

KIDS' MEALS, INC.
AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2022, and 2021

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, 2022, and 2021, 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, 2022, and 2021, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2022, the Organization adopted FASB Accounting Standard Codification (ASC 842), Leases. Our opinion is not modified with respect to that matter.

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 12, 2023

FINANCIAL STATEMENTS

KIDS' MEALS, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 and 2021

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 766,575	\$ 505,450
Contributions Receivable, net of allowance	4,732,125	1,120,155
Investments	7,446,713	7,289,019
Prepaid expenses	130,217	82,048
Total Current Assets	<u>13,075,630</u>	<u>8,996,672</u>
FIXED ASSETS		
Vehicles	744,297	543,410
Computer and equipment	402,106	281,412
Leasehold improvements	222,600	202,845
Building in progress	751,334	-
Land	8,329,689	8,329,689
Total Fixed Assets	<u>10,450,025</u>	<u>9,357,356</u>
Less: Accumulated depreciation	<u>(681,644)</u>	<u>(500,896)</u>
Fixed Assets, Net	<u>9,768,381</u>	<u>8,856,461</u>
OTHER ASSETS		
Operating lease right-of-use assets	115,744	-
Other Assets	8,967	6,200
Total Other Assets	<u>124,711</u>	<u>6,200</u>
TOTAL ASSETS	<u><u>\$ 22,968,722</u></u>	<u><u>\$ 17,859,332</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 45,233	\$ 67,866
Accrued payroll	47,182	33,868
Accrued expenses	1,267	1,200
Deferred Income	119,579	37,500
Notes payable, current	908,875	-
Current maturities of operating lease liabilities	55,604	-
Total Current Liabilities	<u>1,177,740</u>	<u>140,434</u>
LONG TERM LIABILITIES		
Notes payable, long-term	-	5,308,875
Operating lease liabilities	40,335	-
Total Long Term Liabilities	<u>40,335</u>	<u>5,308,875</u>
TOTAL LIABILITIES	1,218,074	5,449,308
NET ASSETS		
Without donor restrictions	13,768,571	8,022,021
With donor restrictions	7,982,077	4,388,003
Total Net Assets	<u>21,750,647</u>	<u>12,410,024</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 22,968,722</u></u>	<u><u>\$ 17,859,332</u></u>

See independent auditors' report and notes to the financial statements

KIDS' MEALS, INC
STATEMENTS OF ACTIVITIES
FOR YEARS ENDED DECEMBER 31, 2022 and 2021

	2022	2021
NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues and Gains		
Contributions	\$ 3,835,071	\$ 1,472,332
Special event, net	775,970	(32,909)
In-kind donations	2,523,720	1,671,852
Interest income	-	155,759
Investment income (loss), net	<u>(529,154)</u>	<u>(115,929)</u>
TOTAL REVENUES AND GAINS WITHOUT DONOR RESTRICTIONS	6,605,607	3,151,105
Net assets released from restrictions		
Restrictions satisfied by payments	<u>5,704,720</u>	<u>4,331,338</u>
TOTAL REVENUES AND GAINS AND OTHER SUPPORT WITHOUT DONOR RESTRICTIONS	12,310,327	7,482,443
EXPENSES		
Program Services: Meals on Wheels	5,715,204	4,197,851
Management and general	698,657	523,070
Fundraising	<u>149,927</u>	<u>135,004</u>
TOTAL EXPENSES	<u>6,563,789</u>	<u>4,855,928</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	5,746,538	2,626,515
NET ASSETS WITH DONOR RESTRICTIONS		
Revenues and Gains		
Contributions	9,298,805	8,631,225
Net Assets Released from Restriction		
Restrictions satisfied by payments	<u>(5,704,720)</u>	<u>(4,331,338)</u>
INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>3,594,085</u>	<u>4,299,887</u>
INCREASE IN NET ASSETS	9,340,623	6,926,402
NET ASSETS, BEGINNING OF YEAR	<u>12,410,024</u>	<u>5,483,622</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 21,750,647</u></u>	<u><u>\$ 12,410,024</u></u>

See independent auditors' report and notes to the financial statements

KIDS' MEALS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR YEAR ENDED DECEMBER 31, 2022

