

MAMA'S KITCHEN

a Non-Profit Organization,

Financial Statements and Independent Auditors' Report

For the Years Ended June 30, 2017 and 2016

4669 Murphy Canyon Road
Suite 130
San Diego, CA 92123

858.467.4770
Fax 858.467.4779

MAMA'S KITCHEN
TABLE OF CONTENTS
YEARS ENDED JUNE 30, 2017 AND 2016

| | <u>Page</u> |
|--|--------------------|
| Independent Auditors' Report on Financial Statements | 1 - 2 |
| Statements of Financial Position | 3 |
| Statements of Activities | 4 - 5 |
| Statements of Cash Flows | 6 |
| Statements of Functional Expenses | 7 - 8 |
| Notes to Financial Statements | 9 - 27 |

LING & BOUMAN, LLP

Certified Public Accountants
4669 Murphy Canyon Road, Suite 130
San Diego, California 92123
Tel. (858) 467-4770 Fax (858) 467-4779

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Audit Committee of
Mama's Kitchen

We have audited the accompanying financial statements of Mama's Kitchen, a non-profit organization (the "Organization"), which comprise the statements of financial position as of June 30, 2017, and the related statement of activities and cash flow for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mama's Kitchen as of June 30, 2017, 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.

Prior Period Financial Statements

The financial statements of Mama's Kitchen as of June 30, 2016 were audited by another auditor whose report dated November 1, 2016 expressed an unmodified opinion on those statements.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 7 and 8 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Ling & Bouman, LLP

San Diego, California
November 14, 2017

MAMA'S KITCHEN
A Not-for-Profit Organization
Statements of Financial Position
As of June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---------------------|---------------------|
| <u>Assets</u> | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 217,474 | \$ 83,451 |
| Investments in marketable securities available for sale | 1,612,618 | 1,484,244 |
| Accounts receivable - net | 245,720 | 167,189 |
| Inventories | 40,429 | 29,235 |
| Prepaid expenses and other | 39,438 | 36,451 |
| Pledges receivable - current portion | 20,023 | 31,797 |
| Total current assets | 2,175,702 | 1,832,367 |
| Property and equipment - net | 1,942,729 | 2,056,780 |
| Other assets - net | 28,262 | 44,598 |
| Total assets | <u>\$ 4,146,693</u> | <u>\$ 3,933,745</u> |
| <u>Liabilities and Net Assets:</u> | | |
| Current Liabilities: | | |
| Line of Credit | \$ 499,260 | \$ 453,699 |
| Accounts payable and accrued expenses | 104,825 | 105,776 |
| Deferred revenue | - | 6,322 |
| Current portion of long-term debt | 57,906 | 54,741 |
| Total current liabilities | 661,991 | 620,538 |
| Long-term debt - net | 537,048 | 740,935 |
| Total Liabilities | 1,199,039 | 1,361,473 |
| Net assets: | | |
| Unrestricted | 2,789,635 | 2,456,197 |
| Temporarily Restricted | 120,732 | 80,626 |
| Permanently restricted | 37,287 | 35,449 |
| Total net assets | 2,947,654 | 2,572,272 |
| Total Liabilities and Net Assets | <u>\$ 4,146,693</u> | <u>\$ 3,933,745</u> |

See accompanying notes to financial statements.

MAMA'S KITCHEN
A Not-for-Profit Organization
Statement of Activities
For the Year Ended June 30, 2017

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|---------------------|
| REVENUE, GAINS AND OTHER SUPPORT: | | | | |
| Grant Revenues: | | | | |
| County of San Diego - Ryan White | \$ 467,468 | \$ - | \$ - | \$ 467,468 |
| County of San Diego - HOPWA | 155,348 | - | - | 155,348 |
| County of San Diego - CDBG | 75,000 | - | - | 75,000 |
| Total grant revenues | <u>697,816</u> | <u>-</u> | <u>-</u> | <u>697,816</u> |
| Contributions | 1,627,909 | 143,500 | 1,000 | 1,772,409 |
| Capital projects | - | 9,400 | - | 9,400 |
| Donation in-kind | 211,247 | - | - | 211,247 |
| Donated services | 362,376 | - | - | 362,376 |
| Special events, net of direct expenses | 6,741 | - | - | 6,741 |
| Social enterprise | 92,860 | - | - | 92,860 |
| Gain on sale of assets | 5,000 | - | - | 5,000 |
| Investment income | 37,699 | - | - | 37,699 |
| Net realized and unrealized gain on investments | 96,521 | - | 838 | 97,359 |
| Released from restriction by payment | <u>112,794</u> | <u>(112,794)</u> | <u>-</u> | <u>-</u> |
| Total Revenue, Gains, and Other Support | <u>3,250,963</u> | <u>40,106</u> | <u>1,838</u> | <u>3,292,907</u> |
| EXPENSES: | | | | |
| Program services | 2,086,221 | - | - | 2,086,221 |
| Social enterprise | 75,620 | - | - | 75,620 |
| Management and general | 161,006 | - | - | 161,006 |
| Fundraising | <u>594,678</u> | <u>-</u> | <u>-</u> | <u>594,678</u> |
| Total Expenses | <u>2,917,525</u> | <u>-</u> | <u>-</u> | <u>2,917,525</u> |
| Change in Net Assets | 333,438 | 40,106 | 1,838 | 375,382 |
| Net Assets, Beginning of Year | <u>2,456,197</u> | <u>80,626</u> | <u>35,449</u> | <u>2,572,272</u> |
| Net Assets, End of Year | <u>\$ 2,789,635</u> | <u>\$ 120,732</u> | <u>\$ 37,287</u> | <u>\$ 2,947,654</u> |

See accompanying notes to financial statements.

