

Kids' Meals, Inc.

**Consolidated Financial Statements with Report of Independent Auditors
December 31, 2024**

Report of Independent Auditors

To the Board of Directors of
Kids' Meals, Inc.:

Opinion

We have audited the accompanying consolidated financial statements of Kids' Meals, Inc. and Subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2024, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kids' Meals, Inc. and Subsidiaries as of December 31, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Kids' Meals, Inc. and Subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Kids' Meals, Inc. and Subsidiaries' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Kids' Meals, Inc. and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Kids' Meals, Inc. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Novogradac & Company LLP

Long Beach, California

May 2, 2025

KIDS' MEALS, INC.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
December 31, 2024

| | <u>2024</u> |
|--|-----------------------------|
| ASSETS | |
| Current assets | |
| Cash and cash equivalents | \$ 1,738,171 |
| Restricted cash - current | 14,108,563 |
| Interest receivable | 40,836 |
| Prepaid expenses | 271,677 |
| Accounts receivable | 25,360 |
| Grants and pledges receivable - current | 2,100,660 |
| Investments - current | 1,939,876 |
| Endowments - current | 317,841 |
| Total current assets | <u>20,542,984</u> |
| Noncurrent assets | |
| Restricted cash - noncurrent | 903,806 |
| Grants and pledges receivable - noncurrent | 2,014,400 |
| Notes receivable, net | 23,081,500 |
| Investments - noncurrent | 4,237,456 |
| Endowments - noncurrent | 50,000 |
| Fixed assets, net | 21,189,605 |
| Right-of-use lease assets | 180,303 |
| Total noncurrent assets | <u>51,657,070</u> |
| Total assets | <u><u>\$ 72,200,054</u></u> |
| LIABILITIES AND NET ASSETS | |
| Current liabilities | |
| Accounts payable | \$ 205,793 |
| Construction payable | 3,317,848 |
| Payroll liabilities payable | 83,481 |
| Short-term lease liability | 166,978 |
| Total current liabilities | <u>3,774,100</u> |
| Noncurrent liabilities | |
| Notes payable, net | 32,828,653 |
| Long-term lease liability | 27,292 |
| Total noncurrent liabilities | <u>32,855,945</u> |
| Total liabilities | 36,630,045 |
| Net assets | |
| Without donor restrictions | 30,968,137 |
| With donor restrictions | 4,601,872 |
| Total net assets | <u><u>35,570,009</u></u> |
| Total liabilities and net assets | <u><u>\$ 72,200,054</u></u> |

see accompanying notes

KIDS' MEALS, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2024

| | Without Donor Restrictions | With Donor Restrictions | Consolidated Total 2024 |
|--|-------------------------------|----------------------------|----------------------------|
| PUBLIC SUPPORT AND OTHER REVENUES | | | |
| Contributions of cash and other financial assets | | | |
| Public support: | | | |
| Contributions | \$ 5,701,384 | \$ 6,824,050 | \$ 12,525,434 |
| Donated food | 2,291,848 | - | 2,291,848 |
| Special events (net of \$384,930 expenses) | 771,091 | - | 771,091 |
| Total public support | 8,764,323 | 6,824,050 | 15,588,373 |
| Other revenues: | | | |
| Interest income | 288,728 | - | 288,728 |
| Investment income, net | 282,128 | - | 282,128 |
| Other income | 1,984 | - | 1,984 |
| Total other revenues | 572,840 | - | 572,840 |
| Net assets released from restrictions | 14,928,053 | (14,928,053) | - |
| Total revenue and other support | 24,265,216 | (8,104,003) | 16,161,213 |
| EXPENDITURES | | | |
| Program services | 7,273,964 | - | 7,273,964 |
| Administrative and support | 735,854 | - | 735,854 |
| Fundraising | 1,046,092 | - | 1,046,092 |
| Total expenditures | 9,055,910 | - | 9,055,910 |
| CHANGE IN NET ASSETS | 15,209,306 | (8,104,003) | 7,105,303 |
| NET ASSETS AT BEGINNING OF YEAR | 15,758,831 | 12,705,875 | 28,464,706 |
| NET ASSETS AT END OF YEAR | \$ 30,968,137 | \$ 4,601,872 | \$ 35,570,009 |

see accompanying notes

KIDS' MEALS, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2024

| EXPENDITURES | Program Services | Management and General | Fundraising | Consolidated Total 2024 |
|-----------------------------------|---------------------|---------------------------|---------------------|----------------------------|
| Salaries and wages | \$ 2,126,301 | \$ 479,518 | \$ 665,368 | \$ 3,271,187 |
| In-kind food donations | 2,291,848 | - | - | 2,291,848 |
| Food purchases | 828,430 | - | - | 828,430 |
| Interest expense | 472,546 | - | - | 472,546 |
| Health and dental insurance | 262,884 | 59,285 | 82,263 | 404,432 |
| Depreciation expense | 279,179 | - | - | 279,179 |
| Contract labor | 59,306 | 24,261 | 186,004 | 269,571 |
| Operating lease expense | 198,987 | 24,873 | 24,873 | 248,733 |
| Fuel and auto expense | 234,587 | - | - | 234,587 |
| Advertising and promotion | 143,279 | - | 47,760 | 191,039 |
| Office expense | 124,168 | 15,521 | 15,521 | 155,210 |
| Utilities, telephone and internet | 49,895 | 14,033 | 14,033 | 77,961 |
| Accounting and legal fees | 36,382 | 36,383 | - | 72,765 |
| Repairs and maintenance | 70,430 | - | - | 70,430 |
| Bank and service fees | - | 53,283 | - | 53,283 |
| Reimbursements to CDEs | 50,000 | - | - | 50,000 |
| Supplies | 25,670 | 3,209 | 3,209 | 32,088 |
| Meeting expenses | - | 16,665 | - | 16,665 |
| Liability insurance | 9,045 | 1,131 | 1,131 | 11,307 |
| Loss on disposal of fixed asset | 8,534 | - | - | 8,534 |
| Postage and delivery | 848 | 1,694 | 5,930 | 8,472 |
| Staff travel | - | 5,998 | - | 5,998 |
| Property and other insurance | 1,645 | - | - | 1,645 |
| Total expenditures | <u>\$ 7,273,964</u> | <u>\$ 735,854</u> | <u>\$ 1,046,092</u> | <u>\$ 9,055,910</u> |

