Kitchens for Good

Financial Statements

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June 30, 2016

Kitchens for Good

Audited Financial Statements

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Independent Auditors' Report

To the Board of Directors
Kitchens for Good
San Diego, California

We have audited the accompanying financial statements of Kitchens for Good (a nonprofit organization) which comprise the statement of financial position as of June 30, 2016, the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error or fraud. 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 Kitchens for Good as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Polito Eppich Associates LLP

October 24, 2016
San Marcos, California

Kitchens for Good
Statement of Financial Position
June 30, 2016

Assets		
Cash	$	139,862
Accounts receivable		89,233
Prepaid expenses		11,979
Contributions receivable		30,000
Inventory		18,343
Deposits		13,196
Total assets	$	302,613
Liabilities		
Accounts payable	$	86,590
Accrued payroll and related expenses		56,826
Accrued rent		49,592
Other current liabilities		9,983
Customer deposits		53,219
Long-term note payable		36,000
Deferred rent		29,168
		321,378
Net assets		
Unrestricted		(171,765)
Temporarily restricted		153,000
		(18,765)
Total liabilities and net assets	$	302,613

See accompanying notes and independent auditors' report.

Kitchens for Good
Statement of Activities
For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenue and support			
Contributions	$ 198,222	$ 296,140	$ 494,362
Program revenue	1,015,516	0	1,015,516
Total revenue and support	1,213,738	296,140	1,509,878
Net assets released from restriction	143,140	(143,140)	0
	1,356,878	153,000	1,509,878
Expenses			
Program services:			
Project kitchen	1,029,497	0	1,029,497
Project launch	343,300	0	343,300
Support services:			
Management and general	149,823	0	149,823
Fundraising	94,259	0	94,259
Total expenses	1,616,879	0	1,616,879
Change in net assets	(260,001)	153,000	(107,001)
Net assets at beginning of year	88,236	0	88,236
Net assets at end of year	$ (171,765)	$ 153,000	$ (18,765)

See accompanying notes and independent auditors' report.

Kitchens for Good
Statement of Functional Expenses
For the Year Ended June 30, 2016

	Program Services		Supporting Services		
	Project Kitchen	Project Launch	Management and General	Fundraising	Total
Personnel expenses	$ 448,588	$ 169,326	$ 56,136	$ 34,406	$ 708,456
Occupancy expenses	119,825	87,084	4,923	0	211,832
Food and beverage	157,903	16,953	0	0	174,856
Event rentals and services	122,428	0	0	0	122,428
Insurance	55,781	17,818	6,434	0	80,033
Payroll taxes and fees	43,946	15,561	4,929	0	64,436
Outsourced services	19,815	7,017	2,287	34,500	63,619
Accounting	0	0	42,746	0	42,746
Meals and transportation	9,017	568	16,739	0	26,324
Marketing	0	0	225	25,353	25,578
Repairs and maintenance	10,600	10,684	3,747	0	25,031
Computer and internet	10,357	8,841	2,838	0	22,036
Kitchen supplies	13,624	5,075	0	0	18,699
Bank service charges	6,818	0	366	0	7,184
Office supplies	1,604	1,180	4,327	0	7,111
Miscellaneous	4,179	563	832	0	5,574
Telephone	3,139	0	825	0	3,964
Program supplies	576	2,630	0	0	3,206
Dues and subscriptions	500	0	1,438	0	1,938
License and fees	797	0	1,031	0	1,828
Total expenses	$ 1,029,497	$ 343,300	$ 149,823	$ 94,259	$ 1,616,879

See accompanying notes and independent auditors' report.

Kitchens for Good
Statement of Cash Flows
For the Year Ended June 30, 2016

Cash flows from operating activities		
Decrease in net assets	$	(107,001)
Change in operating assets and liabilities:		
Accounts receivable		(89,233)
Prepaid expenses		(11,979)
Contributions receivable		(30,000)
Inventory		(18,343)
Deposits		(13,196)
Accounts payable		86,590
Accrued payroll and related expenses		56,826
Accrued rent		49,592
Other current liabilities		9,983
Customer deposits		53,219
Deferred rent		29,168
Net cash provided by operating activities		15,626
Cash flow from financing activities		
Proceeds from long-term note payable		36,000
Net cash provided by financing activities		36,000
Net increase in cash		51,626
Cash, beginning of year		88,236
Cash, ending of year	$	139,862

See accompanying notes and independent auditors' report.

Note 1: Organization

Kitchens for Good (the "Organization"), is a California non-profit organization that was incorporated in 2014. Located in San Diego, California the Organization's mission is to break the cycles of food waste, poverty and hunger through innovative programs in workforce training, healthy food production, and social enterprise. Each of the Organization's programs are described as follows:

Project Launch: The organization conducts a thirteen-week culinary job training program for populations that are considered to be difficult to employ: youth who have aged out of the foster care system, individuals who have previously been incarcerated and adults who are underemployed and lack education. Graduates receive technical culinary education, industry certification, and internship and job placement services at no cost to the individual. The organization takes a "whole-person" approach to vocational training, incorporating culinary arts, nutrition education, resume writing, and financial literacy. As part of the program, students give back to the community by preparing nutritious meals out of rescued and donated food for hunger relief partners.

