

MAMA'S KITCHEN

a Non-Profit Organization,

Financial Statements and Independent Auditor's Report

For the Year Ended June 30, 2016 and the Six Months Ended June 30, 2015

MAMA'S KITCHEN
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AND SIX MONTHS ENDED JUNE 30, 2015

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INDEPENDENT AUDITOR'S REPORT

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

I 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, 2016 and 2015, and the related statements of activities and cash flows for the year and six months then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

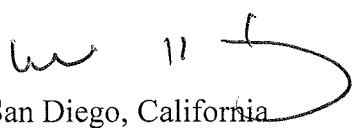
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mama's Kitchen as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the year and six months then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

My 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 is 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 my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.


San Diego, California
November 1, 2016

MAMA'S KITCHEN
A Not-for-Profit Organization
Statements of Financial Position
As of June 30, 2016 and 2015

	2016	2015
<u>Assets</u>		
Current Assets:		
Cash and cash equivalents	\$ 83,451	\$ 130,523
Investments in marketable securities available for sale	1,484,244	1,417,184
Accounts receivable - net	167,189	120,854
Inventories	29,235	37,601
Prepaid expenses and other	36,451	28,382
Pledges receivable - current portion	31,797	53,215
Total current assets	1,832,367	1,787,759
Property and equipment - net	2,056,780	2,159,994
Other assets - net	50,912	42,522
Total assets	\$ 3,940,059	\$ 3,990,275
<u>Liabilities and Net Assets:</u>		
Current Liabilities:		
Line of Credit	\$ 453,699	\$ 537,508
Accounts payable and accrued expenses	105,776	103,056
Accrued income taxes	-	10,680
Deferred revenue	86,948	70,548
Current portion of long-term debt	54,741	51,624
Total current liabilities	701,164	773,416
Long-term debt	747,249	835,611
Total Liabilities	1,448,413	1,609,027
Net assets:		
Unrestricted	2,456,197	2,344,576
Permanently restricted	35,449	36,672
Total net assets	2,491,646	2,381,248
Total Liabilities and Net Assets	\$ 3,940,059	\$ 3,990,275

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	<u>712,264</u>	<u>-</u>	<u>-</u>	<u>712,264</u>
Contributions	1,664,898	-	-	1,664,898
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	<u>73,535</u>	<u>(73,535)</u>	<u>-</u>	<u>-</u>
Total Revenue, Gains, and Other Support	<u>3,204,293</u>	<u>-</u>	<u>(1,223)</u>	<u>3,203,070</u>
EXPENSES:				
Program services	2,232,524	-	-	2,232,524
Social enterprise	158,440	-	-	158,440
Management and general	169,569	-	-	169,569
Fundraising	<u>532,139</u>	<u>-</u>	<u>-</u>	<u>532,139</u>
Total Expenses	<u>3,092,672</u>	<u>-</u>	<u>-</u>	<u>3,092,672</u>
Change in Net Assets	111,621	-	(1,223)	110,398
Net Assets, Beginning of Year	<u>2,344,576</u>	<u>-</u>	<u>36,672</u>	<u>2,381,248</u>
				-
Net Assets, End of Year	<u>\$ 2,456,197</u>	<u>\$ -</u>	<u>\$ 35,449</u>	<u>\$ 2,491,646</u>

See accompanying notes to financial statements.

MAMA'S KITCHEN
A Not-for-Profit Organization
Statement of Activities
For the Six Months Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE, GAINS AND OTHER SUPPORT:				
County of San Diego - Ryan White	\$ 123,805	\$ -	\$ -	\$ 123,805
County of San Diego - HOPWA	80,350	-	-	80,350
CDBG City Grant	43,956	-	-	43,956
Total grant revenues	248,111	-	-	248,111
Contributions	902,699	-	-	902,699
Capital projects	-	3,671	-	3,671
Donation in-kind	109,402	-	-	109,402
Donated services	169,209	-	-	169,209
Special events, net of direct expenses	29,335	-	-	29,335
Social enterprise	108,128	-	-	108,128
Investment income	19,368	-	-	19,368
Net realized and unrealized gain on investments	6,124	-	22	6,146
Released from restriction by payment	3,671	(3,671)	-	-
Total Revenue, Gains, and Other Support	1,596,047	-	22	1,596,069
EXPENSES:				
Program services	1,161,280	-	-	1,161,280
Social enterprise	73,009	-	-	73,009
Management and general	72,252	-	-	72,252
Fundraising	275,945	-	-	275,945
Total Expenses	1,582,486	-	-	1,582,486
Change in Net Assets	13,561	-	22	13,583
Net Assets, Beginning of Year	2,331,015	-	36,650	2,367,665
Net Assets, End of Year	<u>\$ 2,344,576</u>	<u>\$ -</u>	<u>\$ 36,672</u>	<u>\$ 2,381,248</u>

See accompanying notes to financial statements.

