



KITCHENS FOR GOOD, INC.

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019



Leaf & Cole, LLP
Certified Public Accountants

KITCHENS FOR GOOD, INC.
FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

Independent Auditor's Report

To the Board of Directors
Kitchens For Good, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Kitchens For Good, Inc., which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Kitchens For Good, Inc. as of June 30, 2020 and 2019, 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2020, on our consideration of Kitchens For Good, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Kitchens For Good, Inc.'s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kitchens For Good, Inc.'s internal control over financial reporting and compliance

Leaf & Cole LLP

San Diego, California
November 23, 2020

KITCHENS FOR GOOD, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

ASSETS

	<u>2020</u>	<u>2019</u>
<u>Current Assets:</u> (Notes 2, 4 and 6)		
Cash and cash equivalents	\$ 1,545,418	\$ 626,813
Accounts receivable	145,919	179,916
Contributions receivable	198,676	240,563
Inventory	31,352	34,396
Prepaid expenses	-	5,227
Total Current Assets	1,921,365	1,086,915
<u>Noncurrent Assets:</u> (Notes 2, 4, 5 and 6)		
Contributions receivable, net	189,795	291,468
Property and equipment, net	178,936	181,503
Deposits	13,196	13,196
Total Noncurrent Assets	381,927	486,167
TOTAL ASSETS	\$ 2,303,292	\$ 1,573,082

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u> (Notes 2 and 7)		
Accounts payable and accrued expenses	\$ 175,128	\$ 303,886
Accrued rent	55,162	99,307
Customer deposits	57,340	46,796
Deferred rent	53,167	8,167
Deferred revenue	130,421	-
Current portion of notes payable	17,251	-
Total Current Liabilities	488,469	458,156
<u>Noncurrent Liabilities:</u> (Note 7)		
Notes payable	82,865	72,950
Total Noncurrent Liabilities	82,865	72,950
Total Liabilities	571,334	531,106
<u>Commitments and Contingencies:</u> (Notes 6 and 9)		
<u>Net Assets:</u> (Notes 2 and 8)		
Without Donor Restrictions	1,136,498	394,414
With Donor Restrictions:		
Purpose restrictions	207,090	155,497
Time restrictions	388,370	492,065
Total Net Assets With Donor Restrictions	595,460	647,562
Total Net Assets	1,731,958	1,041,976
TOTAL LIABILITIES AND NET ASSETS	\$ 2,303,292	\$ 1,573,082

The accompanying notes are an integral part of the financial statements.

KITCHENS FOR GOOD, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:						
Grants and contributions	\$ 3,057,455	\$ 188,082	\$ 3,245,537	\$ 1,789,825	\$ 505,763	\$ 2,295,588
Program revenue	1,402,247	-	1,402,247	2,132,919	-	2,132,919
Special events	57,556	-	57,556	96,883	-	96,883
Other income	4,125	-	4,125	3,159	-	3,159
Net assets released from restrictions	240,184	(240,184)	-	171,529	(171,529)	-
Total Revenue and Support	<u>4,761,567</u>	<u>(52,102)</u>	<u>4,709,465</u>	<u>4,194,315</u>	<u>334,234</u>	<u>4,528,549</u>
Expenses:						
Program Services:						
Project Kitchen	1,297,673	-	1,297,673	1,854,364	-	1,854,364
Project Nourish	1,188,377	-	1,188,377	780,484	-	780,484
Project Launch	575,486	-	575,486	642,075	-	642,075
Total Program Services	<u>3,061,536</u>	<u>-</u>	<u>3,061,536</u>	<u>3,276,923</u>	<u>-</u>	<u>3,276,923</u>
Supporting Services:						
Management and general	643,891	-	643,891	449,181	-	449,181
Fundraising	314,056	-	314,056	224,500	-	224,500
Total Supporting Services	<u>957,947</u>	<u>-</u>	<u>957,947</u>	<u>673,681</u>	<u>-</u>	<u>673,681</u>
Total Expenses	<u>4,019,483</u>	<u>-</u>	<u>4,019,483</u>	<u>3,950,604</u>	<u>-</u>	<u>3,950,604</u>
Change in Net Assets	742,084	(52,102)	689,982	243,711	334,234	577,945
Net Assets at Beginning of Year	<u>394,414</u>	<u>647,562</u>	<u>1,041,976</u>	<u>150,703</u>	<u>313,328</u>	<u>464,031</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,136,498</u>	<u>\$ 595,460</u>	<u>\$ 1,731,958</u>	<u>\$ 394,414</u>	<u>\$ 647,562</u>	<u>\$ 1,041,976</u>