Project Kitchen: This is the Organization's full service catering and events social enterprise. Project Kitchen is a revenue generating program that provides healthy, locally sourced meals to the Organization's non-profit partners, senior center facilities, corporations and individuals. Project Kitchen's most important role is the impact it has on the Project Launch students and graduates. It provides them with educational lessons, mentor ship, real world experience and job opportunities. The Organization is dedicated to a business model that balances organizational sustainability with mission effectiveness. By committing to sustainability in every aspect of the Organization, including local food sourcing and alternative revenue streams, the Organization will remain resilient to enable growth and to have a greater impact on hunger and self-sufficiency in the community.

Note 2: Summary of Significant Accounting Policies

Basis of Accounting: The financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2: Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation: The Organization reports 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, based on the following criteria:

Unrestricted net assets represent expendable funds available for operations that are not otherwise limited by donor restrictions.

Temporarily restricted net assets consist of contributed funds subject to specific donor-imposed restrictions contingent upon specific performance of a future event or a specific passage of time before the Organization may spend the funds or recognize the support.

Permanently restricted net assets represent those assets contributed to the Organization where the original dollar value is to remain in perpetuity as a permanent fund of the Organization.

Cash and Cash Equivalents: The Organization considers all highly liquid investments available for current uses with an initial maturity of three months or less to be cash equivalents.

The Organization received restricted donations for the purchase of long-term assets. Cash in the amount of $123,000 is designated for the purchase of noncurrent assets.

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes that the Organization is not exposed to any significant credit risk with respect to its cash.

Accounts Receivable: The accounts receivable arise in the normal course of operations. It is the policy of management to review the outstanding receivables at year end, as well as the bad debt write-offs experienced in the past, and establish an allowance for doubtful accounts for uncollectible amounts. No allowance was considered necessary at June 30, 2016, because management believes that all amounts are collectible.

Contribution Receivable: Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Management provides an allowance for uncollectible amounts through a valuation allowance based on historical collections and its assessment of the current status of individual receivables. Accordingly, there was no allowance for doubtful accounts.

Inventory: Inventory consists of raw food and cooking ingredients. Cost is determined by the first-in, first-out (FIFO) method.

Note 2: Summary of Significant Accounting Policies (Continued)

Property and Equipment: Acquisitions of property and equipment of $2,500 or more are capitalized. Property and equipment are stated at cost, or if donated, at the approximate fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives.

Revenue Recognition: The financial statements are presented on the accrual method of accounting. Under this method of accounting, revenues are recognized when earned.

Contributions: Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. If a restriction is fulfilled in the same period in which the contribution is received, the support is reported as temporarily restricted and then released from restriction in the same period.

In-kind Donations: In-kind donations consist of donated food and equipment. Contributions of donated goods are recorded at their fair values in the period received. The Organization recorded in-kind contributions totaling $28,984 of inventory and $1,975 of computer expense for the year ended June 30, 2016.

In addition, volunteers have donated significant amounts of their time to the Organization; these donated services are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

Functional Allocation of Expenses: The Organization allocates its expenses on a functional basis among its various programs and support services. Expenditures which can be identified with a specific program or support service are allocated directly, according to their natural expenditure. Costs that are common to several functions are allocated among the program and supporting services on the basis of time records, space utilized, and estimates made by the Organization's management.

Marketing: Marketing expenses are charged to expense as incurred. Marketing expense was $25,578 for the year ended June 30, 2016.

Income Taxes: The Organization is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code.

Note 2: Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued): The Organization has analyzed its tax positions taken for filings with the Internal Revenue Service and the State of California. The Organization believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Organization's financial condition, results of operations, or cash flows. Accordingly, the Organization has not recorded any tax assets or liabilities, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2016.

All tax exempt entities are subject to review and audit by federal, state and other applicable agencies. Such agencies may review the taxability of unrelated business income, or the qualification of the tax-exempt entity under the Internal Revenue Code and applicable state statutes. Currently there are no audits of the Organization's returns in process. In general, the Organization's federal and state income tax returns remain open for the prior three and four years, respectively.

Note 3: Note Payable

On March 3, 2016, the Organization entered into a loan agreement with an unrelated foundation for $36,000. The loan is unsecured and carries an interest rate of 4% maturing on February 23, 2019. Accrual of interest is deferred until January 1, 2017. Monthly installments of $1,500 will begin on January 15, 2017 and end on February 23, 2019, at which time all remaining unpaid interest and principal shall be paid in full. As of June 30, 2016, the outstanding principal balance is $36,000.

Principal payments for the years ending June 30 follow:

2017	$	6,948
2018		17,154
2019		11,898
	$	36,000

Note 4: Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following as of June 30, 2016:

Kitchen remodel	$	73,000
Vehicle purchase		50,000
Career coach salary		30,000
	$	153,000

Note 5: Commitment

In September 2015, the Organization entered into a lease for office, kitchen and event space under a five-year operating lease agreement. The monthly base rent is $11,667 and will remain this amount for the duration of the lease term. In addition to the base rent, the agreement calls for real estate taxes and percentage rent which is calculated as 8% of gross catering, events and meal contract sales for each fiscal year. Payments of percentage rent are due October 15, 2016, September 30, 2017, September 30, 2018, September 30, 2019 and October 15, 2020. The unpaid balance of accrued percentage rent as of June 30, 2016 totaled $49,592.

Future minimum base lease payments under the non-cancelable operating leases for the years ending June 30 follow:

2017	$	140,004
2018		140,004
2019		140,004
2020		140,004
2021		35,001
	$	595,017

Note 6: Subsequent Events

The Organization has evaluated subsequent events after the statement of financial position date of June 30, 2016 through the report date, which is the date the financial statements were available to be issued. Management is not aware of any events that would require adjustment to, or disclosure in these financial statements.