

**KIDS' MEALS, INC.**  
**AUDITED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2021 and 2020**

**KIDS' MEALS, INC.  
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## **INDEPENDENT AUDITORS' REPORT**

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

### ***Opinion***

We have audited the accompanying financial statements of Kids' Meals, Inc. ("the Organization"), which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our 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 Financial Statements***

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

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

## ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

*Remin McGinnis Hess PC*

Houston, Texas  
June 1, 2022

## **FINANCIAL STATEMENTS**

**KIDS' MEALS**  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2021 and 2020**

	2021	2020
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 505,450	\$ 341,461
Contributions Receivable, net of allowance	1,120,155	29,543
Investments	7,289,019	4,803,667
Prepaid expenses	82,048	30,167
<b>Total Current Assets</b>	<u>8,996,672</u>	<u>5,204,838</u>
<b>FIXED ASSETS</b>		
Vehicles	543,410	404,852
Computer and equipment	281,412	216,784
Leasehold improvements	202,845	198,458
Land	8,329,689	-
<b>Total Fixed Assets</b>	<u>9,357,356</u>	<u>820,094</u>
Less: Accumulated depreciation	(500,895)	(411,150)
<b>Fixed Assets, Net</b>	<u>8,856,461</u>	<u>408,944</u>
<b>OTHER ASSETS</b>	<u>6,200</u>	<u>6,200</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 17,859,332</u></u>	<u><u>\$ 5,619,982</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 67,866	\$ 17,293
Accrued payroll	33,867	21,989
Accrued expenses	1,200	9,596
Deferred Income	37,500	87,500
<b>Total Current Liabilities</b>	<u>140,433</u>	<u>136,378</u>
<b>LONG TERM LIABILITIES</b>		
Notes payable	5,308,875	-
<b>Total Long Term Liabilities</b>	<u>5,308,875</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	5,449,308	136,378
<b>NET ASSETS</b>		
Without donor restrictions	8,022,021	5,395,504
With donor restrictions	4,387,992	88,100
<b>Total Net Assets</b>	<u>12,410,024</u>	<u>5,483,604</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 17,859,332</u></u>	<u><u>\$ 5,619,982</u></u>

See independent auditors' report and notes to the financial statements

**KIDS' MEALS, INC**  
**STATEMENTS OF ACTIVITIES**  
**FOR YEARS ENDED DECEMBER 31, 2021 and 2020**

	2021	2020
<b>NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
<b>Revenues and Gains</b>		
Contributions	\$ 1,472,332	\$ 5,564,543
Special event, net	(32,909)	72,663
In-kind donations	1,671,852	2,235,585
Interest income	155,759	25,852
Investment income (loss), net	(115,929)	30,959
Gain on extinguishment of PPP loan	0	180,000
<b>TOTAL REVENUES AND GAINS WITHOUT DONOR RESTRICTIONS</b>	3,151,105	8,122,602
<b>Net assets released from restrictions</b>		
Restrictions satisfied by payments	4,331,338	124,590
<b>TOTAL REVENUES AND GAINS AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS</b>	7,482,443	8,247,192
<b>EXPENSES</b>		
Program Services: Meals on Wheels	4,197,851	3,999,365
Management and general	523,070	351,705
Fundraising	135,004	78,163
<b>TOTAL EXPENSES</b>	4,855,928	4,429,233
<b>INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>	2,626,515	3,817,960
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>		
<b>Revenues and Gains</b>		
Contributions	8,631,225	50,000
<b>Net Assets Released from Restriction</b>		
Restrictions satisfied by payments	(4,331,338)	(124,590)
<b>INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS</b>	4,299,887	(74,590)
<b>INCREASE IN NET ASSETS</b>	6,926,402	3,743,370
<b>NET ASSETS, BEGINNING OF YEAR</b>	5,483,622	1,740,252
<b>NET ASSETS AT END OF YEAR</b>	\$ 12,410,024	\$ 5,483,622