see accompanying notes

KIDS' MEALS, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2024

| | <u>2024</u> |
|---|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Change in net assets | \$ 7,105,303 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | |
| Interest expense - debt issuance costs | 18,280 |
| Amortization of right-of-use lease asset | 176,009 |
| Amortization of right-of-use lease liability | (179,813) |
| Depreciation expense | 279,179 |
| Loss on disposal of fixed asset | 8,534 |
| Unrealized gain on investments | (56,331) |
| Realized loss on sale of investments | 29,137 |
| Changes in operating assets and liabilities: | |
| Increase in accounts receivable | (1,083) |
| Decrease in grants and pledges receivable | 1,585,093 |
| Increase in interest receivable | (40,836) |
| Increase in prepaid expenses | (785) |
| Increase in accounts payable | 73,391 |
| Increase in payroll liabilities payable | 38,449 |
| Net cash provided by operating activities | <u>9,034,527</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Loans made to borrower | (23,081,500) |
| Purchases of fixed assets | (7,984,074) |
| Proceeds from sale of investments | 3,786,524 |
| Contributions to endowment fund | (71,937) |
| Net cash used in investing activities | <u>(27,350,987)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Payment of debt issuance costs | (1,276,689) |
| Proceeds from notes payable | 41,831,604 |
| Payments on notes payable | (7,780,593) |
| Net cash provided by financing activities | <u>32,774,322</u> |

see accompanying notes

KIDS' MEALS, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2024

| | <u>2024</u> |
|---|-----------------------------|
| Net change in cash, cash equivalents and restricted cash | 14,457,862 |
| Cash, cash equivalents and restricted cash at beginning of year | <u>2,292,678</u> |
| Cash, cash equivalents and restricted cash at end of year | <u><u>\$ 16,750,540</u></u> |
| Cash and cash equivalents | 1,738,171 |
| Restricted cash | <u>15,012,369</u> |
| Total cash, cash equivalents and restricted cash | <u><u>\$ 16,750,540</u></u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | |
| Cash paid for interest | <u><u>\$ 454,266</u></u> |
| Cash paid for interest capitalized into fixed assets | <u><u>\$ 177,012</u></u> |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES: | |
| Increase in fixed assets due to construction payable | <u><u>\$ 3,317,848</u></u> |
| Debt issuance cost amortization capitalized into fixed assets | <u><u>\$ 36,051</u></u> |

see accompanying notes

KIDS' MEALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024

1. Organization

Kids' Meals, Inc. ("KMI") is a Texas nonprofit corporation classified by the Internal Revenue Service as tax-exempt under Section 501(c)(3) of the Internal Revenue Code of 1986. The Organization was incorporated on February 21, 1991, to end childhood hunger in Houston, Texas by delivering free healthy meals, year-round to the doorsteps of Houston's hungriest preschool-aged children and through collaboration provide their families with resources to end the cycle of poverty. KMI is primarily funded by private and public donations.

KMI formed Kids' Meals Support Corp ("KMSC") on January 10, 2024 for the purpose of exclusively supporting the programs operated by the Organization and to hold title to the property, including real and personal property, located at 8790 Hammerly Boulevard in Houston, Texas (the "Property").

KMI formed The KMI Foundation (the "Foundation") on January 10, 2024 for the purpose of receipt, holding, and investment of funds for the benefit of the Organization, including acting as a lender to facilitate a New Markets Tax Credit ("NMTC") transaction.

KMI consolidates KMSC and Foundation (KMI, KMSC, and Foundation, are collectively, the "Consolidated Entity" or the "Organization"). The accounts of KMSC and Foundation are presented herein. The consolidated financial statements include the accounts of the Consolidated Entity. All material intercompany accounts and transactions are eliminated in consolidation.

2. Summary of significant accounting policies

Basis of accounting

The Organization prepares its consolidated financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

Basis of presentation

The Organization is required to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature, which will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statement of activities.

KIDS' MEALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024

2. Summary of significant accounting policies (continued)

Principles of consolidation

The Consolidated Entity's consolidated financial statements include the accounts of majority-owned, controlled subsidiaries that the Organization controls. All material intercompany balances and transactions have been eliminated in consolidation.

Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Economic concentration

The Consolidated Entity's primary sources of funds are dependent on public and private donations. The Consolidated Entity's major asset is its property located in Houston, Texas. Future operations could be affected by changes in economic or other conditions in that geographical area.

Cash and cash equivalents

Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or fewer at the date of acquisition.

Restricted cash is not considered cash and cash equivalents, and includes cash held with financial institutions for funding of construction payments, debt service payments, and payments of fee reimbursements. Restricted cash does not fall under the criteria for net assets with donor restrictions as these funds are held for operational purposes rather than donor-imposed restrictions.

Concentration of credit risk

The Consolidated Entity maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Consolidated Entity has not experienced any losses in such accounts. The Consolidated Entity believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts and pledges receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met.

Management considers receivables to be fully collectible. If amounts become uncollectible, they are charged to operations in the period in which that determination is made. Accounting principles generally accepted in the United States of America require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

KIDS' MEALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024

2. Summary of significant accounting policies (continued)

Notes receivable and allowance for credit losses

Notes receivable are measured at amortized cost basis and presented at the amount expected to be collected, net of deferred loan origination fees and unearned discounts, as applicable. The Organization records an allowance for credit losses based on losses expected to arise over the contractual term of the financial asset. Assets are written off when the Organization deems the loan receivable to be uncollectable. Write-offs are recognized as a deduction from the allowance for credit losses. Expected recoveries of amounts previously written off, which do not exceed the aggregate of previous write-offs, are included in determining the allowance account. As of December 31, 2024, management believes that the Organization's loans receivable are fully collectable and as such, the allowance for credit losses is zero.

In developing estimates for expected credit losses, management considers historical loss information updated for current conditions and reasonable and supportable forecasts that affect expected collectability using a loss-rate approach. Management considers factors such as the borrower's financial condition, the borrower's ability to make scheduled interest or principal payments based on the current and forecasted direction of the economic and business environment, the remaining payment terms of the loan, the remaining time to maturity, and the value of underlying collateral. Although management uses many factors to estimate credit losses, because of uncertainties associated with local economic conditions, collateral values, and future cash flows, it is reasonably possible that a material change could occur in the allowance for credit loan losses in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Notes receivable that are 90 days or more past due, based on the contractual terms of the loan, are classified on nonaccrual status. Uncollectable interest previously accrued is charged off, or an allowance is established by a charge to interest income. Interest income on nonaccrual loans is recognized only to the extent cash payments are received and the principal balance is believed to be collectable. A loan previously classified on nonaccrual status will resume accruing interest based on the contractual terms of the loan when payments on the loan become current. There were no loans on nonaccrual status at December 31, 2024.

Fair value measurements

The Organization applies the accounting provisions related to fair value measurements. These provisions define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, establish a hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity's own data. These provisions also provide valuation techniques, such as the market approach (comparable market prices), the income approach (present value of future income or cash flows) and the cost approach (cost to replace the service capacity of an asset or replacement cost).

KIDS' MEALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024

2. Summary of significant accounting policies (continued)

Fair value measurements (continued)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels of valuation hierarchy are defined as follows:

Level 1: Observable inputs such as quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs other than quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Unobservable inputs that reflect the Organization's own assumptions.