MAMA'S KITCHEN
A Not-for-Profit Organization
Statement of Activities
For the Year Ended June 30, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|--------------|
| REVENUE, GAINS AND OTHER SUPPORT: | | | | |
| Grant Revenues: | | | | |
| County of San Diego - Ryan White | \$ 561,441 | \$ - | \$ - | \$ 561,441 |
| County of San Diego - HOPWA | 150,823 | - | - | 150,823 |
| Total grant revenues | 712,264 | - | - | 712,264 |
| Contributions | 1,664,898 | 80,626 | - | 1,745,524 |
| Capital projects | - | 73,535 | - | 73,535 |
| Donation in-kind | 157,461 | - | - | 157,461 |
| Donated services | 353,015 | - | - | 353,015 |
| Special events, net of direct expenses | (49,342) | - | - | (49,342) |
| Social enterprise | 218,766 | - | - | 218,766 |
| Investment income | 38,335 | - | - | 38,335 |
| Net realized and unrealized gain on investments | 35,361 | - | (1,223) | 34,138 |
| Released from restriction by payment | 73,535 | (73,535) | - | - |
| Total Revenue, Gains, and Other Support | 3,204,293 | 80,626 | (1,223) | 3,283,696 |
| EXPENSES: | | | | |
| Program services | 2,232,524 | - | - | 2,232,524 |
| Social enterprise | 158,440 | - | - | 158,440 |
| Management and general | 169,569 | - | - | 169,569 |
| Fundraising | 532,139 | - | - | 532,139 |
| Total Expenses | 3,092,672 | - | - | 3,092,672 |
| Change in Net Assets | 111,621 | 80,626 | (1,223) | 191,024 |
| Net Assets, Beginning of Year | 2,344,576 | - | 36,672 | 2,381,248 |
| Net Assets, End of Year | \$ 2,456,197 | \$ 80,626 | \$ 35,449 | \$ 2,572,272 |

See accompanying notes to financial statements.

MAMA'S KITCHEN
A Not-for-Profit Organization
Statements of Cash Flows
For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|-------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Increase in Net Assets | \$ 375,382 | \$ 191,024 |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation and amortization | 143,525 | 146,174 |
| Amortization of debt issuance cost | 1,353 | 1,353 |
| Gain on sale of assets | (5,000) | - |
| Investments in marketable securities available for sale | 96,521 | 35,361 |
| (Increase) Decrease in: | | |
| Accounts receivable - net | (78,530) | (46,335) |
| Prepaid expenses and deposits | (2,988) | (8,069) |
| Pledges receivable - net | 26,430 | 19,530 |
| Inventory | (11,194) | 8,366 |
| Increase (Decrease) in: | | |
| Accounts payable and accrued expenses | (951) | 2,720 |
| Accrued income taxes | - | (10,680) |
| Deferred revenue | (6,322) | (64,226) |
| Net cash provided by operating activities | <u>538,226</u> | <u>275,218</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of investments in marketable securities available for sale | (618,994) | (525,053) |
| Proceeds from sale of investments in marketable securities available for sale | 394,099 | 422,632 |
| Proceeds from sale of assets | 5,000 | - |
| Additions to other assets - net | - | (8,415) |
| Purchase of property and equipment | (27,794) | (42,400) |
| Net cash used by investing activities | <u>(247,689)</u> | <u>(153,236)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net payments of long-term borrowings | (202,075) | (85,245) |
| Line of credit - net | 45,561 | (83,809) |
| Net cash used in financing activities | <u>(156,514)</u> | <u>(169,054)</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 134,023 | (47,072) |
| Cash and cash equivalents, beginning of the year | <u>83,451</u> | <u>130,523</u> |
| Cash and cash equivalents, end of the year | <u>\$ 217,474</u> | <u>\$ 83,451</u> |
| Supplemental Disclosure of cash flow information: | | |
| Cash payments for interest | <u>\$ 54,645</u> | <u>\$ 59,297</u> |
| Income taxes paid | <u>\$ -</u> | <u>\$ 28,171</u> |

See accompanying notes to financial statements.

MAMA'S KITCHEN
a Not-for-Profit Organization
Statement of Functional Expenses
For the Year Ended June 30, 2017

| | Program Services | Social Enterprise | SUPPORTING SERVICES | | Total |
|---|---------------------|----------------------|-------------------------|-------------------|---------------------|
| | | | Management & General | Fundraising | |
| Salaries and wages | \$ 317,884 | \$ 13,214 | \$ 86,442 | \$ 232,354 | \$ 649,894 |
| Payroll taxes | 26,768 | 1,031 | 6,607 | 20,409 | 54,815 |
| Employee benefits | 20,456 | 650 | 16,512 | 19,733 | 57,351 |
| Total Salary and Related Expense | 365,108 | 14,895 | 109,561 | 272,496 | 762,060 |
| Food and packaging costs (net) | 1,016,846 | 57,546 | - | - | 1,074,392 |
| Food costs - in-kind | 36,226 | - | - | - | 36,226 |
| Advertising, printing & publications | - | - | - | 34,149 | 34,149 |
| Bad debt expense | 200 | - | - | - | 200 |
| Bank/Credit card fees | - | - | 1,680 | 14,583 | 16,263 |
| Client expense | 8,787 | - | - | - | 8,787 |
| Depreciation and amortization | 114,527 | - | 10,902 | 18,096 | 143,525 |
| Direct mail | - | - | - | 30,165 | 30,165 |
| Donor cultivation | - | - | - | 1,611 | 1,611 |
| Donated services, facilities and in-kind | 362,576 | - | - | 174,821 | 537,397 |
| Income taxes | - | 1,500 | - | - | 1,500 |
| Information technology | 4,723 | - | 1,547 | 6,633 | 12,903 |
| Insurance | 14,938 | - | 4,934 | 3,304 | 23,176 |
| Interest expense | 40,787 | - | 6,173 | 9,038 | 55,998 |
| Investment advisory fees | 10,126 | - | 1,187 | 2,239 | 13,552 |
| Legal and professional | 11,163 | - | 3,420 | 2,649 | 17,232 |
| Memberships, subscriptions, professional development | 1,593 | - | 8,507 | 2,406 | 12,506 |
| Occupancy | 81,879 | - | 9,110 | 16,899 | 107,888 |
| Office expense | 8,099 | - | 3,432 | 4,663 | 16,194 |
| Vehicle expense | 2,348 | 1,679 | - | - | 4,027 |
| Volunteer expense | 6,295 | - | 484 | 501 | 7,280 |
| Miscellaneous | - | - | 69 | 425 | 494 |
| Total Expenses | \$ 2,086,221 | \$ 75,620 | \$ 161,006 | \$ 594,678 | \$ 2,917,525 |