The accompanying notes are an integral part of the financial statements.

KITCHENS FOR GOOD, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2020

	Program Services				Supporting Services			Total Expenses
	Project Kitchen	Project Nourish	Project Launch	Total Program Services	Management and General	Fundraising	Total Supporting Services	
<u>Salaries and Related Expenses:</u>								
Personnel	\$ 543,806	\$ 416,101	\$ 273,315	\$ 1,233,222	\$ 384,138	\$ 205,649	\$ 589,787	\$ 1,823,009
Payroll taxes and fees	54,289	38,326	28,251	120,866	31,267	32,119	63,386	184,252
Total Salaries and Related Expenses	598,095	454,427	301,566	1,354,088	415,405	237,768	653,173	2,007,261
<u>Nonsalary Related Expenses:</u>								
Bad debt	3,161	-	-	3,161	-	-	-	3,161
Bank services charges	18,977	12	-	18,989	7,222	1,544	8,766	27,755
Computer and internet	6,643	13,324	5,772	25,739	5,444	5,469	10,913	36,652
Depreciation	27,929	23,190	35,542	86,661	131	-	131	86,792
Dues and subscriptions	2,187	620	3,595	6,402	714	238	952	7,354
Event rentals and services	89,121	1,052	303	90,476	12	18,768	18,780	109,256
Food and beverage	222,386	382,062	27,306	631,754	1,370	4,788	6,158	637,912
Insurance	44,513	35,972	24,187	104,672	67,694	21,616	89,310	193,982
Interest expense	-	-	-	-	9,315	-	9,315	9,315
Kitchen supplies	57,947	98,008	15,741	171,696	192	4,902	5,094	176,790
License and fees	57,765	578	2,228	60,571	91	1,576	1,667	62,238
Marketing	17,543	-	-	17,543	12,989	11,750	24,739	42,282
Meals and transportation	8,396	11,521	8,905	28,822	2,840	4,140	6,980	35,802
Occupancy	117,494	101,852	101,480	320,826	72,300	-	72,300	393,126
Office supplies	4,080	672	10,506	15,258	14,333	423	14,756	30,014
Packaging and delivery	-	57,021	-	57,021	-	-	-	57,021
Professional fees	-	-	25,950	25,950	22,070	-	22,070	48,020
Repairs and maintenance	13,479	6,447	4,054	23,980	5,721	-	5,721	29,701
Telephone	4,669	1,449	1,231	7,349	5,669	-	5,669	13,018
Uniforms	3,288	170	7,120	10,578	379	1,074	1,453	12,031
Total Nonsalary Related Expenses	699,578	733,950	273,920	1,707,448	228,486	76,288	304,774	2,012,222
Total Expenses	\$ 1,297,673	\$ 1,188,377	\$ 575,486	\$ 3,061,536	\$ 643,891	\$ 314,056	\$ 957,947	\$ 4,019,483

The accompanying notes are an integral part of the financial statements.