The following tables present the Organization's assets that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of December 31, 2024:

| | Level 1 | Level 2 | Level 3 | Fair Value Measurements |
|-------------------------|---------------------|-------------|-------------|----------------------------|
| Assets | | | | |
| Mutual funds | \$ 2,533,349 | \$ - | \$ - | \$ 2,533,349 |
| Asset backed securities | 71,897 | - | - | 71,897 |
| U.S. corporate bonds | 3,565,619 | - | - | 3,565,619 |
| U.S. treasury bonds | 339,816 | - | - | 339,816 |
| U.S. equity securities | 22,722 | - | - | 22,722 |
| Total assets | <u>\$ 6,533,453</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 6,533,453</u> |

Investments

Investment purchases and sales are accounted for on a trade-date basis. Realized gains and losses are calculated based upon the underlying cost of individual lots. Interest income is recorded when earned and dividends are recorded on the ex-dividend date.

Investments are made according to the finance policy adopted by the Organization's Board of Directors. The guidelines provide for investment in equities, fixed income, and other securities with performance measured against appropriate indices. Outside advisors are utilized by the Organization for the purpose of providing investment and consulting advice.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

KIDS' MEALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024

2. Summary of significant accounting policies (continued)

Fixed assets and depreciation

Purchases of property, equipment, or improvements costing more than \$2,000 are recorded at cost. Major improvements are charged to the fixed asset account, while maintenance and repairs, which do not extend the life of the respective assets, are expensed. When fixed assets are retired or otherwise disposed, the cost of the fixed asset and the related accumulated depreciation are removed from the accounts and any resulting gains or losses are reflected in income.

Donations of land, buildings, and equipment are recorded as support at their estimated fair value in the statement of activities. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used acquire buildings and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expiration of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Depreciation expense for the year ended December 31, 2024 was \$279,179. The useful lives of the assets are estimated as follows:

| | |
|-------------------------|--------------|
| Leasehold improvements | 3 years |
| Furniture and equipment | 5 - 15 years |
| Computer equipment | 3 years |
| Vehicles | 5 years |

As of December 31, 2024, the Consolidated Entity's fixed assets consisted of:

| | |
|------------------------------------|----------------------|
| Land | \$ 8,329,689 |
| Leasehold improvements | 24,814 |
| Construction in progress | 11,959,137 |
| Equipment, furniture, and fixtures | 397,827 |
| Vehicles | <u>1,288,461</u> |
| Total fixed assets | 21,999,928 |
| Less: accumulated depreciation | <u>(810,323)</u> |
| Fixed assets, net | <u>\$ 21,189,605</u> |

Impairment of long-lived assets

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flows expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value as determined from an appraisal, discounted cash flow analysis, or other valuation technique. For the year ended December 31, 2024, no impairment losses were recognized.

KIDS' MEALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024

2. Summary of significant accounting policies (continued)

Endowment funds

In August 2008, Financial Accounting Standards Board ("FASB") provided guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 ("UPMIFA"). This guidance also improves disclosures about an organization's endowed funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA.

The Organization is subject to the required disclosures in that the Organization classifies its unrealized gains and losses on donor-restricted endowed funds as net assets with donor restrictions. As of December 31, 2024, no fund balances were below the historical gift amount.

The endowment fund consists of the Huffington Endowment Fund. The Organization has agreed to maintain a principal balance of \$50,000 and to expend only the income and net capital gains of the fund for operation purposes. As needed, the board of directors will appropriate available funds for specific purposes. There were no appropriations made for operating activities for the year ended December 31, 2024. The Organization's share of investment gain was \$71,937, which is included in investment income in the accompanying consolidated statement of activities and changes in net assets.

Income taxes

KMI, KMSC, and Foundation are exempt from federal income taxes under Internal Revenue Code Section 501(c)(3) and from Texas franchise taxes.

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

The Organization receives substantial donations of food from various donors. The Organization values the food based on comparable cost estimates.

Unconditional pledges to give are recorded as contributions when pledged at the net present value of the amounts expected to be collected. Unconditional pledges to give that are expected to be received in future periods are discounted annually using the current interest rate the funds would earn. Amortization of the discount is recorded as contribution revenue.

KIDS' MEALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024

2. Summary of significant accounting policies (continued)

Revenue recognition

Revenue resulting from grants is recognized upon satisfaction of conditions and terms outlined in the respective agreements.

Interest income is recognized when earned in accordance with the contractual terms of the loan agreements and promissory notes. Advance interest payments are deferred and classified as liabilities until earned.

Revenue resulting from special events, fees charged by the Organization, and other income is recognized when performance obligations are met.

Functional expenses

The costs of providing program services and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program services, management and general, and fundraising services benefited. Such allocations are determined by management on an equitable basis.

The Organization allocates a portion of its capital campaign expenses to its fundraising function, as they are non-recurring in nature. For the year ended December 31, 2024, the amount of capital campaign expenses allocated to fundraising was \$173,806.

The expenses that are allocated include the following:

| <u>Expense</u> | <u>Method of allocation</u> |
|----------------------------|-----------------------------|
| Interest | Purpose |
| Depreciation | Purpose |
| Amortization | Purpose |
| General and administrative | Time and effort |
| Repairs and maintenance | Purpose |
| Salaries and benefits | Time and effort |
| Occupancy | Square footage used |
| Professional services | Purpose |
| Fundraising | Purpose |
| Advertising | Purpose |

Advertising

Advertising costs are expensed as incurred. For the years ended December 31, 2024, the Organization incurred \$191,039 in advertising costs.

Leases

The Organization determines if an arrangement is a lease at inception. An arrangement is a lease if the arrangement conveys a right to direct the use of and to obtain substantially all of the economic benefits from the use of an asset for a period of time in exchange for consideration.

KIDS' MEALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024

2. Summary of significant accounting policies (continued)

Leases (continued)

Operating lease right-of-use assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. The Organization uses a risk-free rate at the commencement date in determining the present value of lease payments.

The operating lease right-of-use asset also includes any lease payments made and excludes lease incentives. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Organization will exercise that option. The lease agreements do not contain any material residual value guarantees or material restrictive covenants. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Subsequent events

Subsequent events have been evaluated through May 2, 2025, which is the date the consolidated financial statements were available to be issued, and there are no subsequent events requiring disclosure.