See accompanying notes to financial statements.

MAMA'S KITCHEN
a Not-for-Profit Organization
Statement of Functional Expenses
For the Year Ended June 30, 2016

| | Program Services | Social Enterprise | SUPPORTING SERVICES | | Total |
|---|---------------------|----------------------|-------------------------|-------------------|---------------------|
| | | | Management & General | Fundraising | |
| Salaries and wages | \$ 295,392 | \$ 24,362 | \$ 101,967 | \$ 217,538 | \$ 639,259 |
| Payroll taxes | 24,888 | 1,963 | 8,047 | 18,056 | 52,954 |
| Employee benefits | 21,822 | 1,730 | 11,303 | 19,321 | 54,176 |
| Total Salary and Related Expense | 342,102 | 28,055 | 121,317 | 254,915 | 746,389 |
| Food and packaging costs (net) | 1,170,306 | 112,764 | - | 47 | 1,283,117 |
| Food costs - in-kind | 38,965 | - | - | - | 38,965 |
| Advertising, printing & publications | - | - | - | 33,958 | 33,958 |
| Bank/Credit card fees | - | - | - | 19,878 | 19,878 |
| Client expense | 12,012 | - | - | - | 12,012 |
| Depreciation and amortization | 117,379 | - | 11,562 | 17,233 | 146,174 |
| Direct mail | - | - | - | 35,609 | 35,609 |
| Donor cultivation | - | - | 34 | 1,536 | 1,570 |
| Donated services, facilities and in-kind | 353,015 | - | - | 118,496 | 471,511 |
| Income taxes | - | 12,447 | - | - | 12,447 |
| Information technology | 8,969 | - | 2,046 | 8,340 | 19,355 |
| Insurance | 14,917 | - | 4,993 | 3,372 | 23,282 |
| Interest expense | 44,257 | - | 6,585 | 9,808 | 60,650 |
| Investment advisory fees | 8,987 | - | 1,269 | 1,997 | 12,253 |
| Legal and professional | 21,185 | - | 4,610 | 4,592 | 30,387 |
| Memberships, subscriptions, professional development | 4,966 | - | 5,216 | 1,345 | 11,527 |
| Occupancy | 77,482 | - | 8,471 | 15,890 | 101,843 |
| Office expense | 13,104 | - | 2,891 | 4,656 | 20,651 |
| Vehicle expense | 437 | 3,662 | - | - | 4,099 |
| Volunteer expense | 4,420 | - | 318 | 434 | 5,172 |
| Miscellaneous | 21 | 1,512 | 257 | 33 | 1,823 |
| Total Expenses | <u>\$ 2,232,524</u> | <u>\$ 158,440</u> | <u>\$ 169,569</u> | <u>\$ 532,139</u> | <u>\$ 3,092,672</u> |

See accompanying notes to financial statements.

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

Note 1 – Organization and Summary of Significant Accounting Policies

Nature of Activities

Mama's Kitchen (the "Organization") is a not-for-profit organization incorporated on September 28, 1990 in California and providing services in San Diego County. It is governed by a Board of Directors who volunteer their services to the Organization. Program services are provided at no cost and consist of home-delivered meals for persons affected by Acquired Immune Deficiency Syndrome ("AIDS" or "HIV/AIDS") or cancer; and pantry services and nutrition education for persons affected by HIV/AIDS. The pantry service, called Mama's Pantry, started in February 2004 and the nutrition education service began in January 2014. The Organization's home delivered meal service programs are funded in part by the Ryan White HIV/AIDS Extension Treatment Act and the Housing Opportunities for Persons with AIDS (HOPWA) Program (both federally funded programs administered by the County of San Diego), grants from private and corporate foundations, and local community support. In March 2016, the Organization launched two new programs funded by Ryan White; Medical Nutrition Therapy and Emergency Food Assistance. During the twelve months ended June 30, 2017 and 2016 the Organization delivered 317,778 and 348,258 meals and had 5,142 and 4,953 visits to Mama's Pantry, respectively. The Monday and Wednesday deliveries each consist of six meals, including one hot dinner and one prepared dinner. The Friday delivery consists of nine meals, including one hot dinner and two prepared dinners.

Financial Statement Presentation and Basis of Accounting

The financial statements are prepared in accordance with the American Institute of Certified Public Accountants Audit and Accounting Guide for Not for Profit Organizations. Financial statement preparation follows the recommendations of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958 *Financial Statements of Not-for-Profit Organizations*. Under ASC 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The accompanying financial statements have been prepared on the accrual basis in conformity with generally accepted accounting principles. Accordingly, the financial statements reflect all significant receivables, payables, and other liabilities.

Cash and Cash Equivalents and Concentration of Credit Risk

For purposes of the Statements of Cash Flows, Mama's Kitchen considers all highly liquid investments with an initial maturity date of three months or less to be cash equivalents.