See independent auditors' report and notes to the financial statements

**KIDS' MEALS, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR YEAR ENDED DECEMBER 31, 2021**

	<u>Program Services</u>	<u>Supporting Services</u>		
	Meals on Wheels	Management and General	Fundraising	Total
Salaries and wages	\$ 1,454,023	\$ 271,546	\$ 33,204	1,758,773
Food purchases	1,835,561	-	-	1,835,561
Direct client benefits - non-food	19,515	-	-	19,515
Health and dental insurance	183,243	22,907	2,082	208,231
Contract labor	47,740	36,219	80,668	164,627
Fuel and auto expense	124,694	-	-	124,694
Utilities, telephone and internet	84,210	21,052	-	105,265
Rent expense	152,114	6,407	1,600	160,121
Accounting and legal fees	-	19,300	-	19,300
Advertising and promotion	43,875	-	14,624	58,500
Postage and delivery	-	701	2,102	2,803
Depreciation expense	140,326	-	-	140,326
Directors and officers insurance	-	2,152	-	2,152
Liability insurance	14,371	1,797	164	16,332
Meeting expenses	-	9,892	-	9,892
Staff travel	-	108	-	108
Supplies	43,737	22,625	462	66,824
Repairs and Maintenance	50,117	-	-	50,117
Bank and service fees	-	81,899	-	81,899
Office Expense	4,325	26,465	98	30,888
	<u>\$ 4,197,851</u>	<u>\$ 523,070</u>	<u>\$ 135,004</u>	<u>\$ 4,855,928</u>

See independent auditors' report and notes to the financial statements



**KIDS' MEALS, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR YEAR ENDED DECEMBER 31, 2020**

	<u>Program Services</u>	<u>Supporting Services</u>		
	<u>Meals on Wheels</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 993,542	\$ 185,549	\$ 22,689	1,201,780
Food purchases	2,407,944	-	-	2,407,944
Health and dental insurance	144,636	18,079	1,643	164,360
Contract labor	27,586	20,929	46,614	95,129
Fuel and auto expense	97,688	-	-	97,688
Utilities, telephone and internet	28,937	7,234	-	36,172
Rent expense	135,084	5,688	1,421	142,195
Accounting and legal fees	-	17,060	-	17,060
Advertising and promotion	10,706	-	3,569	14,274
Postage and delivery	-	571	1,714	2,285
Depreciation expense	74,478	-	-	74,478
Directors and officers insurance	-	1,076	-	1,076
Liability insurance	7,545	944	86	8,575
Meeting expenses	-	19,232	-	19,232
Staff travel	-	734	-	734
Supplies	35,275	18,248	373	53,896
Repairs and Maintenance	33,490	-	-	33,490
Bank and service fees	-	41,345	-	41,345
Office Expense	2,454	15,016	56	17,526
	<u>\$ 3,999,365</u>	<u>\$ 351,705</u>	<u>\$ 78,163</u>	<u>\$ 4,429,239</u>

See independent auditors' report and notes to the financial statements

**KIDS' MEALS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR YEARS ENDED DECEMBER 31, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Increase in net assets	\$ 6,926,420	\$ 3,743,353
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	140,326	74,478
Gain on disposal of assets	-	(13,000)
Unrealized (gain) loss on investments	101,364	(16,067)
(Increase) decrease in operating assets		
Contributions receivable	(1,090,612)	9,972
Prepaid expenses	(51,881)	(18,303)
(Increase) decrease in non-operating assets		
Other assets	-	1,700
Increase (decrease) in operating liabilities		
Accounts payable	50,573	15,474
Accrued payroll	11,878	(72,129)
Accrued expenses	(8,396)	8,996
Deferred Income	(50,000)	87,500
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>6,029,673</b>	<b>3,821,974</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Borrowings on notes payable	5,308,875	-
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>5,308,875</b>	<b>-</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Dividends and capital gains reinvested	(14,566)	(14,892)
Payments for fixed asset purchases, net of disposals	(8,537,262)	(272,127)
Cash used for purchase of investments	(2,622,730)	(4,038,650)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>(11,174,558)</b>	<b>(4,325,669)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>163,990</b>	<b>(503,695)</b>
<b>BEGINNING CASH AND CASH EQUIVALENTS</b>	<b>341,461</b>	<b>845,156</b>
<b>ENDING CASH AND CASH EQUIVALENTS</b>	<b>\$ 505,450</b>	<b>\$ 341,461</b>

See independent auditors' report and notes to the financial statements

## **NOTES TO FINANCIAL STATEMENTS**

## ***KIDS' MEALS, INC.***

### **NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2021 and 2020**

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#### **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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 net assets without donor restrictions. The Organization reports gifts of goods and equipment as net assets without donor restrictions 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 net assets with donor restrictions. 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

## **KIDS' MEALS, INC.**

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 and 2020

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#### **NOTE 1 – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNT POLICIES (continued)**

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.