MAMA'S KITCHEN
A Not-for-Profit Organization
Statements of Cash Flows

For the Year Ended June 30, 2016 and the Six Months Ended June 30, 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in Net Assets	\$ 110,398	\$ 13,583
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	147,527	72,979
(Gain) loss on sale of assets	-	(500)
(Gain) loss on investments in marketable securities available for sale	35,361	6,124
(Increase) Decrease in:		
Accounts receivable - net	(46,335)	(26,170)
Prepaid expenses and deposits	(8,069)	(4,644)
Pledges receivable - net	19,530	33,258
Inventory	8,366	(10,537)
Increase (Decrease) in:		
Accounts payable and accrued expenses	2,720	18,933
Accrued income taxes	(10,680)	10,680
Deferred revenue	16,400	(4,348)
Net cash provided by operating activities	<u>275,218</u>	<u>109,358</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments in marketable securities available for sale	(525,053)	(208,339)
Proceeds from sale of investments in marketable securities available for sale	422,632	184,287
Proceeds from sale of assets	-	500
Additions to other assets - net	(8,415)	-
Purchase of property and equipment	(42,400)	(18,804)
Net cash used by investing activities	<u>(153,236)</u>	<u>(42,356)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net payments of long-term borrowings	(85,245)	(24,843)
Line of credit - net	(83,809)	(82,391)
Net cash used in financing activities	<u>(169,054)</u>	<u>(107,234)</u>
Net Decrease in Cash and Cash Equivalents	(47,072)	(40,232)
Cash and cash equivalents, beginning of the year	<u>130,523</u>	<u>170,755</u>
Cash and cash equivalents, end of the year	<u>\$ 83,451</u>	<u>\$ 130,523</u>
Supplemental Disclosure of cash flow information:		
Cash payments for interest	<u>\$ 59,297</u>	<u>\$ 30,941</u>
Income taxes paid	<u>\$ 28,171</u>	<u>\$ -</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, 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	-	12,915	17,233	147,527
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	-	5,232	9,808	59,297
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
Statement of Functional Expenses
For the Six Months Ended June 30, 2015

	Program Services	Social Enterprise	SUPPORTING SERVICES		Total
			Management & General	Fundraising	
Salaries and wages	\$ 184,549	\$ 12,902	\$ 43,714	\$ 88,133	\$ 329,298
Payroll taxes	16,147	987	3,486	7,537	28,157
Employee benefits	15,438	819	4,191	8,422	28,870
Total Salary and Related Expense	216,134	14,708	51,391	104,092	386,325
Food and packaging costs (net)	596,471	45,569	-	-	642,040
Food costs - in-kind	9,570	-	-	-	9,570
Advertising, printing & publications	-	-	-	19,135	19,135
Bank/Credit card fees	-	-	-	9,668	9,668
Client expense	7,489	-	-	-	7,489
Depreciation and amortization	57,656	-	6,275	9,048	72,979
Direct mail	-	-	-	17,080	17,080
Donor cultivation	-	-	-	694	694
Donated services, facilities and in-kind	169,209	-	-	99,833	269,042
Income taxes	-	10,680	-	-	10,680
Information technology	1,027	-	555	5,511	7,093
Insurance	9,905	-	637	637	11,179
Interest expense	24,753	-	3,094	3,094	30,941
Investment advisory fees	6,249	-	-	-	6,249
Legal and professional	9,300	-	4,990	-	14,290
Memberships, subscriptions, professional development	865	-	423	922	2,210
Occupancy	44,733	-	3,228	3,242	51,203
Office expense	5,007	-	1,659	2,908	9,574
Vehicle expense	462	2,052	-	-	2,514
Volunteer expense	2,150	-	-	-	2,150
Miscellaneous	300	-	-	81	381
Total Expenses	<u>\$ 1,161,280</u>	<u>\$ 73,009</u>	<u>\$ 72,252</u>	<u>\$ 275,945</u>	<u>\$ 1,582,486</u>

See accompanying notes to financial statements.