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

Amounts in the bank accounts do not exceed the United States Federal Deposit Insurance Corporation insured limit of \$250,000.

Investments in Marketable Securities Available for Sale and Concentration of Credit Risk and Uncertainties

The Organization invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect balances and the amounts reported in the statement of financial position.

The Organization also invests in the securities of foreign companies or companies with significant operations in foreign countries, which involve additional special risks and considerations not typically associated with investing in U.S. companies. These risks include but are not limited to devaluation of currencies, less reliable information about issuers, different securities transaction regulations, clearance and settlement practices, and possibly adverse political and economic developments. Moreover, the securities of many foreign companies may be less liquid and their prices more volatile than those securities of comparable U.S. companies.

Inventory

The inventory consists of meal containers, dry and frozen foods, and other food products. Inventory is valued using the First-In First-Out (FIFO) method. As of June 30, 2017 and 2016, inventory was valued at \$40,429 and \$29,235.

Property and Equipment - net

Property and equipment acquisitions in excess of \$1,000 or more per the Organization's capitalization policy are capitalized and recorded at cost when purchased. The fair market value of donated fixed assets is similarly capitalized. Depreciation is provided over the estimated useful life of each class of assets (3 to 30 years) and is computed using the straight-line method. The Organization's expenditures for ordinary repairs and maintenance and planned major maintenance are charged to operations as incurred. Depreciation expense for the year ended June 30, 2017 and 2016 was \$141,845 and \$145,614.

Impairment of Long-lived Assets

The Organization accounts for impairment of long-lived assets in accordance with FASB ASC No. 360, "Property, Plant, and Equipment." ASC No. 360 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

that the book value of the asset may not be recoverable. The Organization evaluates at each balance sheet date whether events and circumstances have occurred that indicate possible operational impairment. In accordance with ASC No. 360, the Organization uses an estimate of the future undiscounted net cash flows of the related asset or asset grouping over the remaining life in measuring whether its operating assets are recoverable. An impairment is recognized when future undiscounted cash flows of assets are estimated to be insufficient to recover their related carrying value. The Organization considers continued operating losses, or significant and long-term changes in business conditions, to be its primary indicators of potential impairment. In measuring impairment, the Organization looks to quoted market prices, if available, or the best information available in the circumstances. At June 30, 2017 and 2016, the Organization has determined that there is no impairment of assets.

Intangible Assets – net

Intangible assets cost of \$32,176 are amortized over the estimated useful life of 5 years. Accumulated amortization totaled \$26,001 and \$24,321 as of June 30, 2017 and 2016. Amortization expense for year ended June 30, 2017 and 2016 totaled \$1,680 and \$560.

Debt Issuance Costs

Debt issuance costs are amortized over the life of the loan and are presented net of amortization as a direct reduction of the associated note payable for 2017 and 2016 in accordance with ASU 2015-03. The net loan origination fees included as a reduction to notes payable were \$4,961 and \$6,318 for 2017 and 2016, respectively. (See Recent Accounting Pronouncements.) Amortization of debt issuance costs totaling \$1,353 and \$1,353 are included in interest expense.

Compensated Absences

Employees of Mama's Kitchen are entitled to compensated absences depending on the length of service and other factors. Such absences consist of accrued vacation and sick time; the unused accrued vacation is payable upon termination or retirement. As of June 30, 2017 and 2016, accrued vacation payable was \$49,128 and \$55,093.

Contributions, Promises to Give and Capital Projects

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions are recognized when the donor makes a promise to give, in substance and unconditionally. It is the Organization's policy to treat donor-restricted contributions whose restrictions are met in the same reporting period as unrestricted. Donations that are not expended in the current year are classified as temporarily restricted.

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

Capital project contributions include amounts contributed to meet the debt service on the Organization's headquarters as well as specific equipment purchases.

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Concentration of Revenue

In 2017 and 2016, Mama's Kitchen received approximately 21% and 22% of its total revenue from local government agencies for the AIDS Home Delivered Meals Program. While there is no imminent plan on the part of the government to discontinue these funds, the contracts are renewed on an annual basis depending on availability of funds.

In 2017 and 2016, Mama's Kitchen also received approximately 79% and 78% of its total revenue from fund-raising activities, investment income and contributions from private foundations, local community support and outside meal service.

Unrelated Business Income – Social Enterprise

Mama's Kitchen prepared and sold meals to an unrelated third party that qualifies as unrelated business income ("Social Enterprise"). The Social Enterprise began in January 2015 and the contract ended in December 2016. The net income from this activity supported the mission of Mama's Kitchen.

Donated Services

The criteria for recognizing donated services in accordance with FASB ASC 958, *Accounting for Contributions Received and Contributions Made*, are if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization.

Fiscal year ended June 30, 2017:

The Organization received approximately 31,207 donated hours and 125,268 miles driven from 595 volunteers for various services including food preparation, packaging and staging prepared meals, home delivery and pantry services to more than 1,216 men, women, and children at high risk of hunger and malnutrition. The value of donated hours is \$888,151(1) and the value of donated miles is \$67,018(2).

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

Fiscal year ended June 30, 2016:

The Organization received approximately 34,142 donated hours and 122,931 miles driven from 848 volunteers for various services including food preparation, packaging and staging prepared meals, home delivery and pantry services to more than 1,318 men, women, and children at high risk of hunger and malnutrition. The value of donated hours is \$941,978(1) and the value of donated miles is \$66,383(2).

However, not all of these services met the criteria established by FASB ASC 958 and therefore are not recorded in the financial statements. The donated services that can be recorded in the financial statements, specifically for meal delivery, are discussed in Note 14.