The most significant estimate reflected in the financial statements in the estimate of contributed food. Such food contributions' fair value is estimated generally based on a per-pound rate. This has no impact on net assets or changes net assets. In prior years, management applied a discount to the value of the contributed food. Beginning in 2018, this discount was decreased to reflect the Organizations ability to make fuller use of the contributed food. Such a change in estimate results in a increase in contributed food revenue and a corresponding increase in program service expense for food cost.

#### 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 two classes of net assets:

- *Net assets without donor restrictions* include those assets whose use is not restricted by donor-imposed stipulations even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* include contributions by the donor for specific purposes or future time periods. When a purpose restriction is accomplished or a time restriction ends, these net assets with donor restrictions are released to net assets without donor restrictions. Other donor restrictions can be permanent in nature, i.e., those assets that donors have restricted in perpetuity.

See Note 6 for discussion of the Organization's net assets with donor restrictions.

#### 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 maintains its cash balances in one financial institution located in Houston, Texas. The balances at the financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At various times there were balances in the bank that were over the FDIC limit. Total uninsured cash balances on December 31, 2021 and

## ***KIDS' MEALS, INC.***

### **NOTES TO FINANCIAL STATEMENTS**

DECEMBER 31, 2021 and 2020

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

2020 were \$255,450 and \$91,461, respectively. Management believes that the Organization is not exposed to any significant credit risk on cash and cash equivalents.

##### Contributions Receivable

Contributions receivable consist of current year donations the Organization received after December 31, 2021. Historically the Organization receives donation checks up to two weeks after year end, to review and record as prior year donations and reflects that amount donated as contributions receivable. The Organization did not have any allowance for uncollectible receivables for the years ended December 31, 2021 and 2020. Bad debts are accounted for by the direct write-off method, the results of which are not materially different from those that would have resulted if the allowance method had been used.

##### 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, money market funds, and US Treasury obligations and are carried at fair value.

##### Contributions

Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions on the existence or nature of any donor restrictions.

##### Advertising Costs

Advertising costs are expensed as incurred.

##### 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

**KIDS' MEALS, INC.**

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 and 2020

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

or state income taxes. The Organization files a Form 990 with the Internal Revenue Service, and years 2016 through 2020 are subject to examination.

Subsequent events

Subsequent events have been evaluated through June 1, 2022, which is the date the financial statements were issued.

**NOTE 2 – IN-KIND DONATIONS**

The Organization recognized \$1,671,852 and \$2,235,585 of in-kind donations for the years ending December 31, 2021 and 2020, respectively. The goods and services are as follows:

	<u>2021</u>	<u>2020</u>
Food	\$ 1,664,706	\$ 2,220,585
Vehicle maintenance		15,000
	<u>\$ 1,664,706</u>	<u>\$ 2,235,585</u>

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 \$7,289,019 and \$4,803,667 in publicly traded mutual funds, money market funds, and US Treasury obligations at December 31, 2021 and 2020, respectively. These investments are reported at fair market value.

The following schedule summarizes the fair values and unrealized appreciation as of December 31, 2021:

**KIDS' MEALS, INC.**

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 and 2020

**NOTE 3 – INVESTMENTS (continued)**

	<b>Operating Assets</b>	<b>Endowment</b>	<b>Total</b>
Cost	\$ 7,027,465	\$ 177,033	\$ 7,204,498
Fair value	7,005,963	283,056	7,289,019
Unrealized appreciation	<u>\$ (21,503)</u>	<u>\$ 106,023</u>	<u>\$ 84,520</u>

The following schedule summarizes the fair values and unrealized appreciation as of December 31, 2020:

	<b>Operating Assets</b>	<b>Endowment</b>	<b>Total</b>
Cost	\$ 4,557,958	\$ 154,806	\$ 4,712,763
Fair value	4,570,470	233,197	4,803,667
Unrealized appreciation	<u>\$ 12,513</u>	<u>\$ 78,391</u>	<u>\$ 90,904</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2021:

	<b>Operating Assets</b>	<b>Endowment</b>	<b>Total</b>
Dividend income	\$ 25,554	\$ 16,639	\$ 42,193
Net realized and unrealized gain (loss)	(191,345)	33,223	(158,122)
Total investment income (loss), net	<u>\$ (165,791)</u>	<u>\$ 49,862</u>	<u>\$ (115,929)</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year ended December 31, 2020:

	<b>Operating Assets</b>	<b>Endowment</b>	<b>Total</b>
Dividend income	\$ 5,502	\$ 6,136	\$ 11,638
Net realized and unrealized gain (loss)	(22,348)	41,669	19,321
Total investment income (loss), net	<u>\$ (16,846)</u>	<u>\$ 47,805</u>	<u>\$ 30,959</u>



## **KIDS' MEALS, INC.**

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 and 2020

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#### **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.