KITCHENS FOR GOOD, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019

	Program Services				Supporting Services			Total Expenses
	Project Kitchen	Project Nourish	Project Launch	Total Program Services	Management and General	Fundraising	Total Supporting Services	
<u>Salaries and Related Expenses:</u>								
Personnel	\$ 713,163	\$ 295,850	\$ 282,371	\$ 1,291,384	\$ 262,781	\$ 138,039	\$ 400,820	\$ 1,692,204
Payroll taxes and fees	69,874	28,307	29,969	128,150	27,121	13,866	40,987	169,137
Total Salaries and Related Expenses	<u>783,037</u>	<u>324,157</u>	<u>312,340</u>	<u>1,419,534</u>	<u>289,902</u>	<u>151,905</u>	<u>441,807</u>	<u>1,861,341</u>
<u>Nonsalary Related Expenses:</u>								
Bad debt	4,518	1,250	-	5,768	-	-	-	5,768
Bank services charges	31,272	9	-	31,281	4,774	8,842	13,616	44,897
Charitable contributions	-	68,827	-	68,827	282	-	282	69,109
Computer and internet	32,398	2,935	2,038	37,371	5,817	4,866	10,683	48,054
Depreciation	10,929	12,878	4,138	27,945	57	-	57	28,002
Dues and subscriptions	3,789	1,341	2,100	7,230	1,180	246	1,426	8,656
Event rentals and services	170,541	-	3,030	173,571	762	30,139	30,901	204,472
Food and beverage	312,435	241,524	32,899	586,858	3,787	6,099	9,886	596,744
Insurance	54,031	19,049	19,550	92,630	47,697	7,419	55,116	147,746
Interest expense	-	-	-	-	11,154	-	11,154	11,154
Kitchen supplies	124,055	24,000	39,055	187,110	749	166	915	188,025
License and fees	86,584	1,323	2,631	90,538	200	-	200	90,738
Marketing	9,006	2,906	50	11,962	2,473	6,959	9,432	21,394
Meals and transportation	4,407	1,068	12,612	18,087	3,453	1,251	4,704	22,791
Occupancy	197,913	29,426	133,366	360,705	14,532	-	14,532	375,237
Office supplies	4,599	4,116	6,117	14,832	13,034	6,552	19,586	34,418
Packaging and delivery	1,131	31,941	40	33,112	-	56	56	33,168
Professional fees	1,046	3,648	53,214	57,908	39,358	-	39,358	97,266
Repairs and maintenance	19,782	5,347	3,374	28,503	4,851	-	4,851	33,354
Telephone	707	4,607	-	5,314	4,766	-	4,766	10,080
Uniforms	2,184	132	15,521	17,837	353	-	353	18,190
Total Nonsalary Related Expenses	<u>1,071,327</u>	<u>456,327</u>	<u>329,735</u>	<u>1,857,389</u>	<u>159,279</u>	<u>72,595</u>	<u>231,874</u>	<u>2,089,263</u>
Total Expenses	\$ <u>1,854,364</u>	\$ <u>780,484</u>	\$ <u>642,075</u>	\$ <u>3,276,923</u>	\$ <u>449,181</u>	\$ <u>224,500</u>	\$ <u>673,681</u>	\$ <u>3,950,604</u>

The accompanying notes are an integral part of the financial statements.

KITCHENS FOR GOOD, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ 689,982	\$ 577,945
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	86,792	28,002
Amortization of debt issuance costs	600	600
Deferred rent	45,000	(7,000)
Donated equipment	(15,951)	-
Inventory adjustment	-	56,846
(Increase) Decrease in:		
Accounts receivable	33,997	(6,917)
Contributions receivable, net	143,560	(354,961)
Inventory	3,044	9,684
Prepaid expenses	5,227	1,653
Increase (Decrease) in:		
Accounts payable and accrued expenses	(128,758)	(20,305)
Accrued rent	(44,145)	(2,903)
Customer deposits	10,544	(6,705)
Deferred revenue	130,421	-
Net Cash Provided by Operating Activities	<u>960,313</u>	<u>275,939</u>
 <u>Cash Flows From Investing Activities:</u>		
Purchase of property and equipment	(68,274)	(74,955)
Net Cash Used in Investing Activities	<u>(68,274)</u>	<u>(74,955)</u>
 <u>Cash Flows From Financing Activities:</u>		
Proceeds from line of credit	250,000	-
Payments on line of credit	(250,000)	(160,000)
Proceeds from notes payable	35,000	-
Payments on notes payable	(8,434)	(10,437)
Net Cash Provided by (Used in) Financing Activities	<u>26,566</u>	<u>(170,437)</u>
 Net Increase in Cash and Cash Equivalents	918,605	30,547
 Cash and Cash Equivalents at Beginning of Year	<u>626,813</u>	<u>596,266</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 1,545,418</u></u>	<u><u>\$ 626,813</u></u>
 Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u><u>\$ 8,715</u></u>	<u><u>\$ 10,554</u></u>

The accompanying notes are an integral part of the financial statements.