- (1) Calculated using the 2016 or 2015 Volunteer Hour Value for California as published by The Independent Sector
- (2) Calculated using the IRS Standard Mileage Rate of \$0.535 for fiscal 2017 and \$0.54 for fiscal 2016

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Recent Accounting Pronouncements

The FASB codifies the various sources of GAAP into the ASC. Any changes to the ASC are now communicated through Accounting Standards Updates ("ASU").

In 2016 and 2017 and up to the date of this report, the FASB has issued various ASU's for which the majority of these updates are not pertinent to the operations of the Organization. Those ASU's that are pertinent have been or will be adopted in future years, and are not expected to have any impact on the financial condition, results of operations or cash flows of the Organization.

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

Effective June 1, 2016, the Organization changed its method of presentation related to debt issuance costs in accordance with ASU 2015-03. Prior to 2017, the Organizations policy was to present these debt issuance costs in intangible assets on the Statement of Financial Position, net of accumulated amortization. The Organization has presented these fees as a direct deduction to the related note payable for 2017 and 2016.

Reclassifications

Certain reclassifications have been made to the fiscal year ended June 30, 2016 financial statements to conform to the fiscal year ended June 30, 2017 presentation.

Date of Managements Review

Subsequent events were evaluated through November 14, 2017, which is the financial statement issuance date.

Note 2 – Statement of Financial Position Details at June 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|-----------------------------------|--------------------|--------------------|
| Property and Equipment – at Cost: | | |
| Land | \$ 176,700 | \$ 176,700 |
| Building and improvements | 2,221,313 | 2,205,920 |
| Furniture and fixtures | 421,169 | 411,758 |
| Vehicles | <u>39,735</u> | <u>63,593</u> |
| | 2,858,917 | 2,857,971 |
| Accumulated Depreciation | <u>(916,188)</u> | <u>(801,191)</u> |
| Net Property and Equipment | <u>\$1,942,729</u> | <u>\$2,056,780</u> |
| Prepaid expenses and other: | | |
| Prepaid insurance | \$ 13,998 | \$ 11,742 |
| Prepaid income taxes | 3,402 | 6,777 |
| Software maintenance | 7,517 | 7,344 |
| Cleaning & other services | 6,855 | 2,922 |
| Vendor security deposit | 6,000 | 6,000 |
| Workers compensation deposit | <u>1,666</u> | <u>1,666</u> |
| Total prepaid expenses and other | <u>\$ 39,438</u> | <u>\$ 36,451</u> |

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

| | | |
|---|-------------------|-------------------|
| Other assets – net | | |
| Intangible assets – net | \$ 6,175 | \$ 7,855 |
| Pledges receivable – long-term portion | <u>22,087</u> | <u>36,743</u> |
| Total other assets – net | <u>\$ 28,262</u> | <u>\$ 44,598</u> |
| Accounts payable and accrued expenses | | |
| Accounts payable | \$ 7,039 | \$ 11,235 |
| Accrued payroll | 26,665 | 28,490 |
| Accrued vacation | 49,128 | 55,093 |
| Accrued other | <u>21,993</u> | <u>10,958</u> |
| Total accounts payable and accrued expenses | <u>\$ 104,825</u> | <u>\$ 105,776</u> |

Note 3 - Income Taxes

Income Taxes Status

Mama's Kitchen is a private not-for-profit corporation organized under the laws of the State of California. As a Section 501(c)(3) organization, it is exempt from income taxes on the basis that it qualifies for exemption under Section 501(a) of the Internal Revenue Code, and Section 23701(d) of the State Revenue and Taxation Code on revenues, gains and other support used for charitable purposes.

Mama's Kitchen also had unrelated business income for the fiscal year ended June 30, 2017 and 2016 on net revenues received for providing outside meal services. Income tax expense for the fiscal year ended June 30, 2017 and 2016 is as follows:

| | <u>2017</u> | <u>2016</u> |
|------------|-----------------|------------------|
| Federal | \$ 556 | \$ 7,891 |
| California | <u>944</u> | <u>4,556</u> |
| Total | <u>\$ 1,500</u> | <u>\$ 12,447</u> |

Uncertain Tax Positions

The accounting standards on accounting for uncertainty in income taxes address the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, Mama's Kitchen may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various position related to the potential sources of unrelated business taxable income. The tax benefits recognized in the financial statements from a tax position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for the year ended June 30, 2017 and 2016.

Management has considered its tax position and believes that all of the positions taken in its exempt organization tax returns are more likely than not to be sustained upon examination.

Mama's Kitchen files its Form 990 in the U.S. federal jurisdiction and a copy of it with the Office of the State's Attorney General for the State of California. Mama's Kitchen is no longer subject to examination by the Internal Revenue Service and the State of California for years before 2012 and 2011, respectively.

Note 4 – Investments in Marketable Securities Available for Sale

Investments in marketable debt and equity securities available-for-sale are being reported at fair value based upon quoted market prices on national stock exchanges. Unrealized net holding gains totaled \$53,967 and \$21,569 for the year ended June 30, 2017 and 2016, respectively. Investments in marketable securities available for sale are held for investment gains and for future needs of the Organization. (See note 12 for unrealized net holding gains on permanently restricted endowment funds.)

Gross realized gains on available-for-sale securities included in revenue totaled \$42,554 and \$13,792 for the year ended June 30, 2017 and 2016, respectively. Gains or (losses) are recognized via the specific identification method.