3. Liquidity and availability of financial assets

The following represents the Consolidated Entity's financial assets at December 31, 2024:

Financial assets at year end:

| | |
|-------------------------------|------------------|
| Cash and cash equivalents | \$ 1,738,171 |
| Restricted cash | 15,012,369 |
| Grants and pledges receivable | 4,115,060 |
| Accounts receivable | 25,360 |
| Notes receivable | 23,081,500 |
| Endowment fund | 367,841 |
| Investments | <u>6,177,332</u> |
| Total financial assets | 50,519,656 |

Less amounts not available to be used within one year:

| | |
|-------------------------------|-------------------|
| Restricted cash | 903,806 |
| Grants and pledges receivable | 2,014,400 |
| Notes receivable | 23,081,500 |
| Endowment fund | 50,000 |
| Investments | <u>4,237,456</u> |
| Total assets not available | <u>30,287,162</u> |

Financial assets available to meet general expenditures
over the next twelve months: \$ 20,232,494

KIDS' MEALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024

3. Liquidity and availability of financial assets (continued)

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses. As part of its liquidity plan, excess cash is committed to be used for debt service and the construction and development of the Property.

4. Restricted cash

Kids' Meals, Inc.

Operating business CDE reserve

Concurrent with the Organization's qualified low-income community investment ("QLICI") loans from BCC NMTC CDE XXXVI LLC ("OB Lender") funded on March 7, 2024, a reserve account was established for the purpose of paying certain fees and expenses due to the OB Lender (the "OB CDE Reserve"). The OB CDE Reserve is pledged to the OB Lender as collateral for the loans.

Operating business disbursement account

Concurrent with the Organization's QLICI loans from the OB Lender funded on March 7, 2024, a disbursement account was established to provide for future operating expenses (the "OB Disbursement Account"). The OB Disbursement Account is pledged to the OB Lender as collateral for the loans.

Kids' Meals Support Corp

Real estate CDE reserve

Concurrent with the KMSC's QLICI loans from BCC NMTC CDE XXXVII LLC ("RE Lender") funded on March 12, 2024, a reserve account was established for the purpose of paying certain fees and expenses due to the RE Lender (the "RE CDE Reserve"). The RE CDE Reserve is pledged to the RE Lender as collateral for the loans.

Real estate disbursement account

Concurrent with the KMSC's QLICI loans from the RE Lender funded on March 7, 2024, a disbursement account was established to provide for to provide for development costs related to the Property (the "RE Disbursement Account"). The RE Disbursement Account is pledged to the RE Lender as collateral for the loans.

The Consolidated Entity's restricted cash balances as of December 31, 2024, is comprised of the following:

| | |
|-------------------------|----------------------|
| RE Disbursement Account | \$ 12,444,421 |
| OB Disbursement Account | 1,494,759 |
| RE CDE Reserve | 703,187 |
| OB CDE Reserve | <u>370,002</u> |
| Total restricted cash | <u>\$ 15,012,369</u> |

KIDS' MEALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024

5. Transactions with related parties

Donations from board members

For the year ended December 31, 2024, the Organization received \$172,991 in donations from its board members. These contributions are included as contributions without donor restrictions in the accompanying consolidated statement of activities and changes in net assets.

6. Investments

Investments comprised the following as of December 31, 2024:

| | |
|-------------------------|---------------------|
| Mutual funds | \$ 2,200,000 |
| Asset backed securities | 71,897 |
| U.S. corporate bonds | 3,565,619 |
| U.S treasury bonds | <u>339,816</u> |
| Total investments | <u>\$ 6,177,332</u> |

The following schedule summarizes the investment return and its classification in the consolidated statement of activities and changes in net assets for the year ended December 31, 2024:

| | |
|-------------------------|-------------------|
| Interest | \$ 135,610 |
| Dividends | 119,324 |
| Unrealized gains | 56,331 |
| Realized loss | <u>(29,137)</u> |
| Total investment income | <u>\$ 282,128</u> |

7. Notes receivable

Kids' Meals, Inc.

Real Estate Leverage Loan

Pursuant to Fund Promissory Note dated March 12, 2024 ("RE Lev Loan Note"), KMI made a loan to KM Houston Investment Fund, LLC (the "RE Investment Fund") in the amount of \$15,979,500 (the "RE Lev Loan"). Commencing on March 12, 2024 through March 1, 2031, interest only, at a rate of 1.3753% per annum, is payable, partially in arrears and partially in advance, in quarterly installments on the 15th day of each March, June, September and December ("Payment Dates"). Commencing on March 1, 2031, payments of principal and interest are due in accordance with the Payment Schedule attached to the RE Lev Loan Note through maturity on March 12, 2049. The RE Lev Loan is secured by the Pledged Collateral, as defined in the Fund Pledge Agreement dated March 12, 2024. As a result of KMI making the RE Lev Loan, KMSC received RE Loan A discussed in Note 8.

KIDS' MEALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024

7. Notes receivable (continued)

The KMI Foundation

Real Estate Leverage Loan

Pursuant to Fund Promissory Note dated March 7, 2024 ("OB Lev Loan Note"), the Foundation made a loan to KM2 Houston Investment Fund, LLC (the "OB Investment Fund") in the amount of \$7,102,000 (the "OB Lev Loan"). Commencing on March 7, 2024 through March 1, 2031, interest only, at a rate of 1.3708% per annum, is payable, partially in arrears and partially in advance, in quarterly installments on the Payment Dates. Commencing on March 1, 2031, payments of principal and interest are due in accordance with the Payment Schedule attached to the OB Lev Loan Note through maturity on March 7, 2049. The OB Lev Loan is secured by the Pledged Collateral, as defined in the Fund Pledge Agreement dated March 7, 2024. As a result of the Foundation making the OB Lev Loan, KMI received OB Loan A discussed in Note 8.

Notes receivable consists of the following as of December 31, 2024:

| | |
|-----------------------------------|----------------------|
| RE Lev Loan | \$ 15,979,500 |
| OB Lev Loan | <u>7,102,000</u> |
| Total notes receivable | 23,081,500 |
| Less: allowance for credit losses | - |
| Notes receivable, net | <u>\$ 23,081,500</u> |

As of December 31, 2024, there was no accrued interest receivable.

Future principal payments on the notes receivable are expected to be as follows:

| | |
|---------------------------|----------------------|
| Years ending December 31, | |
| 2025 | \$ - |
| 2026 | - |
| 2027 | - |
| 2028 | - |
| 2029 | - |
| Thereafter | <u>23,081,500</u> |
| Total | <u>\$ 23,081,500</u> |

KIDS' MEALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024

8. Notes payable

Kids' Meals Support Corp

Real Estate Loan A

Pursuant to Promissory Note A1 dated March 12, 2024 ("RE Note A"), KMSC received a loan from the RE Lender in the amount of \$15,979,500 (the "RE Loan A"). Commencing on March 12, 2024 through March 1, 2031, interest only, at a rate of 1.00% per annum, is payable, partially in arrears and partially in advance, in quarterly installments on the 5th day of each March, June, September and December ("QLICI Payment Dates"). Commencing on March 1, 2031, payments of principal and interest are due in accordance with the Payment Schedule attached to RE Note A through maturity on March 12, 2054 (the "RE Maturity Date"). RE Loan A is secured by the Deposit Collateral, as defined in the Account Pledge and Control Agreement dated March 12, 2024 (the "RE Collateral").

