

MAMA'S KITCHEN

a Non-Profit Organization,

Financial Statements and Independent Auditor's Report

For the Years Ended June 30, 2018 and 2017

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MAMA’S KITCHEN
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INDEPENDENT AUDITOR'S 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, 2018 and 2017, and the related statement of activities and cash flow for the years 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

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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

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 2, 2018

MAMA'S KITCHEN
A Not-for-Profit Organization
Statements of Financial Position
As of June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
<u>Assets</u>		
Current Assets:		
Cash and cash equivalents	\$ 143,722	\$ 217,474
Investments in marketable securities available for sale	1,680,718	1,612,618
Accounts receivable - net	140,203	245,720
Inventory	31,129	40,429
Prepaid expenses and other	44,675	39,438
Pledges receivable - current portion	13,000	20,023
Total current assets	<u>2,053,447</u>	<u>2,175,702</u>
Property and equipment - net	1,813,075	1,942,729
Other assets - net	<u>5,805</u>	<u>28,262</u>
Total Assets	<u><u>\$ 3,872,327</u></u>	<u><u>\$ 4,146,693</u></u>
<u>Liabilities and Net Assets:</u>		
Current Liabilities:		
Line of Credit	\$ 454,260	\$ 499,260
Accounts payable and accrued expenses	108,189	104,825
Current portion of long-term debt	61,253	57,906
Total current liabilities	<u>623,702</u>	<u>661,991</u>
Long-term debt - net	<u>206,255</u>	<u>537,048</u>
Total liabilities	<u>829,957</u>	<u>1,199,039</u>
Net assets:		
Unrestricted	2,958,166	2,789,635
Temporarily restricted	44,613	120,732
Permanently restricted	39,591	37,287
Total net assets	<u>3,042,370</u>	<u>2,947,654</u>
Total Liabilities and Net Assets	<u><u>\$ 3,872,327</u></u>	<u><u>\$ 4,146,693</u></u>

See accompanying notes to financial statements.

MAMA'S KITCHEN
A Not-for-Profit Organization
Statement of Activities
For the Year Ended June 30, 2018

	<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	\$ 476,810	\$ -	\$ -	\$ 476,810
County of San Diego - HOPWA	160,683	-	-	160,683
County of San Diego - CDBG	89,812	-	-	89,812
Total grant revenues	<u>727,305</u>	<u>-</u>	<u>-</u>	<u>727,305</u>
Contributions	1,473,138	168,512	-	1,641,650
Capital projects	-	6,850	-	6,850
Donation in-kind	93,481	-	-	93,481
Donated services	384,301	-	-	384,301
Special events, net of direct expenses	(26,071)	-	-	(26,071)
Social enterprise	448	-	-	448
Investment income	40,443	-	-	40,443
Net realized and unrealized gain on investments	86,009	-	2,304	88,313
Released from restriction by payment	<u>251,481</u>	<u>(251,481)</u>	<u>-</u>	<u>-</u>
Total Revenue, Gains, and Other Support	<u>3,030,535</u>	<u>(76,119)</u>	<u>2,304</u>	<u>2,956,720</u>
EXPENSES:				
Program services	2,237,069	-	-	2,237,069
Management and general	149,216	-	-	149,216
Fundraising	<u>475,719</u>	<u>-</u>	<u>-</u>	<u>475,719</u>
Total Expenses	<u>2,862,004</u>	<u>-</u>	<u>-</u>	<u>2,862,004</u>
Change in Net Assets	168,531	(76,119)	2,304	94,716
Net Assets, Beginning of Year	<u>2,789,635</u>	<u>120,732</u>	<u>37,287</u>	<u>2,947,654</u>
				-
Net Assets, End of Year	<u><u>\$ 2,958,166</u></u>	<u><u>\$ 44,613</u></u>	<u><u>\$ 39,591</u></u>	<u><u>\$ 3,042,370</u></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	697,816	-	-	697,816
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	112,794	(112,794)	-	-
Total Revenue, Gains, and Other Support	3,250,963	40,106	1,838	3,292,907
EXPENSES:				
Program services	2,086,221	-	-	2,086,221
Social enterprise	75,620	-	-	75,620
Management and general	161,006	-	-	161,006
Fundraising	594,678	-	-	594,678
Total Expenses	2,917,525	-	-	2,917,525
Change in Net Assets	333,438	40,106	1,838	375,382
Net Assets, Beginning of Year	2,456,197	80,626	35,449	2,572,272
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
Statements of Cash Flows
For the Years Ended June 30, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in Net Assets	\$ 94,716	\$ 375,382
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	141,221	143,525
Amortization of debt issuance cost	1,353	1,353
Gain on sale of assets	-	(5,000)
Investments in marketable securities available for sale	(88,313)	(97,359)
(Increase) Decrease in:		
Accounts receivable - net	105,517	(78,530)
Prepaid expenses and deposits	(5,237)	(2,988)
Pledges receivable - net	27,800	26,430
Inventory	9,300	(11,194)
Increase (Decrease) in:		
Accounts payable and accrued expenses	3,364	(951)
Deferred revenue	-	(6,322)
Net cash provided by operating activities	<u>289,721</u>	<u>344,346</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments in marketable securities available for sale	(308,891)	(425,114)
Proceeds from sale of investments in marketable securities available for sale	329,104	394,099
Proceeds from sale of assets	-	5,000
Purchase of property and equipment	(9,887)	(27,794)
Net cash used in (provided by) investing activities	<u>10,326</u>	<u>(53,809)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net payments of long-term borrowings	(328,799)	(202,075)
Line of credit - net	(45,000)	45,561
Net cash used in financing activities	<u>(373,799)</u>	<u>(156,514)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(73,752)	134,023
Cash and cash equivalents, beginning of the year	<u>217,474</u>	<u>83,451</u>
Cash and cash equivalents, end of the year	<u>\$ 143,722</u>	<u>\$ 217,474</u>
Supplemental Disclosure of cash flow information:		
Cash payments for interest	<u>\$ 42,375</u>	<u>\$ 54,645</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, 2018