At June 30, 2017, the cost basis and estimated fair values of investments in equity securities are set forth in the following table. The cost basis approximate the amortized costs for securities purchased at a price equal to the stated face amount, plus a premium or less a discount.

| | <u>Cost Basis</u> | Gross Unrealized <u>Gains</u> | Gross Unrealized <u>(Losses)</u> | <u>Estimated Fair Value</u> |
|-----------------------------|-------------------|-------------------------------------|--|---------------------------------|
| Cash and cash equivalents | \$ 59,225 | \$ - | \$ - | \$ 59,225 |
| Domestic common stocks | 744,407 | 230,177 | (8,468) | 966,116 |
| Managed equity mutual funds | 250,563 | 3,200 | (3,952) | 249,811 |

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

| | | | | |
|---------------------------|--------------------|------------------|--------------------|--------------------|
| Preferred stocks | 101,405 | 6,430 | (162) | 107,673 |
| Asset backed securities | 42,514 | 425 | (42) | 42,897 |
| Managed equity bond funds | | | | |
| US Government backed | 95,679 | 2,081 | (1,157) | 96,603 |
| Corporate | 77,886 | 494 | (374) | 78,006 |
| San Diego Foundation | | | | |
| Balanced Pool | <u>12,287</u> | <u>-</u> | <u>-</u> | <u>12,287</u> |
| Total | <u>\$1,383,966</u> | <u>\$242,807</u> | <u>\$ (14,155)</u> | <u>\$1,612,618</u> |

At June 30, 2016, the cost basis and estimated fair values of investments in equity securities are set forth in the following table. The cost basis approximate the amortized costs for securities purchased at a price equal to the stated face amount, plus a premium or less a discount.

| | <u>Cost Basis</u> | <u>Gross Unrealized Gains</u> | <u>Gross Unrealized (Losses)</u> | <u>Estimated Fair Value</u> |
|-----------------------------|--------------------|---------------------------------------|--|---------------------------------|
| Cash and cash equivalents | \$ 103,531 | \$ - | \$ - | \$ 103,531 |
| Domestic common stocks | 650,499 | 175,410 | (17,231) | 808,678 |
| Managed equity mutual funds | 206,317 | 1,375 | (1,322) | 206,370 |
| Preferred stocks | 114,474 | 9,131 | (85) | 123,520 |
| Asset backed securities | 11,793 | 500 | - | 12,293 |
| Managed equity bond funds | | | | |
| US Government backed | 136,365 | 5,865 | (590) | 141,640 |
| Corporate | 75,131 | 1,905 | (273) | 76,763 |
| San Diego Foundation | | | | |
| Balanced Pool | <u>11,449</u> | <u>-</u> | <u>-</u> | <u>11,449</u> |
| Total | <u>\$1,309,559</u> | <u>\$194,186</u> | <u>\$ (19,501)</u> | <u>\$1,484,244</u> |

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

Note 5 – Fair Value of Investments

The FASB issued ASC No. 820 (ASC 820), Fair Value Measurements that establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America, and expands disclosures about fair value measurements.

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect the Organization's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Assets measured at fair value on a recurring basis are summarized below:

Fair Value Measurement at June 30, 2017, Using

| | <u>Total</u> | Quoted Price in Active Markets for Identical Assets (<u>Level 1</u>) | Significant Other Observable Inputs (<u>Level 2</u>) | Significant Unobservable Inputs (<u>Level 3</u>) |
|---|--------------|--|--|---|
| UBS Financial Services, Inc. ("UBS") Investments | | | | |
| Cash Portfolio | \$ 59,225 | \$ 59,225 | \$ - | \$ - |

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

| | | | | |
|----------------------------|--------------------|--------------------|------------------|-------------|
| UBS Investment Accounts | | | | |
| Equities | 966,116 | 966,116 | - | - |
| Mutual Funds | 249,811 | 249,811 | - | - |
| Fixed Income Investments | 325,179 | 325,179 | - | - |
| San Diego Foundation | | | | |
| Endowment, Balanced Pool | <u>12,287</u> | <u>-</u> | <u>12,287</u> | <u>-</u> |
| Total Investments | <u>1,553,393</u> | <u>1,541,106</u> | <u>12,287</u> | <u>-</u> |
| Total Cash and Investments | <u>\$1,612,618</u> | <u>\$1,600,331</u> | <u>\$ 12,287</u> | <u>\$ -</u> |

Fair Value Measurement at June 30, 2016, Using

| | <u>Total</u> | <u>Quoted Price in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Other Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
|---|--------------------|--|--|--|
| UBS Financial Services, Inc. ("UBS") Investments | | | | |
| Cash Portfolio | <u>\$ 103,531</u> | <u>\$ 103,531</u> | <u>\$ -</u> | <u>\$ -</u> |
| UBS Investment Accounts | | | | |
| Equities | 808,678 | 808,678 | - | - |
| Mutual Funds | 206,370 | 206,370 | - | - |
| Fixed Income Investments | 354,216 | 354,216 | - | - |
| San Diego Foundation | | | | |
| Endowment, Balanced Pool | <u>11,449</u> | <u>-</u> | <u>11,449</u> | <u>-</u> |
| Total Investments | <u>1,380,713</u> | <u>1,369,264</u> | <u>11,449</u> | <u>-</u> |
| Total Cash and Investments | <u>\$1,484,244</u> | <u>\$1,472,795</u> | <u>\$ 11,449</u> | <u>\$ -</u> |

The fair value of a financial instrument is 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. Fair value is best determined based upon quoted market prices.

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

Note 6 – Accounts Receivable - net

Accounts receivable - net as of June 30, 2017 and 2016 were \$245,720 and \$167,189, of which \$105,700 and \$87,406 were due from the County of San Diego – Health & Human Services Agency and \$140,020 and \$79,783 from various other entities. Management determined that no allowance for doubtful accounts was necessary.