Real Estate Loan B

Pursuant to Promissory Note B1 dated March 12, 2024 ("RE Note B"), KMSC received a loan from the RE Lender in the amount of \$6,070,500 (the "RE Loan B"). Commencing on March 12, 2024 through March 1, 2031, interest only, at a rate of 1.00% per annum, is payable, partially in arrears and partially in advance, in quarterly installments on the QLICI Payment Dates. Commencing on March 1, 2031, payments of principal and interest are due in accordance with the Payment Schedule attached to RE Note B through maturity on the RE Maturity Date. RE Loan B is secured by the RE Collateral.

Kids' Meals, Inc.

Operating Business Loan A

Pursuant to Promissory Note A1 dated March 7, 2024 ("OB Note A"), KMI received a loan from the OB Lender in the amount of \$7,102,000 (the "OB Loan A"). Commencing on March 7, 2024 through March 1, 2031, interest only, at a rate of 1.00% per annum, is payable, partially in arrears and partially in advance, in quarterly installments on the QLICI Payment Dates. Commencing on March 1, 2031, payments of principal and interest are due in accordance with the Payment Schedule attached to OB Note A through maturity on March 12, 2054 (the "OB Maturity Date"). OB Loan A is secured by the Deposit Collateral, as defined in the Account Pledge and Control Agreement dated March 7, 2024 (the "OB Collateral").

Operating Business Loan B

Pursuant to Promissory Note B1 dated March 7, 2024 ("OB Note B"), KMI received a loan from the OB Lender in the amount of \$2,698,000 (the "OB Loan B"). Commencing on March 7, 2024 through March 1, 2031, interest only, at a rate of 1.00% per annum, is payable, partially in arrears and partially in advance, in quarterly installments on the QLICI Payment Dates. Commencing on March 1, 2031, payments of principal and interest are due in accordance with the Payment Schedule attached to OB Note B through maturity on the OB Maturity Date. OB Loan B is secured by the OB Collateral.

KIDS' MEALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024

8. Notes payable (continued)

Real Estate Source Loan

Pursuant to the Loan Agreement dated March 12, 2024 (the "Source Loan Agreement"), KMI received a loan from Regions Commercial Equipment Finance, LLC in the principal amount of \$9,981,604 (the "Source Loan"). Pursuant to the Promissory Note dated March 12, 2024 (the "Source Note"), the Source Loan accrues interest per annum equal to the Term SOFR rate, as defined in the Source Note, plus an applicable margin of 1.45%. Interest payments are due monthly in arrears 1st day of each calendar month until the loan matures on March 1, 2028. Principal payments in the amount of monthly capital campaign proceeds are made on the 1st of each month following the receipt of such proceeds. The Source Loan is secured by the Security Documents, as defined in the Source Loan Agreement.

Notes payable consists of the following as of December 31, 2024:

| | |
|---------------------------------------|----------------------|
| RE Loan A | \$ 15,979,500 |
| RE Loan B | 6,070,500 |
| OB Loan A | 7,102,000 |
| OB Loan B | 2,698,000 |
| Source Loan | <u>2,201,011</u> |
| Total notes payable | 34,051,011 |
| Less: unamortized debt issuance costs | <u>(1,222,358)</u> |
| Notes payable, net | <u>\$ 32,828,653</u> |

As of December 31, 2024, accrued interest payable was \$0. For the year ended December 31, 2024, interest expense was \$454,266. For the year ended December 31, 2024, interest capitalized into fixed assets was \$177,012.

Debt issuance costs are being amortized to interest expense over the term of the loan. For the year ended December 31, 2024, amortization expense for debt issuance costs was \$18,280. For the year ended December 31, 2024, amortization expense for debt issuance costs capitalized into fixed assets was \$36,051.

For the year ended December 31, 2024, the effective interest rates were as follows:

| | |
|-------------|-------|
| RE Loan A | 1.23% |
| RE Loan B | 1.23% |
| OB Loan A | 1.21% |
| OB Loan B | 1.21% |
| Source Loan | 6.06% |

KIDS' MEALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024

8. Notes payable (continued)

Annual principal payments are as follows:

| Year ending December 31, | |
|--------------------------|----------------------|
| 2025 | \$ - |
| 2026 | - |
| 2027 | - |
| 2028 | 2,201,011 |
| 2029 | - |
| Thereafter | <u>31,850,000</u> |
| Total | <u>\$ 34,051,011</u> |

9. Leases

Magnolia Lease

The Organization leases property from Wave, LLC pursuant to the Lease Agreement dated February 26, 2022 (the "Magnolia Lease"). The leased property includes 1,785 square feet of warehouse and office space. The Magnolia Lease commenced on April 1, 2022 and has a 3-year term. Base rent in the amount of \$2,410 is due monthly, escalating at 7% per annum.

Garden Oaks Lease

Pursuant to the Third Lease Renewal Amendment executed on November 9, 2022, the Organization agreed to extend a lease with Houston-Pine Forest M, LLC (the "Garden Oaks Lease") for three additional years commencing on March 1, 2023 and expiring on February 28, 2026. The leased property includes 18,925 square feet of office space. Base rent in the amount of \$10,030 is due monthly, escalating at 3% per annum.

The balances for the Magnolia Lease and Garden Oaks Lease are presented as follows on the consolidated statement of financial position as of December 31, 2024:

Operating leases:

| | |
|------------------------------------|-------------------|
| Operating lease right-of-use asset | <u>\$ 180,303</u> |
| Operating lease liability | <u>\$ 194,270</u> |

Lease expense on the consolidated statement of operations for the year ended December 31, 2024 consists of the following:

| | |
|-------------------------|-------------------|
| Operating lease expense | <u>\$ 248,733</u> |
|-------------------------|-------------------|

The weighted-average remaining lease term for these operating leases approximated 1.13 years and the weighted-average discount rate approximated 4.53% as of December 31, 2024.

The lease agreements did not provide an implicit rate of return and the Organization used its risk-free rate based on information available at the commencement date in determining the present value of lease payments.

KIDS' MEALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024

9. Leases (continued)

As of December 31, 2024, the maturities of operating lease liabilities are summarized as follows:

| | |
|------------------------------|-------------------|
| Year ending December 31, | |
| 2025 | \$ 171,633 |
| 2026 | 27,355 |
| 2027 | - |
| 2028 | - |
| 2029 | - |
| Thereafter | - |
| Total minimum lease payments | 198,988 |
| Less: present value discount | (4,718) |
| Total lease liabilities | <u>\$ 194,270</u> |

10. Employee retirement plan

In September 2023, the Organization established a 401(k) plan. Employees are eligible to participate in the plan and can defer a portion of their gross bi-weekly salary into the plan, not to exceed statutory limits. The Organization currently matches 3% of all employee contributions to the plan. For the year ended December 31, 2024, the Organization incurred \$35,382 of employer contributions, which is included in payroll expense in the accompanying consolidated statement of activities and changes in net assets.