KITCHENS FOR GOOD, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 1 - Organization:

Kitchens For Good, Inc. (the “Organization”) is a California Non-Profit Organization incorporated in 2014. Located in San Diego, California, the Organization’s mission is to use food to transform lives and nourish communities by providing people with the skills and support to launch meaningful careers.

The following is a brief description of the Organization’s programs:

Project Launch: The Organization conducts a 20-month culinary apprenticeship 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, apprentices give back to the community by preparing nutritious meals out of rescued and donated food for hunger relief partners. Apprentices also get paid for on the job training experience by working 5 - 15 hours a week in the social enterprise.

Project Kitchen: This is the Organization’s on-site and off-site catering and events operation and the concession and restaurant operation at the Moonlight Amphitheater in the City of Vista. Project Kitchen is a revenue generating program that provides healthy, locally sourced meals to the Organization’s non-profit partners, corporations and individuals. Project Kitchen’s most important role is the impact it has on the Project Launch apprentices and graduates. It provides apprentices with educational lessons, mentorship and real-world experience through 5 - 15 hours a week of on the job training. 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 have a greater impact on hunger and self-sufficiency in the community.

Project Nourish: This program rescues surplus and cosmetically imperfect food from wholesalers and farmers and transforms these ingredients into nutritious meals for vulnerable populations. This year Project Nourish distributed 202,447 nutritious meals, prepared by the Organization’s culinary apprentices, staff, and volunteers. The Organization distributes these healthy meals to high-need populations including at risk youth, low-income seniors, and various homeless and low-income individuals through partnerships with local nonprofit agencies.

Note 2 - Significant Accounting Policies:

Accounting Method

The financial statements of the Organization have been prepared on the accrual basis of accounting which is in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and, accordingly, reflect all significant receivables, payables, and other liabilities.

KITCHENS FOR GOOD, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 2 - Significant Accounting Policies: (Continued)

Financial Statement Presentation

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes thereon are classified and reported as follows:

- Net Assets Without Donor Restrictions - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- Net Assets With Donor Restrictions - Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements

Fair value accounting standards define fair value, establish a framework for measuring fair value, outline a fair value hierarchy based on inputs used to measure fair value and enhance disclosure requirements for fair value measurements. The fair value hierarchy distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Level 1 or 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). The Organization had no financial instruments at June 30, 2020 and 2019.

Inventory

Inventory consists of raw food and cooking ingredients. Food cost is valued at the lower of cost or market using the first-in, first-out (FIFO) method. Kitchen supplies totaling \$-0- and \$56,846 were written off for the years ended June 30, 2020 and 2019, respectively.

Allowance for Doubtful Accounts

Bad debts are recognized on the allowance method based on historical experience and management's evaluation of outstanding receivables. Management believes that all accounts and contributions receivable were fully collectible; therefore, no allowance for doubtful accounts and contributions receivable was recorded at June 30, 2020 and 2019.

KITCHENS FOR GOOD, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 2 - Significant Accounting Policies: (Continued)

Capitalization and Depreciation

The Organization capitalizes all expenditures in excess of \$2,500 for property and equipment at cost, while donations of property and equipment are recorded at their estimated fair values. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as support with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

Furniture and equipment	3 - 10 years
Vehicles	5 years
Leasehold improvements	2 - 5 years

Depreciation totaled \$86,792 and \$28,002 for the years ended June 30, 2020 and 2019, respectively.

The estimated useful asset lives were reviewed and adjusted based on modified lease terms and accounted for on a prospective basis.

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of property or equipment, the asset account is reduced by the cost and the accumulated depreciation account is reduced by the depreciation taken prior to the sale. Any resultant gain or loss is then recorded as income or expense.

