

KIDS' MEALS, INC.
AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2017 and 2016

**KIDS' MEALS, INC.
TABLE OF CONTENTS**

INDEPENDENT AUDITORS' REPORT	1-2
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	3
STATEMENTS OF ACTIVITIES	4
STATEMENTS OF FUNCTIONAL EXPENSES	5-6
STATEMENTS OF CASH FLOWS	7
NOTES TO THE FINANCIAL STATEMENTS	8-16



Reimer, McGuinness & Associates, PC

C P A s & A d v i s o r s

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Kids' Meals, Inc.
Houston, Texas

We have audited the accompanying financial statements of Kids' Meals, Inc., which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, functional expenses and cash flows 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 audit. We conducted our audit 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 from 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 entity'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 entity'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 Kids' Meals, Inc. as of December 31, 2017 and 2016, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Reiner, Mc Guinness & Associates P.C.

Houston, Texas
August 6, 2018

FINANCIAL STATEMENTS

KIDS' MEALS
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2017 and 2016

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 320,184	\$ 277,563
Investments	750,709	115,305
Prepaid expenses	11,505	8,705
Total Current Assets	1,082,398	401,573
FIXED ASSETS		
Vehicles	228,509	191,824
Computer and equipment	83,735	79,276
Leasehold Improvements	139,198	139,198
Total Fixed Assets	451,442	410,298
Less: Accumulated depreciation	(292,325)	(254,999)
Fixed Assets, Net	159,117	155,299
OTHER ASSETS	5,400	5,400
TOTAL ASSETS	\$ 1,246,915	\$ 562,272
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 4,257	\$ 37,560
Accrued payroll	24,030	18,967
Accrued expenses	16,600	
Total Current Liabilities	44,887	56,527
TOTAL LIABILITIES	44,887	56,527
NET ASSETS		
Unrestricted net assets	1,138,867	419,589
Temporarily restricted net assets	13,160	36,155
Permanently restricted net assets	50,000	50,000
Total Net Assets	1,202,027	505,744
TOTAL LIABILITIES AND NET ASSETS	\$ 1,246,915	\$ 562,272

See independent auditors' report and notes to financial statements.

KIDS' MEALS, INC
STATEMENTS OF ACTIVITIES
FOR YEARS ENDING DECEMBER 31, 2017 and 2016

	2017	2016
UNRESTRICTED NET ASSETS		
Unrestricted revenues and gains		
Contributions	\$ 1,549,321	\$ 818,037
Special event	487,048	421,987
In-kind donations	511,795	438,811
Other income	89	44
Investment income, net	28,237	8,223
Net gain on asset dispositions	75	
	2,576,565	1,687,102
TOTAL UNRESTRICTED REVENUES AND GAINS		
Net assets released from restrictions		
Restrictions satisfied by payments	22,995	
	22,995	
TOTAL UNRESTRICTED REVENUES AND GAINS AND OTHER SUPPORT	2,599,560	1,687,102
EXPENSES		
Management and general	199,312	202,765
Fundraising	27,594	94,796
Program Services: Meals on Wheels	1,653,376	1,509,087
TOTAL EXPENSES	1,880,282	1,806,649
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	719,278	(119,548)
TEMPORARILY RESTRICTED NET ASSETS		
Restricted Revenues and Gains		
Contributions		25,000
Net Assets Released from Restriction		
Restrictions satisfied by payments	(22,995)	
	(22,995)	
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(22,995)	25,000
INCREASE (DECREASE) IN NET ASSETS	696,283	(94,547)
NET ASSETS, BEGINNING OF YEAR	505,744	600,290
NET ASSETS AT END OF YEAR	\$ 1,202,028	\$ 505,744

See independent auditors' report and notes to financial statements.