	Program Services	SUPPORTING SERVICES		Total
		Management & General	Fundraising	
Salaries and wages	\$ 416,327	\$ 67,308	\$ 205,110	\$ 688,745
Payroll taxes	34,930	5,359	17,893	58,182
Employee benefits	20,883	11,180	13,389	45,452
Total Salary and Related Expense	472,140	83,847	236,392	792,379
Food and packaging costs (net)	1,020,109	-	36	1,020,145
Food costs - in-kind	40,221	-	-	40,221
Advertising, printing & publications	-	250	34,937	35,187
Bank/Credit card fees	-	-	16,890	16,890
Client expense	9,770	-	-	9,770
Depreciation and amortization	114,084	10,584	16,553	141,221
Direct mail	-	-	27,838	27,838
Donor cultivation	-	-	1,224	1,224
Donated services, facilities and in-kind	384,301	-	53,260	437,561
Information technology	8,637	3,178	14,078	25,893
Insurance	22,173	7,994	9,365	39,532
Interest expense	31,629	3,738	8,362	43,729
Investment advisory fees	10,885	1,417	2,412	14,714
Legal and professional	15,179	3,523	25,095	43,797
Memberships, subscriptions, professional development	1,254	15,844	5,161	22,259
Occupancy	85,074	9,131	17,023	111,228
Office expense	10,628	3,276	6,167	20,071
Vehicle expense	3,203	-	-	3,203
Volunteer expense	7,122	1,393	480	8,995
Miscellaneous	660	5,041	446	6,147
Total Expenses	<u>\$ 2,237,069</u>	<u>\$ 149,216</u>	<u>\$ 475,719</u>	<u>\$ 2,862,004</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	<u>\$ 2,086,221</u>	<u>\$ 75,620</u>	<u>\$ 161,006</u>	<u>\$ 594,678</u>	<u>\$ 2,917,525</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, 2018 and 2017

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"), cancer, or other critical illnesses; 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, 2018 the Organization delivered 319,482 meals, had 5,346 visits to Mama's Pantry, delivered 561 Emergency Food Assistance bags, and provided Medical Nutrition Therapy to 175 clients. During the twelve months ended June 30, 2017 the Organization delivered 317,778 meals, had 5,142 visits to Mama's Pantry, delivered 430 Emergency Food Assistance bags, and provided Medical Nutrition Therapy to 23 clients. 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.