11. Net assets

Net assets without donor restrictions

Net assets without donor restrictions consist of the following as of December 31, 2024:

| | |
|---|----------------------|
| Board-designated | \$ - |
| Undesignated | <u>30,968,137</u> |
| Total net assets without donor restrictions | <u>\$ 30,968,137</u> |

Net assets with donor restrictions

Net assets with donor restrictions consist of the following as of December 31, 2024:

| | |
|--|---------------------|
| Capital campaign for new facility | 4,494,982 |
| Salaries | 25,000 |
| Auto expenses | 31,884 |
| Endowment fund | <u>50,000</u> |
| Total net assets with donor restrictions | <u>\$ 4,601,872</u> |

KIDS' MEALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024

12. Endowments

The Organization's endowments are established to provide increased long-range funding for future operations, administration, expansion, and projects of the Organization. As required by accounting principles generally accepted in the United State of America, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

As of December 31, 2024, endowment net assets consisted of the following:

| | Without donor restrictions | With donor restrictions | Total |
|-----------------------------|-------------------------------|----------------------------|------------------|
| Donor restricted endowments | \$ - | \$ 50,000 | \$ 50,000 |
| Board designated endowments | - | - | - |
| Total | <u>\$ -</u> | <u>\$ 50,000</u> | <u>\$ 50,000</u> |

| | Without donor restrictions | With donor restrictions | Total |
|--------------------------------|-------------------------------|----------------------------|-------------------|
| Endowments – January 1, 2024 | \$ 245,904 | \$ 50,000 | \$ 295,904 |
| Investment income | 38,375 | - | 38,375 |
| Unrealized gain | 33,562 | - | 33,562 |
| Endowments – December 31, 2024 | <u>\$ 317,841</u> | <u>\$ 50,000</u> | <u>\$ 367,841</u> |

The Board of Directors of the Organization has interpreted the Texas Uniform Prudent Management of Institutional Funds Act ("TUPMIFA"), as enacted by the state of Texas, as requiring the preservation of the fair value of the original gift as of the gift date of the endowment funds absent explicit donor stipulations to the contrary. The remaining portion of the donor-restricted endowment fund that is not classified as net assets with donor restrictions are appropriated for expenditure by the Organization in accordance with TUPMIFA.

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate endowment funds, including board-designated endowment funds: (1) the duration and preservation of the funds, (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, and (7) the Organization's investment policies.

Pursuant to the Endowment Agreement between the Organization and Huffington Foundation dated December 14, 1994, the Organization received a gift in the amount of \$50,000 (the "Endowment Principal") and agreed expend only the investment income and net capital gains earned from the Endowment Principal. As needed, the board of directors of the Organization will appropriate the available funds for specific purposes.

KIDS' MEALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024

13. Commitments and contingencies

New markets tax credits

Kids' Meals, Inc.

On March 7, 2024, KMI secured QLICI loans from the OB Lender. As a result of making the loans, Regions Bank is eligible for federal income tax credits under the NMTC program implemented by Congress in December 2000.

Pursuant to the QALICB Indemnification Agreement dated March 7, 2024 (the "OB Indemnification Agreement"), upon the occurrence of an event or condition that results in a recapture of all or any portion of NMTCs ("Recapture Event"), KMI (the "OB Indemnitor") shall pay the NMTC Recapture Amount, as defined in the OB Indemnification Agreement, to Regions Bank, but only if and to the extent that such Recapture Event is the result of:

- i. The portion of KMI's business participating in the transaction ("POB") ceasing to qualify as a qualified low-income community business ("QALICB");
- ii. The redemption (within the meaning of Section 1.45D-1(e)(2)(iii) of the Treasury Regulations) of any portion of the qualified equity investment ("QEI") received by the OB Lender due to default by the OB Indemnitor on its QLICIs;
- iii. Changes to the Internal Revenue Code ("IRC") or the Treasury Regulations, but only to the extent that the adverse effects thereof could reasonably have been mitigated by OB Indemnitor;
- iv. The failure of the POB or any of its tenants or subtenants to constitute a qualified business, within the meaning of Section 1.45D-1(d)(5) of the Treasury Regulations;
- v. The OB Lender's failure to satisfy the "substantially all" test under Section 1.45D-1(c)(1)(ii) and (5) of the Treasury Regulations due to voluntary or involuntary prepayment of principal by the POB on its QLICI loans received from the OB Lender;
- vi. The failure of the QLICI loans to qualify as a QLICI due to default by the OB Indemnitor; or
- vii. Any other matter within control of the OB Indemnitor, including without limitation, any fraud, intentional misconduct, gross negligence, material misrepresentation, or any other action or inaction within the control of the OB Indemnitor or its affiliates.

As of December 31, 2024, no claims or payments had been made relative to the indemnity and the Consolidated Entity is not aware of the occurrence of any Recapture Event. The Consolidated Entity has determined the likelihood of a Recapture Event to be remote after considering related factors. Accordingly, no liability has been recorded relative to the indemnity.

KIDS' MEALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024

13. Commitments and contingencies (continued)

New markets tax credits (continued)

Kids' Meals Support Corp

On March 12, 2024, KMSC secured QLICI loans from the RE Lender. As a result of making the loans, Regions Bank is eligible for federal income tax credits under the NMTC program implemented by Congress in December 2000.

Pursuant to the QALICB Indemnification Agreement dated March 12, 2024 (the "RE Indemnification Agreement"), upon the occurrence of Recapture Event, KMSC (the "RE Indemnitor") shall pay the NMTC Recapture Amount, as defined in the RE Indemnification Agreement, to Regions Bank, but only if and to the extent that such Recapture Event is the result of:

- i. KMSC ceasing to qualify as a QALICB;
- ii. The redemption (within the meaning of Section 1.45D-1(e)(2)(iii) of the Treasury Regulations) of any portion of the QEI received by the RE Lender due to default by the RE Indemnitor on its QLICIs;
- iii. Changes to the IRC or the Treasury Regulations, but only to the extent that the adverse effects thereof could reasonably have been mitigated by RE Indemnitor;
- iv. The failure of KMSC or any of its tenants or subtenants to constitute a qualified business, within the meaning of Section 1.45D-1(d)(5) of the Treasury Regulations;
- v. The RE Lender's failure to satisfy the "substantially all" test under Section 1.45D-1(c)(1)(ii) and (5) of the Treasury Regulations due to voluntary or involuntary prepayment of principal by KMSC on its QLICI loans received from the RE Lender;
- vi. The failure of the QLICI loans to qualify as a QLICI due to default by the RE Indemnitor; or
- vii. Any other matter within control of the RE Indemnitor, including without limitation, any fraud, intentional misconduct, gross negligence, material misrepresentation, or any other action or inaction within the control of the RE Indemnitor or its affiliates.