KIDS' MEALS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR YEAR ENDING DECEMBER 31, 2017

	Program Services	Supporting Services		Total
	Meals on Wheels	Management and General	Fundraising	
Salaries and wages	\$ 629,544	\$ 117,436	\$ 14,351	\$ 761,331
Food purchases	549,623			549,623
Health and dental insurance	93,531	11,691	1,063	106,285
Contract labor	5,000	3,793	8,448	17,241
Fuel and auto expense	78,595			78,595
Utilities, telephone and internet	17,098	4,275		21,373
Rent expense	44,366	1,868	467	46,701
Accounting and legal fees		11,000		11,000
Advertising and promotion	5,819		1,940	7,758
Event expense	136,467			136,467
Postage and delivery		330	989	1,319
Depreciation expense	51,154			51,154
Directors and officers insurance		1,807		1,807
Liability insurance	3,675	459	42	4,176
Meeting expenses		2,932		2,932
Staff travel		198		198
Supplies	30,102	12,880	263	43,245
Waste Services	6,806			6,806
Bank and service fees		9,624		9,624
Office Expense	1,596	21,019	32	22,647
	\$ 1,653,376	\$ 199,312	\$ 27,594	\$ 1,880,282

See independent auditors' report and notes to financial statements.

KIDS' MEALS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR YEAR ENDING DECEMBER 31, 2016

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>
	<u>Meals on Wheels</u>	<u>Management and General</u>	<u>Fundraising</u>	
Salaries and wages	\$ 484,046	\$ 89,597	\$ 10,905	\$ 584,547
Food purchases	515,126			515,126
Health and dental insurance	85,026	10,628	966	96,620
Contract labor	45,755	34,711	77,310	157,775
Fuel and auto expense	64,845			64,845
Utilities, telephone and internet	14,791	3,698		18,489
Rent expense	40,552	1,707	427	42,686
Accounting and legal fees		14,000		14,000
Advertising and promotion	7,851		2,617	10,468
Event expense	132,271			132,271
Postage and delivery		764	2,293	3,057
Depreciation expense	79,253			79,253
Directors and officers insurance		1,814		1,814
Liability insurance	3,462	433	39	3,934
Meeting expenses		3,331		3,331
Staff Travel		502		502
Supplies	25,598	10,863	222	36,683
Waste Services	9,630			9,630
Office expense	883	20,602	18	21,503
Bank and service fees		10,116		10,116
	<u>\$ 1,509,087</u>	<u>\$ 202,765</u>	<u>\$ 94,796</u>	<u>\$ 1,806,650</u>

See independent auditors' report and notes to financial statements.

KIDS' MEALS, INC.
STATEMENTS OF CASH FLOWS
FOR YEARS ENDING DECEMBER 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 696,283	\$ (94,547)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	51,154	79,253
(Increase) decrease in operating assets		
Prepaid expenses	(2,800)	38,151
(Increase) decrease in non-operating assets		
Non cash contribution of investments	(24,183)	(13,435)
Increase (decrease) in operating liabilities		
Accounts payable	(33,303)	15,593
Accrued payroll	5,063	(2,776)
Accrued expenses	16,600	
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	708,814	22,239
CASH FLOWS FROM INVESTING ACTIVITIES		
Unrealized (gain) loss on investments	(26,335)	(2,638)
Dividends and capital gains reinvested	(1,902)	(5,335)
Payments for fixed asset purchases	(43,957)	(11,872)
Cash used for purchase of investments (negative)	(600,000)	(16,755)
Proceeds from sale of investments	6,000	16,505
NET CASH USED BY INVESTING ACTIVITIES	(666,194)	(20,095)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	42,620	2,144
BEGINNING CASH AND CASH EQUIVALENTS	277,565	275,420
ENDING CASH AND CASH EQUIVALENTS	\$ 320,184	\$ 277,565

See independent auditors' report and notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNT POLICIES

Kids' Meals, Inc. ("the Organization") is a 501(c) (3) not-for-profit charitable organization that was established in 1984 and incorporated in 1991. This Organization takes a community based approach aimed at reducing hunger among inner city children through a program the Organization refers to as the Meals on Wheels program. Through the Meals on Wheels program, the Organization works to break the cycle of poverty. Public and private donations are the Organization's primary source of revenue.

Support and Expenses

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activity as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. The Organization reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service. Expenses are recorded when incurred in accordance with the accrual basis of accounting.