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, 2021.

Mutual funds, corporate bonds, U.S. government bonds, exchange traded funds, and exchange traded equity securities are valued at the quoted market price of units held by the Organization at year end.

**KIDS' MEALS, INC.**

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 and 2020

**NOTE 4 – FAIR VALUE MEASUREMENTS (continued)**

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.

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2021:

	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Mutual funds	\$ 2,564,580		
Money market funds	754,456		
U.S. equity securities	5,067		
U.S. corporate bonds	2,624,076		
US Treasury obligations	1,340,840		
Total Assets at Fair Value	<u>\$ 7,289,019</u>		

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2020:

	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Mutual funds	\$ 233,197	\$	\$
Money market funds	876,367		
US Treasury obligations	3,694,104		
Total Assets at Fair Value	<u>\$ 4,803,667</u>	<u>\$</u>	<u>\$</u>

The Organization's investments are mutual funds, money market funds, corporate debt obligations, and US Treasury obligations and are categorized as Level 1 at both December 31, 2021 and 2020.

**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 contributions without donor

## **KIDS' MEALS, INC.**

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 and 2020

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restrictions 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 contributions with donor restrictions. 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.

The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Property and equipment are depreciated using the straight-line method. The following estimated useful lives are used:

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

Depreciation expense for the years ended December 31, 2021 and 2020 is \$140,326 and \$74,478, respectively.

#### **NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS**

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 as net assets with donor restrictions-endowment funds 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

**KIDS' MEALS, INC.**

## NOTES TO FINANCIAL STATEMENTS

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**NOTE 6 –NET ASSETS WITH DONOR RESTRICTIONS (continued)**

Moreover, the Organization has interpreted TUPMIFA to permit spending from underwater funds in accordance with prudent measures required under the law. The fund is currently not underwater.

Net assets with donor restrictions-endowments funds 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, 2021 and 2020.

During 2021, the endowment fund recognized unrealized gains of \$28,894 and realized gains of \$4,329. Dividend income for 2021 were \$16,638.

During 2020, the endowment fund recognized unrealized gains of \$41,669 and recognized dividends and capital gain income of \$6,136. The endowment had no realized gains or losses for the year ended December 31, 2020.

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 to 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.

Net assets with donor restrictions 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 released from net assets with donor restrictions to net assets without donor restrictions.

**KIDS' MEALS, INC.**

## NOTES TO FINANCIAL STATEMENTS

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**NOTE 6 –NET ASSETS WITH DONOR RESTRICTIONS (continued)**

The following schedule summarizes the net assets with donor restrictions for the years ended December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
<b>Donor designated purpose:</b>		
Capital campaign for new facility	\$ 4,303,916	\$
Holiday meals		2,250
Books for clients		8,468
Auto expenses	24,692	26,084
Facility improvements and equipment	8,253	172
Endowment Fund	50,000	50,000
Walk in cooler	1,126	1,126
	<u>\$ 4,387,987</u>	<u>\$ 88,100</u>

**NOTE 7 – NOTES PAYABLE**

During December 2021, the Organization entered into a note agreement with a financial institution for a principal amount of \$5,308,875. The note agreement was as follows: Interest expense begins to accrue monthly beginning January 2022 until June 2023, after which, principal and interest would be due and payable in monthly installments beginning July 2023, until December 2026, when the entire unpaid principal and interest would be due and payable in full. Interest on the outstanding and unpaid principal balance of the note is computed as a per annum rate equal to AMERIBOR (benchmark) plus the Applicable Margin. As of December 31, 2021, interest rate amounted to 1.81%. This note is secured by a deed of trust and lien on the Organization's land and certain real property.

Additionally, the financial institution would determine the Organization's monthly payment by June 2023. Accordingly, the Organization has not presented its next five-year minimum principal payments as it does not currently have the required information to do so. The financial institution is to calculate a monthly payment based on an amortization over a period of 120 months from June 2023. The organization has presented the entire note payable as a long-term portion on its statement of financial position as of December 31, 2021.

**NOTE 8 – OPERATING LEASE AGREEMENT**

The Organization has a three-year lease agreement with Houston Pine Forest M, LLC and leases approximately 18,925 square feet of office space expiring January 31, 2023. In 2018, the Organization entered a sublease with Green Marine and Equipment Company, Inc. for an additional 7,200 square feet of warehouse and office space.