As of December 31, 2024, no claims or payments had been made relative to the indemnity and the Consolidated Entity is not aware of the occurrence of any Recapture Event. The Consolidated Entity has determined the likelihood of a Recapture Event to be remote after considering related factors. Accordingly, no liability has been recorded relative to the indemnity.

KIDS' MEALS, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024

14. Options

KM Houston Investment Fund Put Option

Pursuant to the Investment Fund Put/Call Agreement dated March 12, 2024 between KMI and Regions Community Investments, LLC (the "IF Member"), KMI granted the IF Member the option to sell 100% of its interest in the RE Investment Fund for the sum of (i) \$1,000, (ii) any transfer taxes and closing costs attributable to the sale of the interest, (iii) any amounts due under the RE Indemnification Agreement, and (iv) any other amounts due to the RE Investment Fund unrelated to the QLICI loans (the "RE Put"). Upon the end of the 84-month NMTC compliance period, KMI will be able to send notice to the IF Member that it can exercise the RE Put. The IF Member can exercise the RE Put within 90 days of receiving notice from the Organization (the "Put Option Period") or otherwise deliver notice that it will not exercise its option (the "Put Rejection"). Alternatively, KMI holds the option to purchase 100% of the interest in the RE Investment Fund upon receipt of a Put Rejection or expiration of the Put Option Period with no response from the IF Member (the "RE Call"). As of December 31, 2024, the IF Member has not exercised the RE Put and KMI has not exercised the RE Call.

KM2 Houston Investment Fund Put Option

Pursuant to the Investment Fund Put/Call Agreement dated March 7, 2024 between the Foundation and the IF Member, the Foundation granted the IF Member the option to sell 100% of its interest in the OB Investment Fund for the sum of (i) \$1,000, (ii) any transfer taxes and closing costs attributable to the sale of the interest, (iii) any amounts due under the OB Indemnification Agreement, and (iv) any other amounts due to the OB Investment Fund unrelated to the QLICI loans (the "OB Put"). Upon the end of the 84-month NMTC compliance period, the Foundation will be able to send notice to the IF Member that it can exercise the OB Put. The IF Member can exercise the OB Put within the Put Option Period or otherwise deliver a Put Rejection. Alternatively, the Foundation holds the option to purchase 100% of the interest in the OB Investment Fund upon receipt of a Put Rejection or expiration of the Put Option Period with no response from the IF Member (the "OB Call"). As of December 31, 2024, the IF Member has not exercised the OB Put and the Foundation has not exercised the OB Call.

KIDS' MEALS, INC.
CONSOLIDATING STATEMENTS OF FINANCIAL POSITION
December 31, 2024

| | Kids' Meals | KMSC | Foundation | Eliminations | Consolidated 2024 |
|--|----------------------|----------------------|---------------------|-----------------------|----------------------|
| ASSETS | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ 1,539,409 | \$ 119,256 | \$ 79,506 | \$ - | \$ 1,738,171 |
| Restricted cash - current | 960,955 | 13,147,608 | - | - | 14,108,563 |
| Interest receivable | 40,836 | - | - | - | 40,836 |
| Prepaid expenses | 271,677 | - | - | - | 271,677 |
| Accounts receivable | 25,360 | - | - | - | 25,360 |
| Grants and pledges receivable - current | 2,100,660 | - | - | - | 2,100,660 |
| Investments - current | 1,939,876 | - | - | - | 1,939,876 |
| Endowments - current | 317,841 | - | - | - | 317,841 |
| Total current assets | 7,196,614 | 13,266,864 | 79,506 | - | 20,542,984 |
| Noncurrent assets | | | | | |
| Restricted cash - noncurrent | 903,806 | - | - | - | 903,806 |
| Grants and pledges receivable - noncurrent | 2,014,400 | - | - | - | 2,014,400 |
| Notes receivable, net | 15,979,500 | - | 7,102,000 | - | 23,081,500 |
| Endowments - noncurrent | 50,000 | - | - | - | 50,000 |
| Investments - noncurrent | 4,237,456 | - | - | - | 4,237,456 |
| Fixed assets, net | 9,230,468 | 11,959,137 | - | - | 21,189,605 |
| Right-of-use lease assets | 180,303 | - | - | - | 180,303 |
| Due from related parties | 3,416,244 | - | - | (3,416,244) | - |
| Total noncurrent assets | 36,012,177 | 11,959,137 | 7,102,000 | (3,416,244) | 51,657,070 |
| Total assets | <u>\$ 43,208,791</u> | <u>\$ 25,226,001</u> | <u>\$ 7,181,506</u> | <u>\$ (3,416,244)</u> | <u>\$ 72,200,054</u> |
| LIABILITIES AND NET ASSETS | | | | | |
| Current liabilities | | | | | |
| Accounts payable | \$ 205,793 | \$ - | \$ - | \$ - | \$ 205,793 |
| Construction payable | 3,317,848 | - | - | - | 3,317,848 |
| Payroll liabilities payable | 83,481 | - | - | - | 83,481 |
| Due to related parties | - | 3,416,244 | - | (3,416,244) | - |
| Short-term lease liability | 166,978 | - | - | - | 166,978 |
| Total current liabilities | 3,774,100 | 3,416,244 | - | (3,416,244) | 3,774,100 |
| Noncurrent liabilities | | | | | |
| Notes payable, net | 11,591,091 | 21,237,562 | - | - | 32,828,653 |
| Long-term lease liability | 27,292 | - | - | - | 27,292 |
| Total noncurrent liabilities | 11,618,383 | 21,237,562 | - | - | 32,855,945 |
| Total liabilities | 15,392,483 | 24,653,806 | - | (3,416,244) | 36,630,045 |
| Net assets | | | | | |
| Without donor restrictions | 23,214,436 | 572,195 | 7,181,506 | - | 30,968,137 |
| With donor restrictions | 4,601,872 | - | - | - | 4,601,872 |
| Total net assets | 27,816,308 | 572,195 | 7,181,506 | - | 35,570,009 |
| Total liabilities and net assets | <u>\$ 43,208,791</u> | <u>\$ 25,226,001</u> | <u>\$ 7,181,506</u> | <u>\$ (3,416,244)</u> | <u>\$ 72,200,054</u> |

see accompanying notes

KIDS' MEALS, INC.
CONSOLIDATING STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2024