Debt Issuance Costs

Debt issuance costs are incurred in order to obtain financing for the Organization. Debt issuance costs are amortized on a straight-line basis over the term of the related loan, which approximates the interest method. Unamortized debt issuance costs are presented as a direct reduction from the carrying value of the related obligation to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and totaled \$600 and \$600 for the years ended June 30, 2020 and 2019, respectively.

Compensated Absences

Accumulated unpaid vacation totaling \$17,006 and \$25,736 at June 30, 2020 and 2019, respectively, is accrued when incurred and included in accounts payable and accrued expenses.

Deferred Rent

Rent expense is recognized on a straight-line basis over the term of the operating lease. The deferred rent represents discounted rent in excess of the rent expense recognized. The deferred rent totaled \$53,167 and \$8,167 at June 30, 2020 and 2019, respectively.

KITCHENS FOR GOOD, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 2 - Significant Accounting Policies: (Continued)

Revenue Recognition

Grant revenue is recognized in the period in which the related work is performed in accordance with the terms of the grant. Accounts receivable are recorded when revenue earned under a grant exceeds the cash received. Deferred revenue is recorded when cash received under a grant exceeds the revenue earned.

Contributions are recognized when the donor makes a promise to give to the Organization that is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions, if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Contributions to be received in future periods are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Program revenue and special events are recorded as revenue in the period that the services are provided or the event occurs.

Donated Services and Materials

The Organization received food donations which are recorded at fair value and totaled \$184,887 and \$88,395 for the years ended June 30, 2020 and 2019, respectively, and have been included in contribution, revenue and functional expense for the years ended June 30, 2020 and 2019.

The Organization received donations for professional services which are recorded at fair value and totaled \$5,950 and \$26,948 for the years ended June 30, 2020 and 2019, respectively and have been included in contribution, revenue and functional expenses for the years ended June 30, 2020 and 2019.

The Organization received kitchen supplies and equipment which are recorded at fair value and totaled \$81,010 and \$8,820 for the years ended June 30, 2020 and 2019, respectively, and have been included in contribution, revenue and functional expenses for the years ended June 30, 2020 and 2019.

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific programs. This contribution of services by the volunteers is not recognized in the financial statements unless the services received (a) create or enhance nonfinancial assets or (b) require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The donated services by volunteers for the years ended June 30, 2020 and 2019, did not meet the requirements above, therefore no amounts were recognized in the financial statements for volunteer time.

KITCHENS FOR GOOD, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 2 - Significant Accounting Policies: (Continued)

Functional Allocation of Expenses

The statements of functional expenses present expenses by function and natural classification. The Organization allocates its expenses on a functional basis among its various programs and supporting services. Expenditures which can be identified with a specific program or supporting service are allocated directly, according to their natural expenditure classification. 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 Kitchens for Good's management.

Income Taxes

The Organization is a public charity and is 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. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization is not a private foundation.

The Organization's Return of Organization Exempt from Income Tax for the years ended June 30, 2020, 2019, 2018 and 2017 are subject to examination by the Internal Revenue Service and State taxing authorities, generally three to four years after the returns were filed.

Concentration of Credit Risk

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. Kitchens for Good believes it is not exposed to any significant credit risk on cash and cash equivalents.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use to be cash equivalents.

Accounting Pronouncements Adopted

In June 2018, the Financial Accounting Standards Board (FASB) issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies and improves guidance for contributions received and contributions made and provides guidance to organizations on how to account for certain exchange transactions. This change is preferable in that it clarifies whether to account for transactions as contributions or as exchange transactions. In addition, it clarifies whether a contribution is conditional. As a result, it enhances comparability of financial information among not-for-profit entities. The change in accounting principle was adopted on a modified prospective basis in 2020. As a result, there was no cumulative-effect adjustment to opening net assets without donor restrictions or opening net assets with donor restrictions as of July 1, 2019. There was no effect of adopting the new accounting principles on contributions in 2020.