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Years Ended June 30, 2018 and 2017

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 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, 2018 and 2017, inventory was valued at \$31,129 and \$40,429, respectively.

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, 2018 and 2017 was \$139,541 and \$141,845, respectively.

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Years Ended June 30, 2018 and 2017

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, 2018 and 2017, the Organization has determined that there is no impairment of assets.

Intangible Assets – net

Intangible assets cost of \$32,176 are included in Other assets – net and are amortized over the estimated useful life of 5 years. Accumulated amortization totaled \$27,681 and \$26,001 as of June 30, 2018 and 2017. Amortization expense for year ended June 30, 2018 and 2017 totaled \$1,680 and \$1,680, respectively.

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 2018 and 2017 in accordance with ASU 2015-03. The net loan origination fees included as a reduction to notes payable were \$3,608 and \$4,961 for 2018 and 2017, respectively. 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, 2018 and 2017, accrued vacation payable was \$49,921 and \$49,128, respectively.

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Years Ended June 30, 2018 and 2017

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.

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 2018 and 2017, Mama's Kitchen received approximately 25% and 21% 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 2018 and 2017, Mama's Kitchen also received approximately 75% and 79% 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.

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Years Ended June 30, 2018 and 2017

Fiscal year ended June 30, 2018:

The Organization received approximately 30,916 donated hours and 147,840 miles driven from 923 volunteers for various services including food preparation, packaging and staging prepared meals, home delivery and pantry services to more than 1,534 women, men, and children at high risk of hunger and malnutrition. The value of donated hours is \$899,346(1) and the value of donated miles is \$80,573(2).

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 women, men, 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).

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 2017 or 2016 Volunteer Hour Value for California as published by The Independent Sector
- (2) Calculated using the IRS Standard Mileage Rate of \$0.545 for fiscal 2018 and \$0.535 for fiscal 2017

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

MAMA'S KITCHEN
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Notes to Financial Statements
For the Years Ended June 30, 2018 and 2017

are now communicated through Accounting Standards Updates ("ASU").

In 2017 and 2018 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.

Reclassifications

Certain reclassifications have been made to the fiscal year ended June 30, 2017 financial statements to conform to the fiscal year ended June 30, 2018 presentation.

Date of Managements Review

Subsequent events were evaluated through November 2, 2018, which is the financial statement issuance date.

Note 2 – Statement of Financial Position Details at June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Property and Equipment – at Cost:		
Land	\$ 176,700	\$ 176,700
Building and improvements	2,221,313	2,221,313
Furniture and fixtures	431,056	421,169
Vehicles	<u>39,735</u>	<u>39,735</u>
	2,868,804	2,858,917
Accumulated Depreciation	<u>(1,055,729)</u>	<u>(916,188)</u>
Net Property and Equipment	<u>\$1,813,075</u>	<u>\$1,942,729</u>
Prepaid expenses and other:		
Prepaid insurance	\$ 13,786	\$ 13,998
Prepaid income taxes	-	3,402
Software maintenance	7,973	7,517
Cleaning & other services	7,833	6,855
Vendor security deposit	13,500	6,000
Workers compensation deposit	<u>1,583</u>	<u>1,666</u>
Total prepaid expenses and other	<u>\$ 44,675</u>	<u>\$ 39,438</u>

MAMA'S KITCHEN
A Not-For-Profit Organization
Notes to Financial Statements
For the Years Ended June 30, 2018 and 2017

Other assets – net		
Intangible assets – net	\$ 4,495	\$ 6,175
Pledges receivable – long-term portion	<u>1,310</u>	<u>22,087</u>
Total other assets – net	<u>\$ 5,805</u>	<u>\$ 28,262</u>

Accounts payable and accrued expenses		
Accounts payable	\$ 12,839	\$ 7,039
Accrued payroll	30,929	26,665
Accrued vacation	49,921	49,128
Accrued other	<u>14,500</u>	<u>21,993</u>
Total accounts payable and accrued expenses	<u>\$ 108,189</u>	<u>\$ 104,825</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 had no unrelated business tax liability for the fiscal year ended June 30, 2018. Mama's Kitchen had unrelated business income for the fiscal year ended June 30, 2017 on net revenues received for providing outside meal services. Income tax expense for the fiscal year ended June 30, 2017 is as follows:

Federal	\$ 556
California	<u>944</u>
Total	<u>\$ 1,500</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

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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 years ended June 30, 2018 and 2017.