| | Without Donor Restrictions | | | With Donor Restrictions | | | | Consolidated Total |
|--|----------------------------|-------------------|---------------------|-------------------------|-------------|-------------|--------------|----------------------|
| | Kids' Meals | KMSC | Foundation | Kids' Meals | KMSC | Foundation | Eliminations | 2024 |
| PUBLIC SUPPORT AND OTHER REVENUES | | | | | | | | |
| Contributions of cash and other financial assets | | | | | | | | |
| Public support: | | | | | | | | |
| Contributions | \$ 5,701,384 | \$ - | \$ - | \$ 6,824,050 | \$ - | \$ - | \$ - | \$ 12,525,434 |
| Donated food | 2,291,848 | - | - | - | - | - | - | 2,291,848 |
| Special events (net of \$384,930 expenses) | 771,091 | - | - | - | - | - | - | 771,091 |
| Total public support | 8,764,323 | - | - | 6,824,050 | - | - | - | 15,588,373 |
| Other revenues: | | | | | | | | |
| Interest income | 209,222 | - | 79,506 | - | - | - | - | 288,728 |
| Investment income, net | 282,128 | - | - | - | - | - | - | 282,128 |
| Other income | 365,905 | 936,116 | 7,102,000 | - | - | - | (8,402,037) | 1,984 |
| Total other revenues | 857,255 | 936,116 | 7,181,506 | - | - | - | (8,402,037) | 572,840 |
| Net assets released from restrictions | 14,928,053 | - | - | (14,928,053) | - | - | - | - |
| Total revenue and other support | 24,549,631 | 936,116 | 7,181,506 | (8,104,003) | - | - | (8,402,037) | 16,161,213 |
| EXPENDITURES | | | | | | | | |
| Program services | 15,312,080 | 363,921 | - | - | - | - | (8,402,037) | 7,273,964 |
| Administrative and support | 735,854 | - | - | - | - | - | - | 735,854 |
| Fundraising | 1,046,092 | - | - | - | - | - | - | 1,046,092 |
| Total expenditures | 17,094,026 | 363,921 | - | - | - | - | (8,402,037) | 9,055,910 |
| CHANGE IN NET ASSETS | 7,455,605 | 572,195 | 7,181,506 | (8,104,003) | - | - | - | 7,105,303 |
| NET ASSETS AT BEGINNING OF YEAR | 15,758,831 | - | - | 12,705,875 | - | - | - | 28,464,706 |
| NET ASSETS AT END OF YEAR | <u>\$ 23,214,436</u> | <u>\$ 572,195</u> | <u>\$ 7,181,506</u> | <u>\$ 4,601,872</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 35,570,009</u> |

KIDS' MEALS, INC.
CONSOLIDATING STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2024

| | Kids' Meals | KMSC | Foundation | Eliminations | Consolidated Total 2024 |
|---|-----------------------|----------------------|------------------|--------------|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Change in net assets | \$ (648,398) | \$ 572,195 | \$ 7,181,506 | \$ - | \$ 7,105,303 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | | | | |
| Interest expense - debt issuance costs | 18,280 | - | - | - | 18,280 |
| Amortization of right-of-use lease asset | 176,009 | - | - | - | 176,009 |
| Amortization of right-of-use lease liability | (179,813) | - | - | - | (179,813) |
| Depreciation expense | 279,179 | - | - | - | 279,179 |
| Loss on disposal of fixed asset | 8,534 | - | - | - | 8,534 |
| Unrealized gain on investments | (56,331) | - | - | - | (56,331) |
| Realized loss on sale of investments | 29,137 | - | - | - | 29,137 |
| Contribution of fixed assets | 936,116 | (936,116) | - | - | - |
| Changes in operating assets and liabilities: | | | | | |
| Increase in accounts receivable | (1,083) | - | - | - | (1,083) |
| Decrease in grants and pledges receivable | 1,585,093 | - | - | - | 1,585,093 |
| Increase in interest receivable | (40,836) | - | - | - | (40,836) |
| Increase in prepaid expenses | (785) | - | - | - | (785) |
| Increase in due from related parties | (98,396) | - | - | 98,396 | - |
| Increase in accounts payable | 73,391 | - | - | - | 73,391 |
| Increase in payroll liabilities payable | 38,449 | - | - | - | 38,449 |
| Increase in due to related parties | - | 98,396 | - | (98,396) | - |
| Net cash provided by operating activities | 2,118,546 | (265,525) | 7,181,506 | - | 9,034,527 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Loans made to borrower | (15,979,500) | - | (7,102,000) | - | (23,081,500) |
| Purchases of fixed assets | (314,952) | (7,669,122) | - | - | (7,984,074) |
| Proceeds from sale of investments | 3,786,524 | - | - | - | 3,786,524 |
| Contributions to endowment fund | (71,937) | - | - | - | (71,937) |
| Net cash provided by investing activities | (12,579,865) | (7,669,122) | (7,102,000) | - | (27,350,987) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from notes payable | 19,781,604 | 22,050,000 | - | - | 41,831,604 |
| Payments on notes payable | (7,780,593) | - | - | - | (7,780,593) |
| Payment of debt issuance costs | (428,200) | (848,489) | - | - | (1,276,689) |
| Net cash provided by financing activities | 11,572,811 | 21,201,511 | - | - | 32,774,322 |
| Net change in cash, cash equivalents and restricted cash | 1,111,492 | 13,266,864 | 79,506 | - | 14,457,862 |
| Cash, cash equivalents and restricted cash at beginning of year | 2,292,678 | - | - | - | 2,292,678 |
| Cash, cash equivalents and restricted cash at end of year | <u>\$ 3,404,170</u> | <u>\$ 13,266,864</u> | <u>\$ 79,506</u> | <u>\$ -</u> | <u>\$ 16,750,540</u> |
| Cash and cash equivalents | 1,539,409 | 119,256 | 79,506 | - | 1,738,171 |
| Restricted cash | 1,864,761 | 13,147,608 | - | - | 15,012,369 |
| Total cash, cash equivalents and restricted cash | <u>\$ 3,404,170</u> | <u>\$ 13,266,864</u> | <u>\$ 79,506</u> | <u>\$ -</u> | <u>\$ 16,750,540</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | | | | |
| Cash paid for interest | \$ 454,266 | \$ - | \$ - | \$ - | \$ 454,266 |
| Cash paid for interest capitalized into fixed assets | <u>\$ -</u> | <u>\$ 177,012</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 177,012</u> |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES | | | | | |
| Increase in fixed assets due to construction payable | \$ 3,317,848 | \$ - | \$ - | \$ - | \$ 3,317,848 |
| (Decrease) Increase in fixed assets due to related party payable | <u>\$ (3,317,848)</u> | <u>\$ 3,317,848</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| (Decrease) increase in fixed assets due to contribution of nonfinancial assets | <u>\$ (936,116)</u> | <u>\$ 936,116</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Debt issuance cost amortization capitalized into fixed assets | <u>\$ -</u> | <u>\$ 36,051</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 36,051</u> |

see accompanying notes