**KIDS' MEALS, INC.**

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 and 2020

**NOTE 8 – OPERATING LEASE AGREEMENT (continued)**

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 December 31,</u>	<u>Minimum rent per year</u>
2022	116,620
2023	9,738
	<hr/>
Total	<u>\$ 126,358</u>

Rent expense was \$160,121 and \$142,195, respectively for the years ended December 31, 2021 and 2020.

**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 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS**

The following reflects the liquidity of the Organization's financial assets as of December 31, 2021. Below shows the Organizations net assets without donor restrictions reduced by amounts not available for general use or assets that have donor imposed restrictions for either a specific time or specific purpose within one year of the statement of financial position date:

	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Financial Assets, at year-end:		
Cash and cash equivalents	\$ 505,450	\$ 341,461
Investments	<u>7,289,019</u>	<u>4,803,667</u>
Total Financial Assets, at year-end:	<u>7,794,469</u>	<u>5,145,128</u>
Less: Donor imposed-restriction:		
Donor restrictions for specific purposes	<u>(4,387,992)</u>	<u>(88,100)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 3,406,477</u>	<u>\$ 5,057,028</u>

## **KIDS' MEALS, INC.**

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 and 2020

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#### **NOTE 11 – CONCENTRATIONS**

For the year ended December 31, 2021, the top ten donors accounted for 34% of the Organization's total revenues. For the year ended December 31, 2020, the Organization's top ten donors accounted for approximately 25% of total revenues.

#### **NOTE 12 – RELATED PARTY TRANSACTIONS**

During the years ending December 31, 2021 and 2020, the Organization received \$439,951 and \$87,311 respectively, in donations from its Board members. These contributions are reported as revenues without donor restrictions on the statements of activities.

#### **NOTE 13 – PAYCHECK PROTECTION PROGRAM LOAN**

In April 2020, Kids' Meals, Inc. applied and received a loan in the amount of \$180,000, pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title 1 of the CARES Act, which was enacted March 27, 2020. Kids' Meals, Inc. intends to use the entire loan for qualifying expenses. Under the terms of the PPP, certain amounts may be forgiven if they are used for qualifying expenses as described in the CARES Act.

The Company has accounted for the PPP loan in accordance with *FASB Accounting Standard Codification 470: Debt* and has accordingly recorded the loan as a financial liability. For purposes of derecognition of the liability, FASB ASC 470-50-15-4 refers to the guidance in *FASB ASC 405-20: Extinguishments of Liabilities*. Based on the guidance in FASB 405-20-40-1, the proceeds from the loan would remain recorded as a liability until either (1) the loan is, in part or wholly, forgiven and the debtor has been "legally released" or (2) the debtor pays off the loan to the creditor. Once the loan is, in part or wholly, forgiven and legal release is received, the Company would then reduce the liability by the amount forgiven and record a gain on extinguishment.

The Company is also required to accrue for interest in accordance with the interest method under *FASB ASC 835-30: Interest – Imputation of Interest* using the stated rate. The PPP loan has a stated rate of 1%. As of December 31, 2020, no interest has been accrued for as this amount is not material to the financial statements.

As of April 23, 2021, the Company was granted forgiveness of the entire loan amount and related interest payments. Accordingly, as of December 31, 2020, this loan has been recorded as a gain on extinguishment. This gain on extinguishment is included in revenues from net assets without donor restrictions on the statement of activities. The proceeds of this loan have been presented as cash flows from operating activities on the statement of cash flows.

**KIDS' MEALS, INC.**

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2021 and 2020

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**NOTE 14 – COVID – 19 RISKS**

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout the United States of America. Efforts implemented by local and national governments, as well as businesses, including temporary closures, are expected to have adverse impacts on local, national and global economies. Although the disruption is currently expected to be temporary, there is uncertainty around the duration and the related economic impact. Therefore, while it is expected that this matter will have some impact on the Organization's operations, including staff working remotely versus onsite, the impact on the Organization's results of operations and financial position cannot be reasonably estimated at this time.

**NOTE 15 – RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In February 2016, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2016-02, Leases* (Topic 842). Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The ASU was originally effective for fiscal periods beginning after December 15, 2020; however, FASB deferred the effective date for one year. The ASU is now effective for fiscal years beginning after December 15, 2021, with early adoption permitted for all entities. Kids' Meals, Inc. is currently evaluating the effect that the updated standard will have on the Company's financial statements.



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