KITCHENS FOR GOOD, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 2 - Significant Accounting Policies: (Continued)

Accounting Pronouncements Adopted (Continued)

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 outlines a single, comprehensive model for companies to use in accounting for revenue arising from contracts with customers. The core principle of the revenue model is that revenue is recognized when a customer obtains control of a good or service. The change in accounting principle was adopted on the retrospective basis which resulted in no change to revenue previously reported and also had no effect on the revenue reported for the year ended June 30, 2020.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows*. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The adoption of ASU 2016-18 for the year ended June 30, 2020 had no effect on the beginning-of-period and end-of-period total amounts shown on the statements of cash flows.

Subsequent Events

The Organization has evaluated subsequent events through November 23, 2020, which is the date the financial statements are available for issuance and concluded that there were no events or transactions that needed to be disclosed except as disclosed in Note 10.

Note 3 - Liquidity and Availability:

The Organization regularly monitors the availability of resources required to meet its operating needs and other contractual commitments. The Organization considers contributions without donor restrictions and contributions with donor restrictions for use in current programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing programs as well as the conduct of services undertaken to support those activities to be general expenditures.

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year, are comprised of the following at June 30:

	<u>2020</u>	<u>2019</u>
Financial assets as year-end:		
Cash and cash equivalents	\$ 1,545,418	\$ 626,813
Accounts receivable	145,919	179,916
Contributions receivables	<u>198,676</u>	<u>240,563</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,890,013</u>	<u>\$ 1,047,292</u>

In addition to financial assets available to meet general expenditures over the next 12 months the Organization has a line-of-credit agreement with available borrowings totaling \$400,000 as described in Note 6. In addition, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures.

KITCHENS FOR GOOD, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 4 - Contributions Receivable:

Contributions receivable consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Current:		
Due in less than one year	\$ 198,676	\$ 240,563
Total Current, Net	<u>198,676</u>	<u>240,563</u>
Noncurrent:		
Due in one to five years	200,000	309,000
Less: Discounts to present value	<u>(10,205)</u>	<u>(17,532)</u>
Total Noncurrent, Net	<u>189,795</u>	<u>291,468</u>
Total Contributions Receivable, Net	<u>\$ 388,471</u>	<u>\$ 532,031</u>

The contributions receivable have been discounted to their present value using a discount rate between 0.16% - 1.74% at June 30, 2020 and 2019.

Note 5 - Property and Equipment:

Property and equipment consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Furniture and equipment	\$ 126,177	\$ 104,779
Vehicles	88,570	88,570
Leasehold improvements	<u>96,508</u>	<u>33,681</u>
Subtotal	311,255	227,030
Less: Accumulated depreciation	<u>(132,319)</u>	<u>(45,527)</u>
Property and Equipment, Net	<u>\$ 178,936</u>	<u>\$ 181,503</u>

Note 6 - Line of Credit:

The Organization has a line of credit with a lender in the amount of \$400,000 with interest at the lender's prime rate plus 1%, but not less than 6.5% (6.5% at June 30, 2020). The line of credit matures in September 2020 and is secured by substantially all the Organization's assets. The balance on the line of credit totaled \$-0- at June 30, 2020 and 2019.

KITCHENS FOR GOOD, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 7 - Notes Payable:

Notes payable consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Note payable to The Parker Foundation in the original amount of \$35,000. Payable in monthly payments of \$1,500, including interest at 4.00%, due February 15, 2022. Unsecured.	\$ 26,566	\$ -
Note payable to REDF Impact Investing Fund (“RIIF”) in the original amount of \$75,000. Monthly interest payments of \$750, 4.00% through December 2019, then monthly interest payments of \$984, 5.25%, due December 20, 2022. Unsecured.	75,000	75,000
Total Notes Payable	101,566	75,000
Less: Unamortized debt issuance costs	(1,450)	(2,050)
Notes Payable, Net	\$ 100,116	\$ 72,950

Debt issuance costs total \$3,000 and \$3,000, less accumulated amortization of \$1,550 and \$950 at June 30, 2020 and 2019, respectively.