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Year Ended June 30, 2016 and
the Six Months Ended June 30, 2015

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, 2016 and the period January 1 to June 30, 2015 the Organization delivered 348,258 and 169,597 meals and had 4,953 and 2,334 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, Change in Fiscal Year 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.

Effective June 30, 2015, the Organization elected to change their fiscal year end from December 31 to June 30. This was done to more accurately reflect the Organization's operations and to match the year end of certain government agencies providing grant revenue.

The accompanying financial statements have been prepared on the accrual basis in conformity with generally accepted accounting principles. Accordingly, the financial

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Year Ended June 30, 2016 and
the Six Months Ended June 30, 2015

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. 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 consisted 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, 2016 and 2015, inventory was valued at \$29,235 and \$37,601.

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.

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Year Ended June 30, 2016 and
the Six Months Ended June 30, 2015

Depreciation expense for the year ended June 30, 2016 and the six months ended June 30, 2015 was \$145,614 and \$72,303.

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 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, 2016 and 2015, the Organization has determined that there is no impairment of assets.

Intangible Assets – net

Intangible assets cost of \$45,706 are amortized over the estimated useful lives of 5 – 10 years. Accumulated amortization totaled \$31,537 and \$29,624 as of June 30, 2016 and 2015. Amortization expense for year ended June 30, 2016 and the six months ended June 30, 2015 totaled \$1,913 and \$676.

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, 2016 and 2015, accrued vacation payable was \$55,093 and \$52,360.

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

MAMA'S KITCHEN
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Notes to Financial Statements
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temporarily restricted.

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 2016 and 2015, Mama's Kitchen received approximately 22% and 17% 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 2016 and 2015, Mama's Kitchen also received approximately 78% and 83% 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 prepares and sells meals to an unrelated third party that qualifies as unrelated business income ("Social Enterprise"). The Social Enterprise began in January 2015. The net income from this activity supports 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, 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).

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Year Ended June 30, 2016 and
the Six Months Ended June 30, 2015

Six months ended June 30, 2015:

The Organization received approximately 15,956 donated hours and 62,447 miles driven from 789 volunteers for various services including food preparation, packaging and staging prepared meals, home delivery and pantry services to more than 1,239 men, women, and children at high risk of hunger and malnutrition. The value of donated hours is \$428,738(1) and the value of donated miles is \$35,907(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 2015 or 2014 Volunteer Hour Value for California as published by The Independent Sector
- (2) Calculated using the IRS Standard Mileage Rate of \$0.54 for fiscal 2016 and \$0.575 for fiscal 2015

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 2014, 2015 and 2016 and up to the date of this report, the FASB issued ASU 2014-1 through 2014-18, ASU 2015-01 through 2015-17, and ASU 2016-01 through 2016-15. The majority of these updates are not pertinent to the operations of the Organization. Those updates that are pertinent have been or will be adopted in the six months ended June 30,

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the Six Months Ended June 30, 2015

2015 or the year ended June 30, 2016, and are not expected to have any impact on the financial condition, results of operations or cash flows of the Organization.

Reclassifications

Certain reclassifications have been made to the six months ended June 30, 2015 financial statements to conform to the fiscal year ended June 30, 2016.

Date of Managements Review

Subsequent events were evaluated through November 1, 2016, which is the financial statement issuance date.

Note 2 – Statement of Financial Position Details at June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Property and Equipment – at Cost:		
Land	\$ 176,700	\$ 176,700
Building and improvements	2,205,920	2,205,920
Furniture and fixtures	411,758	409,093
Vehicles	<u>63,593</u>	<u>23,858</u>
	2,857,971	2,815,571
Accumulated Depreciation	<u>(801,191)</u>	<u>(655,577)</u>
Net Property and Equipment	<u>\$2,056,780</u>	<u>\$2,159,994</u>
Prepaid expenses and other:		
Prepaid insurance	\$ 11,742	\$ 10,638
Prepaid income taxes	6,777	-
Software maintenance	7,344	7,763
Cleaning & other services	2,922	1,852
Vendor security deposit	6,000	6,500
Workers compensation deposit	<u>1,666</u>	<u>1,629</u>
Total prepaid expenses/deposits	<u>\$ 36,451</u>	<u>\$ 28,382</u>
Other assets – net		
Intangible assets – net	\$ 14,169	\$ 7,667
Pledges receivable – long-term portion	<u>36,743</u>	<u>34,855</u>
Total other assets – net	<u>\$ 50,912</u>	<u>\$ 42,522</u>

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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, 2016 and the period January 1 to June 30, 2015 on net revenues received for providing outside meal services. Income tax expense for the fiscal year ended June 30, 2016 and the six months ended June 30, 2015 is as follows:

	<u>2016</u>	<u>2015</u>
Federal	\$ 7,891	\$ 6,720
California	<u>4,556</u>	<u>3,960</u>
Total	<u>\$ 12,447</u>	<u>\$ 10,680</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 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, 2016 and for the six months ended June 30, 2015.