Donated Services, Goods, and Facilities

Donated professional services and or property and equipment, if any, are reflected in the statement of activities at their fair value. Materials and other assets received as donations are recorded and reflected in the accompanying financial statements at their fair values at the date of receipt.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Statement Presentation

Financial statement presentation follows the recommendation of the Financial Accounting Standards Board in *Accounting Standards Codification 958: Not-for-Profit Entities*. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets temporarily restricted net assets and permanently restricted net assets. See Note 6 for discussion of the Organization's permanently restricted net assets.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash held in checking and money market accounts and other short-term investments of a liquid nature with maturities of less than 90 days. At year end and throughout the year, the Organization's cash balances were deposited in several bank accounts at two banks. Management believes that the Organization is not exposed to any significant credit risk on cash and cash equivalents.

Inventory

Inventory consists of consumables and promotional items. These items are recorded at cost, which approximates market value. Inventory balances are immaterial to the financial statements.

Investments

Investments consist of publicly-traded mutual funds and are carried at fair value.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions.

Advertising Costs

Advertising costs are expensed as incurred.

KIDS' MEALS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 and 2016

NOTE 1 – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Organization is a 501(c) (3) non-profit corporation whose revenue is derived from contributions, fees and other fundraising activities and is not subject to federal or state income taxes. The Organization files a Form 990 with the Internal Revenue Service, and years 2013 through 2017 are subject to examination.

Subsequent events

Subsequent events have been evaluated through June 5, 2018, which is the date the financial statements were issued.

New Accounting Pronouncements

Management has considered the potential impact to the financial statements from new accounting pronouncements that have been issued but have not yet taken effect. The effects of such pronouncements are not material to the financial statements.

Reclassification Adjustments

Certain balances from prior years have been reclassified to conform to current year financial statement presentation. These are not material to the financial statements.

NOTE 2 – IN-KIND DONATIONS

The Organization recognized \$511,794 and \$483,242 of in-kind donations for the years ending December 31, 2017 and 2016, respectively. The goods and services are as follows:

	<u>2017</u>	<u>2016</u>
Food	\$ 465,189	\$ 445,667
Vehicle maintenance	16,821	24,140
Vehicles	17,880	
Equipment	4,200	
Contributed Stock (Fair Value)	7,704	13,435
	<u>\$ 511,794</u>	<u>\$ 483,242</u>

KIDS' MEALS, INC.

NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2017 and 2016

NOTE 2 – IN-KIND DONATIONS (continued)

The contributed goods and services were used for the Meals on Wheels program. In addition, the Organization received thousands of hours of donated work from hundreds of people ranging from Board members to volunteers helping with the Organization's programs. While the value of such contributed efforts is vitally beneficial to the Organization, no dollar amount is recognized on our financial statements or tax return for these contributions

NOTE 3 – INVESTMENTS

The Organization held \$150,709 and \$115,305 in publicly-traded mutual funds at December 31, 2017 and 2016, respectively. These investments are reported at fair market value. Fair values and unrealized appreciation are summarized as follows:

Mutual funds:	<u>2017</u>	<u>2016</u>
Cost	\$ 50,000	\$ 50,000
Fair value	150,709	115,305
Unrealized appreciation	<u>\$ 100,709</u>	<u>\$ 65,305</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the years ended December 31, 2017 and 2016:

Dividend income	\$ 784	1,491
Net realized and unrealized gain (loss)	27,453	6,732
Total unrestricted investment income (loss)	<u>\$ 28,237</u>	<u>\$ 8,223</u>

NOTE 4 – FAIR VALUE MEASUREMENTS

The Organization has adopted *Accounting Standards Codification (ASC) 820: Fair Value Measurements and Disclosures*, which among other things, requires enhanced disclosures about assets and liabilities that are measured and reported at fair value. ASC 820 establishes a hierarchal disclosure framework which prioritizes the inputs to valuation techniques used to measure fair value.

NOTE 4 – FAIR VALUE MEASUREMENTS (continued)

The hierarchal disclosure framework which prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy established under ASC 820 gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities

(Level 1 measurements) and the lowest priority to observable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted, quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 – Inputs, excluding those included in Level 1, are either observable prices for identical assets or liabilities in active markets, observable prices for similar assets and liabilities, or other inputs derived principally from, or corroborated by, observable market data at the measurement date.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017.