	<u>Program Services</u>	<u>Supporting Services</u>		
	Meals on Wheels	Management and General	Fundraising	Total
Salaries and wages	\$ 1,795,435	\$ 335,307	\$ 41,001	\$ 2,171,742
Food purchases	332,535	-	-	332,535
In-kind food donations	2,523,720	-	-	2,523,720
Health and dental insurance	249,750	31,218	2,837	283,806
Contract labor	55,075	41,785	93,063	189,923
Fuel and auto expense	154,458	-	-	154,458
Utilities, telephone and internet	41,166	10,290	-	51,456
Operating lease expense	137,654	5,796	1,448	144,896
Rent expense / CAMS	51,829	2,182	545	54,557
Accounting and legal fees	-	19,500	-	19,500
Advertisting and promotion	19,841	-	6,614	26,454
Interest expense	-	141,831	-	141,831
Postage and delivery	-	628	1,883	2,511
Depreciation expense	180,751	-	-	180,751
Directors and officers insurance	-	-	-	-
Liability insurance	18,985	2,374	217	21,576
Meeting expenses	-	7,805	-	7,805
Staff travel	-	541	-	541
Supplies	35,749	18,493	378	54,619
Repairs and Maintenance	56,822	-	-	56,822
Bank and service fees	-	37,773	-	37,773
Office Expense	61,436	43,135	1,943	106,514
	<u>\$ 5,715,204</u>	<u>\$ 698,657</u>	<u>\$ 149,927</u>	<u>\$ 6,563,789</u>

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>		
	<u>Meals on Wheels</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 1,454,023	\$ 271,546	\$ 33,204	\$ 1,758,773
Food purchases	170,855	-	-	170,855
In-kind food donations	1,664,706	-	-	1,664,706
Direct client benefit - 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.
STATEMENTS OF CASH FLOWS
FOR YEARS ENDED DECEMBER 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 9,340,623	\$ 6,926,420
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	180,751	140,326
Gain on disposal of assets	-	-
Unrealized (gain) loss on investments	(157,694)	101,364
(Increase) decrease in operating assets		
Contributions receivable	(3,611,971)	(1,090,612)
Prepaid expenses	(48,169)	(51,881)
(Increase) decrease in non-operating assets		
Other assets	(2,769)	-
Right-of-use lease assets	(115,744)	-
Increase (decrease) in operating liabilities		
Accounts payable	(22,632)	50,573
Accrued payroll	13,314	11,878
Accrued expenses	67	(8,396)
Right-of-use lease liabilities	95,938	-
Deferred Income	82,079	(50,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	5,753,794	6,029,673
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on notes payable	-	5,308,875
Payments on notes payable	(4,400,000)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	(4,400,000)	5,308,875
CASH FLOWS FROM INVESTING ACTIVITIES		
Dividends and capital gains reinvested	-	(14,566)
Payments for fixed asset purchases, net of disposals	(1,092,669)	(8,537,262)
Cash used for purchase of investments	-	(2,622,730)
NET CASH USED BY INVESTING ACTIVITIES	(1,092,669)	(11,174,558)
NET INCREASE IN CASH AND CASH EQUIVALENTS	261,125	163,990
BEGINNING CASH AND CASH EQUIVALENTS	505,450	341,461
ENDING CASH AND CASH EQUIVALENTS	\$ 766,575	\$ 505,450
Supplemental Disclosures:		
Cash paid for interest	\$ 141,831	\$ -
Cash paid for income taxes	\$ -	\$ -

See independent auditors' report and notes to the financial statements

NOTES TO FINANCIAL STATEMENTS

KIDS' MEALS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 and 2021

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 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.

KIDS' MEALS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 and 2021

NOTE 1 – NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNT POLICIES

(continued)

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, 2022 and 2021 were \$516,575 and \$255,450, 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, 2022. 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, 2022 and 2021.

KIDS' MEALS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 and 2021

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

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. Advertising expenses for the year-ended December 31, 2022 and 2021 were \$26,454 and \$38,985, respectively.

Income Taxes

The Organization is a 501(c)(3) non-profit corporation whose revenue is derived from contributions, fees and other fundraising activities and is not subject to federal or state income taxes. The Organization files a Form 990 annually with the Internal Revenue Service, and years 2018 through 2021 are subject to examination.

Leases

The Organization leases office space in Houston, TX and Montgomery, TX. The determination of whether an arrangement is a lease is made at the lease's inception. Under ASC 842, a contract is (or contains) a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is defined under the standard as having both the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. Management only reassesses its determination if the terms and conditions of the contract are changed. Leases with an initial term of 12 months or less for all classes of underlying assets are not recorded on the balance sheet, rather, expensed as incurred. Operating leases are included as Operating lease right-of-use ("ROU") assets, and Operating lease right-of-use liabilities in our consolidated balance sheets.

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

ROU assets represent our right to use an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. The Organization uses a practical expedient that allows the Organization use to the risk-free rate to determine the present value of lease payments based on the information available at lease commencement. The Organization has elected to use this risk-free rate as the discount rate for all classes of underlying assets. Operating lease ROU assets also include any lease payments made and exclude any lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Organization's lease terms may include options to extend the lease when it is reasonably certain that we will exercise the option.