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

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longer subject to examination by the Internal Revenue Service and the State of California for years before 2011 and 2010, 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 (losses) totaled \$21,569 and \$(14,057) for the year ended June 30, 2016 and the six months ended June 30, 2015, respectively. Investments in marketable securities available for sale are held for investment gains and for future needs of the Organization.

Gross realized gains on available-for-sale securities included in revenue totaled \$13,792 and \$20,181 for the year ended June 30, 2016 and for the six months ended June 30, 2015, respectively. Gains or (losses) are recognized via the specific identification method.

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
International common stocks	-	-	-	-
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

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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>

At June 30, 2015, 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	\$ 70,438	\$ -	\$ -	\$ 70,438
Domestic common stocks	681,624	172,982	(19,984)	834,621
International common stocks	-	-	-	-
Managed equity mutual funds	176,813	230	(3,281)	173,762
Preferred stocks	107,544	3,493	(801)	110,236
Asset backed securities	14,477	427	(7)	14,897
Managed equity bond funds				
US Government backed	126,960	1,819	(809)	127,970
Corporate	73,540	30	(983)	72,588
San Diego Foundation				
Balanced Pool	<u>12,672</u>	<u>-</u>	<u>-</u>	<u>12,672</u>
Total	<u>\$1,264,068</u>	<u>\$178,981</u>	<u>\$(25,865)</u>	<u>\$1,417,184</u>

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.

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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, 2016, Using

	<u>Total</u>	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
UBS Financial Services, Inc. ("UBS") Investments				
Cash Portfolio	\$ 103,531	\$ 103,531	\$ -	\$ -
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	11,449	-	11,449	-
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>

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Fair Value Measurement at June 30, 2015, Using

	<u>Total</u>	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
UBS Financial Services, Inc. ("UBS") Investments				
Cash Portfolio	\$ 70,438	\$ 70,438	\$ -	\$ -
UBS Investment Accounts				
Equities	834,621	834,621	-	-
Mutual Funds	173,762	173,762	-	-
Fixed Income Investments	325,691	325,691	-	-
San Diego Foundation				
Endowment, Balanced Pool	<u>12,672</u>	<u>-</u>	<u>12,672</u>	<u>-</u>
Total Investments	<u>1,346,746</u>	<u>1,334,074</u>	<u>12,672</u>	<u>-</u>
Total Cash and Investments	<u>\$1,417,184</u>	<u>\$1,404,512</u>	<u>\$ 12,672</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.

Note 6 – Accounts Receivable - net

Accounts receivable - net as of June 30, 2016 and 2015 were \$167,189 and \$120,854, of which \$87,406 and \$71,502 were due from the County of San Diego – Health & Human Services Agency and \$79,783 and \$49,352 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, 2016 and 2015 are as follows:

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	<u>2016</u>	<u>2015</u>
Pledges receivable – net (less allowance for doubtful pledges of \$890 and \$5,423 in 2016 and 2015, respectively)	\$ 68,540	\$ 88,070
Less current portion	<u>31,797</u>	<u>53,215</u>
	<u>\$ 36,743</u>	<u>\$ 34,855</u>

Note 8 – Deferred Revenue

Deferred Revenue net of expenses as of June 30, 2016 and 2015 of \$86,948 and \$70,548 represents amounts received in 2016 and 2015 that are specifically designated by the grantors to fund 2017 and 2016 programs or events.

Note 9 – Revolving Line of Credit

The Organization has a \$1,000,000 revolving Line of Credit with UBS, of which \$453,699 and \$537,508 was outstanding at June 30, 2016 and 2015 (“Line of Credit”). The balance shown on the Statement of Financial Position of \$453,699 and \$537,508 includes accrued interest of \$831 and \$894 as of June 30, 2016 and 2015, respectively. Bank advances on the credit line are payable on demand and carry a 30-day London Inter-Bank Rate + 1.75% interest rate (2.22% APR at June 30, 2016).