Management has considered its tax position and believes that all of the positions taken in its exempt organization tax returns will 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 2013 and 2012, 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 \$21,791 and \$53,967 for the years ended June 30, 2018 and 2017, 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 \$64,218 and \$42,554 for the years ended June 30, 2018 and 2017, respectively. Gains or (losses) are recognized via the specific identification method.

At June 30, 2018, 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	\$ 67,456	\$ -	\$ -	\$ 67,456
Domestic common stocks	766,726	287,198	(29,328)	1,024,596

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Managed equity mutual funds	261,439	4,676	(10,317)	255,798
Preferred stocks	106,108	2,287	(917)	107,478
Asset backed securities	25,620	104	(497)	25,227
Managed equity bond funds				
US Government backed	100,025	1,821	(1,580)	100,266
Corporate	88,310	-	(3,004)	85,306
San Diego Foundation Balanced Pool	<u>14,591</u>	<u>-</u>	<u>-</u>	<u>14,591</u>
Total	<u>\$1,430,275</u>	<u>\$296,086</u>	<u>\$ (45,643)</u>	<u>\$1,680,718</u>

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>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized (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
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>

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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, 2018, 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	\$ 67,456	\$ 67,456	\$ -	\$ -

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UBS Investment Accounts				
Equities	1,024,596	1,024,596	-	-
Mutual Funds	255,798	255,798	-	-
Fixed Income Investments	318,277	318,277	-	-
San Diego Foundation				
Endowment, Balanced Pool	<u>14,591</u>	<u>-</u>	<u>14,591</u>	<u>-</u>
Total Investments	<u>1,613,262</u>	<u>1,598,671</u>	<u>14,591</u>	<u>-</u>
Total Cash and Investments	<u>\$1,680,718</u>	<u>\$1,666,127</u>	<u>\$ 14,591</u>	<u>\$ -</u>

Fair Value Measurement at June 30, 2017, 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>\$ 59,225</u>	<u>\$ 59,225</u>	<u>\$ -</u>	<u>\$ -</u>
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>

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.

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Note 6 – Accounts Receivable - net

Accounts receivable - net as of June 30, 2018 and 2017 were \$140,203 and \$245,720, of which \$131,844 and \$105,700 were due from the County of San Diego – Health & Human Services Agency and \$8,359 and \$140,020 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, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Pledges receivable – net (less allowance for doubtful pledges of \$890 in 2018 and 2017, respectively)	\$ 14,310	\$ 42,110
Less current portion	<u>13,000</u>	<u>20,023</u>
	<u>\$ 1,310</u>	<u>\$ 22,087</u>

Note 8 – Revolving Line of Credit

The Organization has a \$1,000,000 revolving Line of Credit with UBS, of which \$454,260 and \$499,260 was outstanding at June 30, 2018 and 2017 (“Line of Credit”). The balance shown on the Statement of Financial Position of \$454,260 and \$499,260 includes accrued interest of \$1,445 and \$1,242 as of June 30, 2018 and 2017, respectively. Bank advances on the credit line are payable on demand and carry a 30-day London Inter-Bank Rate + 1.75% interest rate (3.816% APR at June 30, 2018).

Note 9 – Long Term Debt

Long term debt at June 30, 2018 and 2017, was comprised of:

	<u>2018</u>	<u>2017</u>
Mortgage note payable to Torrey Pines Bank, interest rate of 5.5%, monthly payments of \$8,363 through January 2021 with a balloon payment in the amount of		

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approximately \$145,165 collateralized by real property.	271,116	599,915
Less current portion	<u>61,253</u>	<u>57,906</u>
	209,863	542,009
Reduction of long term debt for unamortized Debt issuance costs	<u>(3,608)</u>	<u>(4,961)</u>
Total Long term debt - net	<u>\$ 206,255</u>	<u>\$ 537,048</u>

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

2019	\$ 61,253
2020	64,698
2021	<u>145,165</u>
Total	<u>\$ 271,116</u>

Note 10 – Temporarily and Permanently Restricted Net Assets

Temporarily Restricted Assets

The Organization received temporarily restricted contributions totaling \$175,362 and \$152,900 in 2018 and 2017, respectively. Per donor imposed restrictions, the temporarily restricted funds usage is restricted to a specific purpose and/or program. The Organization utilized \$251,481 and \$112,794 of temporarily restricted funds as of June 30, 2018 and 2017, respectively.