The Organization has lease agreements with lease and non-lease components. These non-lease components include taxes, insurance and utilities on its office lease. The Organization has elected to account for lease and non-lease components as a separate component for all classes of underlying assets.

Adoption of Accounting Standard Update ASU No. 2016-02 Leases (Topic 842)

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes existing guidance for accounting for leases under Topic 840, Leases. The FASB also subsequently issued the following additional ASUs, which amend and clarify Topic 842: ASU 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU 2018-10, Codification Improvements to Topic 842, Leases; ASU 2018-11, Leases (Topic 842): Targeted Improvements; ASU 2018-20, Narrow-scope Improvements for Lessors; and ASU 2019-01, Leases (Topic 842): Codification Improvements. The most significant change in the new leasing guidance is the requirement to recognize right-of-use (ROU) assets and lease liabilities for operating leases on the balance sheet.

The Organization elected to adopt these ASUs effective January 1, 2022. The Organization has elected the following practical expedients as a package that allow the Organization to (1) not to reassess whether any expired or existing contracts are or contain leases; (2) not to reassess the lease classification for any existing or expired leases, (3) not to reassess initial direct costs for any existing leases.

The adoption had an impact on the Organization's balance sheet but did not have a material impact on the statement of income. The most significant impact was the recognition of ROU assets and lease liabilities for its operating lease. The Organization adopted these principles on a modified retrospective basis. Under this approach, the Organization has elected to apply this lease standard only to the most recent period without restating prior periods presented, with the cumulative impact reported in retained earnings. The adoption did not result in a change to beginning retained earnings. Although, this adoption has resulted in a recognition of an operating right-of-use asset of \$135,808 and right-of-use liability of \$135,808, respectively as of January 1, 2022 on the balance sheet, and expanded footnote disclosures.

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

Reclassifications

Certain reclassifications have been made to prior periods to conform with current reporting. On the statement of functional expenses, in-kind food donations has been reclassified from "Food purchases" to a new-line item "In-kind food donations." This has no impact to the beginning net assets, nor any impact to changes in net assets.

Subsequent events

Subsequent events have been evaluated through June 12, 2023, which is the date the financial statements were issued.

NOTE 2 – IN-KIND DONATIONS

The Organization recognized \$2,523,720 and \$1,664,706 of in-kind donations for the years ending December 31, 2022 and 2021, respectively. The goods and services are as follows:

	2022	2021
Food	\$ 2,523,720	\$ 1,664,706
Vehicle maintenance	-	-
	<u>\$ 2,523,720</u>	<u>\$ 1,664,706</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 \$7,446,713 and \$7,289,019 in publicly traded mutual funds, money market funds, and US Treasury obligations at December 31, 2022 and 2021, respectively. These investments are reported at fair market value.

The following schedule summarizes the fair values and unrealized appreciation as of December 31, 2022:

	Operating Assets	Endowment	Total
Cost	\$ 7,484,301	\$ 185,823	\$ 7,670,124
Fair value	7,214,368	232,346	7,446,713
Unrealized appreciation	<u>\$ (269,933)</u>	<u>\$ 46,523</u>	<u>\$ (223,410)</u>

NOTE 3 – INVESTMENTS (continued)

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

	Operating Assets	Endowment	Total
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 investment return and its classification in the statement of activities for the year ended December 31, 2022:

	Operating Assets	Endowment	Total
Dividend and Interest income	\$ 178,327	\$ 10,150	\$ 188,477
Net realized and unrealized gain (loss)	(656,769)	(60,861)	(717,630)
Total investment income (loss), net	<u>\$ (478,442)</u>	<u>\$ (50,711)</u>	<u>\$ (529,154)</u>

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

	Operating Assets	Endowment	Total
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>

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).

KIDS' MEALS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 and 2021

NOTE 4 – FAIR VALUE MEASUREMENTS (continued)

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, 2022.

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.

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, 2022:

	Quoted Market Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Mutual funds	\$ 1,574,352	\$	\$
Money market funds	1,689,599		
U.S. equity securities	16,075		
U.S. corporate bonds	1,085,398		
US Treasury obligations	3,081,290		
Total Assets at Fair Value	<u>\$ 7,446,713</u>	<u>\$</u>	<u>\$</u>

KIDS' MEALS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 and 2021

NOTE 4 – FAIR VALUE MEASUREMENTS (continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 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>	<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, 2022 and 2021.