Mutual funds are valued at the quoted market price of units held by the Organization at year end.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

KIDS' MEALS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 and 2016

NOTE 4 – FAIR VALUE MEASUREMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2017:

	Prices in Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Mutual funds	\$ 150,709	\$	\$
Certificate of deposit	600,000		
Total Assets at Fair Value	<u>\$ 750,709</u>	<u>\$</u>	<u>\$</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2016:

	Prices in Active Markets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Mutual funds	\$ 115,305	\$	\$
Certificate of deposit			
Total Assets at Fair Value	<u>\$ 115,305</u>	<u>\$</u>	<u>\$</u>

The Organization's investments are mutual funds and certificates of deposits, and are categorized as Level 1 at both December 31, 2017 and 2016.

NOTE 5 – FIXED ASSETS

It is the Organization's policy to capitalize property and equipment over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor.

KIDS' MEALS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 and 2016

NOTE 5 – FIXED ASSETS (continued)

The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method. The following estimated useful lives are used:

Leasehold Improvements	4 years
Furniture and equipment	5-15 years
Computer equipment	3 years

NOTE 6 – PERMANENTLY RESTRICTED NET ASSETS

The Board of Directors has interpreted the Texas Uniform Prudent Management Institutional Funds Act (TUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by TUPMIFA. In accordance with TUPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

Permanently restricted assets consist of the Huffington Endowment Fund. The Organization has agreed to maintain the original principal balance of \$50,000 and to expend only the income and net capital gains of the fund for operational purposes of the Organization. As needed, the Board of Directors will appropriate available funds for specific purposes. There were no appropriations or disbursements made for operating activities for the years ending December 31, 2017 and 2016. During 2017, the endowment fund recognized unrealized gains of \$26,335 and recognized dividends and capital gain income of \$1,902. In addition, securities with fair value of \$7,704 were contributed to the Endowment fund. During 2016 the endowment fund recognized unrealized gains of \$2,368 and recognized dividend and capital gain income of \$5,335.

KIDS' MEALS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 and 2016

NOTE 6 – PERMANENTLY RESTRICTED NET ASSETS (continued)

With respect to the Endowment Fund, the objective is to preserve capital, and minimize risk. The Endowment is invested in broad-based mutual funds. The objective of preservation of capital is intended allow earnings to accumulate until such time as appropriated by the Board of Directors. To achieve this objective, funds are invested in widely-traded and stable instruments.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of contributions with donor-imposed restrictions that limit the use of the funds for a particular purpose. When the donor's restriction is satisfied, the funds are re-classified from temporarily restricted net assets to unrestricted net assets.

The following schedule summarizes the temporarily restricted net assets for the years ended December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Donor designated purpose:		
Auto expenses	\$	\$ 265
Holiday meals	2,250	2,250
Books for clients	8,468	8,468
Purchase new van	2,442	25,000
Facility improvements		172
	<u>\$ 13,160</u>	<u>\$ 36,155</u>

NOTE 8 – OPERATING LEASE AGREEMENT

The Organization has a four year lease agreement with Houston Pine Forest M, LLC and leases approximately 5,400 square feet of office space expiring in 2018. The minimum operating lease payments, which do not include real estate or property taxes or certain occupancy or operating costs associated with such leases, are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Minimum rent</u> <u>per year</u>
2018	<u>45,972</u>
Total	<u>\$ 45,972</u>

NOTE 9 – FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 10 – CONCENTRATIONS

For the years ending December 31, 2017, the Organization's top ten donors accounted for approximately 31% of total revenues. For the years ending December 31, 2016, the organization's top ten donors accounted for approximately 20% of total revenues.

NOTE 11 – RELATED PARTY TRANSACTIONS

During the years ending December 31, 2017 and 2016, the Organization received \$69,210 and \$64,387 respectively, in donations from its Board members. These contributions are reported as unrestricted revenues on the statements of activities.

This page intentionally left blank.