Permanently Restricted Assets

Permanently restricted net assets as of June 30, 2018 and 2017 consisted of endowment fund contributions included in investments in marketable securities available for sale as follows:

	<u>2018</u>	<u>2017</u>
Mama's Kitchen Endowment	\$ 25,000	\$ 25,000
The San Diego Foundation Endowment	<u>14,591</u>	<u>12,287</u>
Total Permanently Restricted Net Assets	<u>\$ 39,591</u>	<u>\$ 37,287</u>

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Note 11 – 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.

**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	\$ <u>39,591</u>
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Temporarily Restricted Net Assets

The portion of perpetual endowment funds subject to a time restriction under UPMIFA	\$ <u>-</u>
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Endowment Net Asset Composition by Type of Fund as of June 30, 2018

<u>Endowment Funds</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ -	\$ 39,591	\$ 39,591

Change in Endowment Net Assets for the Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 37,287	\$ 37,287
Investment Return:				
Net income (realized and unrealized)	-	-	2,304	2,304
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 39,591</u>	<u>\$ 39,591</u>

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	-	-	1,000	1,000
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,287</u>	<u>\$ 37,287</u>

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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.

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Note 12 – Fund-raising and Special Events, Net

Special events consist of various fund-raising events for the year ended June 30, 2018 and 2017, respectively, as follows:

Fiscal year ended June 30, 2018:

	<u>Mama's Day</u>	<u>Pie in the Sky</u>	<u>Other Events</u>	<u>Total</u>
Special events revenue	\$ 15,600	\$ 29,600	\$ -	\$ 45,200
Less: Direct expenses	<u>(40,473)</u>	<u>(22,987)</u>	<u>(7,811)</u>	<u>(71,271)</u>
Special events, net of direct expenses	<u>(24,873)</u>	<u>6,613</u>	<u>(7,811)</u>	<u>(26,071)</u>
Special events contributions	193,636	108,297	58,961	360,894
In-kind donations	43,936	5,562	363	49,861
Less: Indirect expenses	<u>(11,776)</u>	<u>(15,863)</u>	<u>(5,150)</u>	<u>(32,789)</u>
Net	<u>225,796</u>	<u>97,996</u>	<u>54,174</u>	<u>377,966</u>
Total Fund-raising and Special events	<u>\$ 200,923</u>	<u>\$ 104,609</u>	<u>\$ 46,363</u>	<u>\$ 351,895</u>

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>

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Note 13 – Donations In-Kind & Donated Services

Mama's Kitchen received in-kind donations valued at \$93,481 and \$211,247 (excluding in-kind and donated services to special events net of expenses) for the fiscal years ended June 30, 2018 and 2017, respectively. In-kind donations of goods and services consisted of the following:

	<u>2018</u>	<u>2017</u>
Mama's Day	\$ 43,936	\$ 129,443
Pie in the Sky	5,562	5,527
Other Special Events	363	32,040
Mama's Pantry/Food Drives	40,221	36,226
Other programs and office supplies	<u>3,399</u>	<u>8,011</u>
Total Donations In-kind	<u>\$ 93,481</u>	<u>\$ 211,247</u>

Mama's Kitchen also received donated delivery services for the years ended June 30, 2018 and 2017 valued at \$384,301 and \$362,376 that met the criteria under FASB ASC 958 as described in Note 1. Donated services consist of the following:

Volunteer Hours – Delivery Services	\$ 303,728	\$ 295,358
Mileage Driven	<u>80,573</u>	<u>67,018</u>
Total Donated Services	<u>\$ 384,301</u>	<u>\$ 362,376</u>

Note 14 – 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 \$12,395 and \$13,412 for the fiscal years ended June 30, 2018 and 2017, respectively.

Note 15 – 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.