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 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, 2022 and 2021 is \$180,751 and \$140,326, 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

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, 2022 and 2021.

During 2022, the endowment fund recognized unrealized losses of \$65,636 and realized gains of \$4,775. Dividend income for 2022 was \$10,150.

During 2021, the endowment fund recognized unrealized gains of \$28,894 and realized gains of \$4,329. Dividend income for 2021 was \$16,639.

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

DECEMBER 31, 2022 and 2021

NOTE 6 – NET ASSETS WITH DONOR RESTRICTIONS (continued)

The following schedule summarizes the net assets with donor restrictions for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Donor designated purpose:		
Capital campaign for new facility	\$ 7,852,168	\$ 4,303,916
Salaries	44,616	-
Auto expenses	24,692	24,692
Facility improvements and equipment	8,253	8,253
Endowment Fund	50,000	50,000
Walk in cooler	2,348	1,126
	<u>\$ 7,982,077</u>	<u>\$ 4,387,987</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, 2022, interest rate amounted to 6.31%. This note is secured by a deed of trust and lien on the Organization's land and certain real property.

Additionally, the Organization made principal payments of \$4,400,000 during 2022 leaving an outstanding balance of \$908,875 as of December 31, 2022. Interest expense for the years ended December 31, 2022 and 2021, was \$141,831 and \$0, respectively.

Subsequent to year-end and prior to the issuance of the financial statements, the Organization has paid the remaining principal balance of \$908,875 in April 2023. Accordingly, the Organization has presented the entire balance of \$908,875 as a current liability as of December 31, 2022, as the Organization believes this fairly represents its current obligations as of December 31, 2022.

NOTE 8 – LEASING ARRANGEMENTS

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

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NOTE 8 – LEASING ARRANGEMENTS (continued)

The Organization's offices are located in Houston, Texas and Montgomery, Texas. The Houston lease was renewed in November 2022 and which commences its new lease terms in March 2023 and has a remaining lease term of 3 years and 2 months.

The Montgomery lease was entered into in April 2022 and has a remaining lease term of 2 years and 3 months. The renewal option has been accounted for in the computation of the Organization's operating right-of-use assets and liabilities.

Monthly base rentals on the Organization's office space lease range between \$3,510 to \$9,738 as of December 31, 2022. The Organization's variable expenses for its office space lease generally include common area maintenance charges such as taxes, insurance and utilities, etc. These variable components are treated as a separate component from leases, and accordingly, are expensed as incurred.

The following summarizes the lease expense for the year-ended December 31, 2022:

	Year Ending December 31,
Lease expense	
Operating lease expense	\$ 144,896
Variable lease expenses (CAM's)	54,557
Total	<u>\$ 199,453</u>

The following is other supplemental lease information as of December 31, 2022:

Other Information

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 160,470
ROU assets obtained in exchange for new operating lease liabilities	\$ 254,337
Weighted-average remaining lease term in years for operating leases	1.76 years
Weighted-average discount rate for operating leases	2.13%

The maturities of lease liabilities as of December 31, 2022 were as follows:

Year Ending December 31,	Lease payments per year
2023	\$ 57,018
2024	32,667
2025	8,292
2026 and Therafter	0
Total undiscounted cash flows	97,977
Less: present value discount	(2,038)
Total lease liabilities	<u>\$ 95,939</u>

KIDS' MEALS, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2022 and 2021

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, 2022 and 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:

	December 31, 2022	December 31, 2021
Financial Assets, at year-end:		
Cash and cash equivalents	\$ 766,575	\$ 505,450
Investments	<u>7,446,713</u>	<u>7,289,019</u>
Total Financial Assets, at year-end:	8,213,288	7,794,469
Less: Donor imposed-restriction:		
Donor restrictions for specific purposes	<u>(7,982,077)</u>	<u>(4,388,003)</u>
Financial assets available to meet cash needs for general expenditure within one year	<u>\$ 231,212</u>	<u>\$ 3,406,466</u>

For the year ended December 31, 2022, the Organization had \$4,732,145 in contribution receivables. The organization expects to collect a majority of these contribution receivables in the next 12 months, which as a result could be used to increase its financial assets available.

For the year ended December 31, 2022, the Organization's top ten donors accounted for approximately 34% of the Organization's total revenues. For the year ended December 31, 2021, the Organization's top ten donors accounted for approximately 34% of total revenues.

NOTE 12 – RELATED PARTY TRANSACTIONS

During the years ending December 31, 2022, and 2021, the Organization received \$142,288 and \$439,951 respectively, in donations from its Board members. These contributions are reported as revenues without donor restrictions and revenues with donor restrictions on the statements of activities.

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