Note 10 – Long Term Debt

Long term debt at June 30, 2016 and 2015, was comprised of:

	<u>2016</u>	<u>2015</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 \$567,424 collateralized by real property.	801,990	887,235
Less current portion	<u>54,741</u>	<u>51,624</u>
	<u>\$ 747,249</u>	<u>\$ 835,611</u>

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

2017	\$ 54,741
2018	57,906
2019	61,253
2020	64,698
2021	<u>563,392</u>
Total	<u>\$ 801,990</u>

Note 11 – Net Assets

Permanently restricted net assets as of June 30, 2016 and 2015 consisted of endowment fund contributions included in investments in marketable securities available for sale as follows:

	<u>2016</u>	<u>2015</u>
Mama's Kitchen Endowment	\$ 24,000	\$ 24,000
The San Diego Foundation Endowment	<u>11,449</u>	<u>12,672</u>
Total Permanently Restricted Net Assets	<u>\$ 35,449</u>	<u>\$ 36,672</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

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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.

**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 \$ 35,449

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, 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

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)

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Appropriation of endowment assets for expenditure	_____ -	_____ -	_____ -	_____ -
Endowment net assets (deficit), end of year	\$ _____ -	\$ _____ -	\$ 35,449	\$ 35,449

Endowment Net Asset Composition by Type of Fund as of June 30, 2015

<u>Endowment Funds</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 36,672	\$ 36,672

Change in Endowment Net Assets for the Six Months Ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 36,650	\$ 36,650
Investment Return:				
Net income (realized and unrealized)	-	-	22	22
Appropriation of endowment assets for expenditure	_____ -	_____ -	_____ -	_____ -
Endowment net assets (deficit), end of year	\$ _____ -	\$ _____ -	\$ 36,672	\$ 36,672

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 purchasing of the endowment assets. Within prudent investment principles, in selecting FDIC insured institutions for cash, CDs, and

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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.

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Note 13 – Fund-raising and Special Events, Net

Special events consist of various fund-raising events for the year and six months ended June 30, 2016 and 2015, respectively, as follows:

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>

Six months ended June 30, 2015:

	<u>Mama's Day</u>	<u>Pie in the Sky</u>	<u>Other Events</u>	<u>Total</u>
Special events revenue	\$ 29,325	\$ -	\$ 38,973	\$ 68,298
Less: Direct expenses	<u>(30,142)</u>	<u>-</u>	<u>(8,821)</u>	<u>(38,963)</u>
Special events, net Of direct expenses	<u>(817)</u>	<u>-</u>	<u>30,152</u>	<u>29,335</u>
Special events contributions	177,793	-	26,032	203,825
In-kind donations	94,359	50	5,190	99,599
Less: Indirect expenses	<u>(21,930)</u>	<u>-</u>	<u>(3,172)</u>	<u>(25,102)</u>
Net	<u>250,222</u>	<u>50</u>	<u>28,050</u>	<u>278,322</u>
Total Fund-raising and Special events	<u>\$ 249,405</u>	<u>\$ 50</u>	<u>\$ 58,202</u>	<u>\$ 307,657</u>

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Note 14 – Donations In-Kind & Donated Services

Mama's Kitchen received in-kind donations valued at \$157,461 and \$109,402 for the fiscal year ended June 30, 2016 and the six months ended June 30, 2015, respectively. In-kind donations of goods and services consisted of the following:

	<u>2016</u>	<u>2015</u>
Mama's Day	\$ 84,680	\$ 94,359
Pie in the Sky	1,455	50
Other Special Events	31,216	5,190
Mama's Pantry/Food Drives	38,965	9569
Other programs and office supplies	<u>1,145</u>	<u>234</u>
Total Donations In-kind	<u>\$ 157,461</u>	<u>\$ 109,402</u>

Mama's Kitchen also received donated delivery services for the year ended June 30, 2016 and the six months ended June 30, 2015 valued at \$353,015 and \$169,209 that met the criteria under FASB ASC 958 as described in Note 1. Donated services consist of the following:

Volunteer Hours – Delivery Services	\$ 286,632	\$ 133,302
Mileage Driven	<u>66,383</u>	<u>35,907</u>
Total Donated Services	<u>\$ 353,015</u>	<u>\$ 169,209</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 \$14,761 and \$7,527 for the twelve months ended June 30, 2016 and the six months ended June 30, 2015, respectively.

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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 Circular A-133.