Note 7 – Pledges Receivable - net

Mama's Kitchen is working to raise awareness coupled with a fund-raising campaign for a purchased building to accommodate increased demand for its programs and the ultimate growth of the Organization. Pledges receivable as of June 30, 2017 and 2016 are as follows:

| | <u>2017</u> | <u>2016</u> |
|--|------------------|------------------|
| Pledges receivable – net (less allowance for doubtful pledges of \$890 in 2017 and 2016, respectively) | \$ 42,110 | \$ 68,540 |
| Less current portion | <u>20,023</u> | <u>31,797</u> |
| | <u>\$ 22,087</u> | <u>\$ 36,743</u> |

Note 8 – Deferred Revenue

Deferred Revenue net of expenses as of June 30, 2016 of \$6,322 represents amounts received in 2016 that are specifically designated to fund 2017 events. No deferred revenue was recorded as of June 30, 2017.

Note 9 – Revolving Line of Credit

The Organization has a \$1,000,000 revolving Line of Credit with UBS, of which \$499,260 and \$453,699 was outstanding at June 30, 2017 and 2016 (“Line of Credit”). The balance shown on the Statement of Financial Position of \$499,260 and \$453,699 includes accrued interest of \$1,242 and \$831 as of June 30, 2017 and 2016, respectively. Bank advances on the credit line are payable on demand and carry a 30-day London Inter-Bank Rate + 1.75% interest rate (2.92% APR at June 30, 2017).

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

Note 10 – Long Term Debt

Long term debt at June 30, 2017 and 2016, was comprised of:

| | <u>2017</u> | <u>2016</u> |
|--|-------------------|-------------------|
| Mortgage note payable to Torrey Pines Bank, interest rate of 5.556%, monthly payments of \$8,363 through January 2021 with a balloon payment in the amount of approximately \$416,058 collateralized by real property. | 599,915 | 801,990 |
| Less current portion | <u>57,906</u> | <u>54,741</u> |
| | 542,009 | 747,249 |
| Reduction of long term debt for unamortized Debt issuance costs | <u>(4,961)</u> | <u>(6,314)</u> |
| Total Long term debt - net | <u>\$ 537,048</u> | <u>\$ 740,935</u> |

Maturities of long-term debt subsequent to June 30 are as follows:

| | |
|-------|-------------------|
| 2018 | \$ 57,906 |
| 2019 | 61,253 |
| 2020 | 64,698 |
| 2021 | <u>416,058</u> |
| Total | <u>\$ 599,915</u> |

Note 11 – Temporarily and Permanently Restricted Net Assets

Temporarily Restricted Assets

The Organization received temporarily restricted contributions totaling \$152,900 and \$154,161 in 2017 and 2016, respectively. Per donor imposed restrictions, the temporarily restricted funds usage is restricted to a specific purpose and/or program. The Organization utilized \$112,794 and \$73,535 of these temporarily restricted funds as of June 30, 2017 and 2016, respectively.

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

Permanently Restricted Assets

Permanently restricted net assets as of June 30, 2017 and 2016 consisted of endowment fund contributions included in investments in marketable securities available for sale as follows:

| | <u>2017</u> | <u>2016</u> |
|---|------------------|------------------|
| Mama's Kitchen Endowment | \$ 25,000 | \$ 24,000 |
| The San Diego Foundation Endowment | <u>12,287</u> | <u>11,449</u> |
| Total Permanently Restricted Net Assets | <u>\$ 37,287</u> | <u>\$ 35,449</u> |

Note 12 – Endowment Funds

Mama's Kitchen has two separate endowment funds; one is maintained by The San Diego Foundation and the other is pooled with other investments. Both endowments were created to support the Organization's operations as a whole and not for any specific purpose. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of Mama's Kitchen has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) 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. As a result of this interpretation, Mama's Kitchen classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Mama's Kitchen 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 Foundation 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.

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

**Description of Amounts Classified as Permanently Restricted Net Assets and
Temporarily Restricted Net Assets (Endowment Only)**

Permanently Restricted Net Assets

The portion of perpetual endowment funds required to be retained permanently either by explicit donor stipulation or by UPMIFA \$ 37,287

Temporarily Restricted Net Assets

The portion of perpetual endowment funds subject to a time restriction under UPMIFA \$ -

Endowment Net Asset Composition by Type of Fund as of June 30, 2017

| <u>Endowment Funds</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|---------------------|-------------------------------|-------------------------------|--------------|
| Donor-restricted endowment funds | \$ - | \$ - | \$ 37,287 | \$ 37,287 |

Change in Endowment Net Assets for the Year Ended June 30, 2017

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|---|---------------------|-------------------------------|-------------------------------|------------------|
| Endowment net assets, beginning of year | \$ - | \$ - | \$ 35,449 | \$ 35,449 |
| Investment Return: | | | | |
| Net income (realized and unrealized) | - | - | 838 | 838 |
| Contributions | <u>-</u> | <u>-</u> | <u>1,000</u> | <u>1,000</u> |
| Endowment net assets, end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 37,287</u> | <u>\$ 37,287</u> |

Endowment Net Asset Composition by Type of Fund as of June 30, 2016

| <u>Endowment Funds</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|----------------------------------|---------------------|-------------------------------|-------------------------------|--------------|
| Donor-restricted endowment funds | \$ - | \$ - | \$ 35,449 | \$ 35,449 |

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

Change in Endowment Net Assets for the Year Ended June 30, 2016

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> | <u>Total</u> |
|--|---------------------|-----------------------------------|-----------------------------------|------------------|
| Endowment net assets, beginning of year | \$ - | \$ - | \$ 36,672 | \$ 36,672 |
| Investment Return: | | | | |
| Net income (realized and unrealized) | - | - | (1,223) | (1,223) |
| Endowment net assets, end of year | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 35,449</u> | <u>\$ 35,449</u> |

Endowment Investment Policies

Return Objectives and Risk Parameters

Mama's Kitchen has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for operations supported by its endowments while seeking to maintain the principal of the endowment assets. Within prudent investment principles, in selecting FDIC insured institutions for cash, CDs, and similar liquid investments, the Board may take into consideration factors other than the rate of return. Such factors may include, but are not limited to, the institution's community involvement, support of Mama's Kitchen, and similar factors the Board deems prudent under the circumstances, so long as the general rate of return received is similar to that of other institutions.

