doubtful accounts	<u>(13,560)</u>	<u>(21,839)</u>
Accounts and MobilePack receivables, net	<u>\$ 208,082</u>	<u>\$ 661,019</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 \$407,627 and \$1,143,024 of donated labor as of February 28, 2021 and February 29, 2020, respectively.

Inventory consisted of the following at February 28, 2021 and February 29, 2020:

	<u>2021</u>	<u>2020</u>
Raw materials	\$ 1,919,428	\$ 975,236
Work in process	5,169	461,245
Packaged food	1,198,660	1,527,641
Overhead allocated to packaged food	614,870	341,480
MarketPlace	<u>328,907</u>	<u>413,220</u>
	<u>\$ 4,067,034</u>	<u>\$ 3,718,822</u>

5. 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.

5. Investments and fair value measurements (continued):

Investments at February 28, 2021 are \$0, and investments and fair value measurements at February 29, 2020 are as follows:

	2020			Total
	Level 1	Level 2	Level 3	
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>\$ -</u>	<u>\$ 7,492,262</u>

6. Property and equipment, net:

Property and equipment consisted of the following at February 28, 2021 and February 29, 2020:

	<u>2021</u>	<u>2020</u>
Property and equipment:		
Land	\$ 214,200	\$ 214,200
Furniture and equipment	1,114,187	1,084,539
Computers and software	2,680,995	2,581,194
Building	1,388,286	1,388,286
Leasehold improvements	4,077,773	4,087,472
Projects in process	<u>47,933</u>	<u>39,372</u>
	9,523,374	9,395,063
Less accumulated depreciation	<u>(5,547,234)</u>	<u>(4,604,201)</u>
Net property and equipment	<u>\$ 3,976,140</u>	<u>\$ 4,790,862</u>

7. 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 was originally amortized over twenty years and required monthly installments of \$7,708 including interest at 3.75%. The note was paid in full in January 2021.

7. Promissory note (continued)

On April 18, 2020, the Organization received a Paycheck Protection Program loan from the Small Business Administration for \$2,587,535. Under the program, the loan may be forgiven for the portion of funds spent on eligible expenses. The Organization has submitted its application for forgiveness to the bank in March 2021, through which it obtained the loan. The bank has approved the application for forgiveness and forwarded it to the Small Business Administration for review. Management believes the loan will be fully forgiven based on current guidelines provided by the Small Business Administration. Any portion of loan funds not forgiven have a maturity date of April 18, 2022 and an interest rate of 1% per annum. Payments on the loan are deferred until the Small Business Administration has made a determination on the Organization's loan forgiveness application. The loan is anticipated to be forgiven in 2022 and will be recognized as income at that time.

8. Net assets:

Net assets with donor restrictions:

Net assets with donor restrictions are available for the following purposes at February 28, 2021 and February 29, 2020:

	<u>2021</u>	<u>2020</u>
Permanent site development	\$ 10,091	\$ -
Contributions for headquarters building	77,716	157,172
Country specific donations and shipping	195,086	264,099
Purchase of equipment and supplies	50,547	76,047
Future events – MobilePack and Special	<u>2,875,991</u>	<u>2,778,506</u>
	<u>\$ 3,209,431</u>	<u>\$ 3,275,824</u>

The following net assets with donor restrictions were released from restrictions during February 28, 2021 and February 29, 2020:

	<u>2021</u>	<u>2020</u>
Permanent site development	\$ 110	\$ 1,500,030
Contributions for headquarters building	779,455	92,496
Country specific donations and shipping	650,991	819,217
Purchases of equipment and supplies	39,000	141,348
Events – MobilePack and Special	<u>4,344,780</u>	<u>19,065,644</u>
	<u>\$ 5,814,336</u>	<u>\$ 21,618,735</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 \$287,165 and \$345,723 during February 28, 2021 and February 29, 2020, respectively.

10. Commitments:

Operating leases:

As of February 28, 2021, 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 \$5,779 to \$25,724, 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.

The future minimum lease payments are as follows:

<u>Year ending</u> <u>February 28/29</u>	<u>Amount</u>
2022	\$ 1,376,436
2023	1,381,693
2024	1,345,620
2025	1,122,210
2026	639,455
Thereafter	<u>2,199,706</u>
	<u>\$ 8,065,120</u>

Occupancy expense and related costs were \$1,529,303 and \$1,827,848 for the years ended February 28, 2021 and February 29, 2020, respectively.

Purchase commitments:

As of February 28, 2021, the Organization's future obligation for the purchase of raw materials under contracts totaled approximately \$6.9 million.