At such time as investments are made in the US equities market, and consistent with prudent investment standards and safety, Mama's Kitchen shall seek to achieve above the market average rate of return as defined by the S&P 500 index while assuming a moderate level of investment risk. Actual returns in any given year may vary due to economic and other market conditions.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, Mama's Kitchen relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Mama's Kitchen's finance committee shall supervise the management of the assets maintained and shall, as appropriate, obtain investment advice from independent sources, including other organizations, registered investment advisors, securities dealers, and other financial institutions.

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

Note 13 – Fund-raising and Special Events, Net

Special events consist of various fund-raising events for the year ended June 30, 2017 and 2016, respectively, as follows:

Fiscal year ended June 30, 2017:

| | <u>Mama's Day</u> | <u>Pie in the Sky</u> | <u>Other Events</u> | <u>Total</u> |
|--|-------------------|-----------------------|---------------------|-------------------|
| Special events revenue | \$ 12,861 | \$ 28,580 | \$ 29,155 | \$ 70,596 |
| Less: Direct expenses | <u>(40,269)</u> | <u>(14,469)</u> | <u>(9,117)</u> | <u>(63,855)</u> |
| Special events, net of direct expenses | <u>(27,408)</u> | <u>14,111</u> | <u>20,038</u> | <u>6,741</u> |
| Special events contributions | 200,473 | 102,582 | 23,985 | 327,040 |
| In-kind donations | 36,727 | 5,527 | 13,282 | 55,536 |
| Less: Indirect expenses | <u>(17,193)</u> | <u>(17,304)</u> | <u>(14,142)</u> | <u>(48,639)</u> |
| Net | <u>220,007</u> | <u>90,805</u> | <u>23,125</u> | <u>333,937</u> |
| Total Fund-raising and Special events | <u>\$ 192,599</u> | <u>\$ 104,916</u> | <u>\$ 43,163</u> | <u>\$ 340,678</u> |

Fiscal year ended June 30, 2016:

| | <u>Mama's Day</u> | <u>Pie in the Sky</u> | <u>Other Events</u> | <u>Total</u> |
|--|-------------------|-----------------------|---------------------|-------------------|
| Special events revenue | \$ 24,650 | \$ 26,110 | \$ 42,990 | \$ 93,750 |
| Less: Direct expenses | <u>(39,942)</u> | <u>(18,858)</u> | <u>(84,292)</u> | <u>(143,092)</u> |
| Special events, net of direct expenses | <u>(15,292)</u> | <u>7,252</u> | <u>(41,302)</u> | <u>(49,342)</u> |
| Special events contributions | 179,916 | 90,954 | 307,801 | 578,671 |
| In-kind donations | 84,680 | 1,455 | 31,216 | 117,351 |
| Less: Indirect expenses | <u>(14,961)</u> | <u>(16,717)</u> | <u>(37,853)</u> | <u>(69,531)</u> |
| Net | <u>249,635</u> | <u>75,692</u> | <u>301,164</u> | <u>626,491</u> |
| Total Fund-raising and Special events | <u>\$ 234,343</u> | <u>\$ 82,944</u> | <u>\$ 259,862</u> | <u>\$ 577,149</u> |

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

Note 14 – Donations In-Kind & Donated Services

Mama's Kitchen received in-kind donations valued at \$211,247 and \$157,461 (excluding in-kind and donated services to special events net of expenses) for the fiscal years ended June 30, 2017 and 2016, respectively. In-kind donations of goods and services consisted of the following:

| | <u>2017</u> | <u>2016</u> |
|------------------------------------|-------------------|-------------------|
| Mama's Day | \$ 129,443 | \$ 84,680 |
| Pie in the Sky | 5,527 | 1,455 |
| Other Special Events | 32,040 | 31,216 |
| Mama's Pantry/Food Drives | 36,226 | 38,965 |
| Other programs and office supplies | <u>8,011</u> | <u>1,145</u> |
| Total Donations In-kind | <u>\$ 211,247</u> | <u>\$ 157,461</u> |

Mama's Kitchen also received donated delivery services for the years ended June 30, 2017 and 2016 valued at \$362,376 and \$353,015 that met the criteria under FASB ASC 958 as described in Note 1. Donated services consist of the following:

| | | |
|-------------------------------------|-------------------|-------------------|
| Volunteer Hours – Delivery Services | \$ 295,358 | \$ 286,632 |
| Mileage Driven | <u>67,018</u> | <u>66,383</u> |
| Total Donated Services | <u>\$ 362,376</u> | <u>\$ 353,015</u> |

Note 15 – Employee Benefit Plan

Mama's Kitchen sponsors a 401(K) profit sharing plan (a defined contribution plan) (the "Plan"). All employees are eligible to participate in the Plan on the first of the month commensurate with or next following their date of hire. Employer contributions to the Plan are based on a match of each participant's salary deferrals. Participants are 100% vested in the employer contributions after completing five years of employment in which they have performed at least 1,000 hours of service. Mama's Kitchen's contribution to the Plan was \$13,412 and \$14,761 for the fiscal years ended June 30, 2017 and 2016, respectively.

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Years Ended June 30, 2017 and 2016

Note 16 – Federal Allowances, Awards and Grants

The Organization has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under the terms of the grants, it is believed that any required reimbursement would not be material.

No individual grant is subject to the audit requirements of the U.S. Office of Management and Budget Uniform Guidance.