Future principal payments on the notes payable are as follows:

<u>Years Ended</u> <u>June 30</u>	
2021	\$ 17,251
2022	9,315
2023	75,000
Total	\$ 101,566

Note 8 - Net Assets With Donor Restrictions:

Net assets with donor restrictions consist of the following at June 30:

	<u>2020</u>	<u>2019</u>
Subject to Expenditure for Specified Purpose:		
Project Nourish	\$ 96,815	\$ 23,588
Capital expenditures for new location	85,500	91,799
Project Launch	19,828	36,610
Staff development	3,947	-
Special event sponsorship	1,000	3,500
Total Subject to Expenditure For Specified Purpose	207,090	155,497
Subject to the Passage of Time:		
Contributions receivable, net	388,370	492,065
Total Net Assets with Donor Restrictions	\$ 595,460	\$ 647,562

KITCHENS FOR GOOD, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 8 - Net Assets With Donor Restrictions: (Continued)

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of the passage of time or other events specified by the donors are as follows for the years ended June 30:

	<u>2020</u>	<u>2019</u>
Purpose Restrictions Accomplished:		
Project Launch	\$ 32,410	\$ 27,175
Project Nourish	15,451	-
Capital expenditures for new location	4,758	29,153
Special event sponsorship	3,500	-
Repairs to Celebration Hall	-	60,201
Fund development	-	5,000
Time Restrictions Fulfilled	<u>184,065</u>	<u>50,000</u>
Total Net Assets Released From Restrictions	<u>\$ 240,184</u>	<u>\$ 171,529</u>

Note 9 - Commitments and Contingencies:

Employee Benefit Plan

The Organization has a 403(b) Plan (the “Plan”) covering full-time employees. Employees may defer a percentage of their annual compensation, not to exceed the annual amount allowed by law. The Organization did not make any matching contributions to the Plan for the years ended June 30, 2020 and 2019.

Catering and Concessionaire Services

The Organization entered into a Catering and Concessionaire Services Agreement (“Agreement”) with the City of Vista (“City”) for the period April 9, 2019 through February 29, 2024. During the six month period from March 2019 through August 2019, The Organization pays the City license fees of sixteen percent (16%) of monthly gross income generated from its concessionaire services at the Moonlight Amphitheatre located at 1250 Vale Terrace Drive in Vista, California. Commencing in September 2019 and continuing throughout the initial term, Kitchens for Good shall pay the City license fees of eighteen percent (18%) of monthly gross income. The agreement may be extended with the mutual agreement of the parties for an additional five years. License fees under this Agreement totaled \$51,359 and \$81,107 for the years ended June 30, 2020 and 2019, respectively.

KITCHENS FOR GOOD, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 9 - Commitments and Contingencies: (Continued)

Operating Leases

In September 2015, the Organization entered into an agreement for office, kitchen and event space under a five-year non-cancellable operating lease. In addition to the monthly base rent of \$11,667, the agreement calls for real estate taxes and percentage rent which is calculated as 8% of gross sales generated from the facility for each fiscal year. In November 2020, the Organization signed the Second Amendment to Lease Agreement to extend the lease term to November 30, 2020 and amend the lease terms to eliminate the percentage rent and monthly installments of basic rent commencing August 1, 2020. Payments of percentage rent are due September 30, 2018, September 30, 2019 and from August 1, 2020 through November 30, 2020, in lieu of monthly rent and percentage rent, the Organization will provide the lessor with kitchen equipment described in the Second Amendment to the Lease Agreement. The lease agreement expires November 30, 2020. The unpaid balance of accrued percentage rent as of June 30, 2020 and 2019 totaled \$55,162 and \$99,307, respectively. On December 31, 2019 Kitchens for Good entered into a five year lease agreement with the Salvation Army for kitchen space under a five-year non-cancellable operating lease. Rent payments were abated through September 1, 2020. Rent expense for the years ended June 30, 2020 and 2019 was \$248,453 and \$237,587, respectively and is included in occupancy expense.

Future minimum annual payments under the facility lease is as follows:

Years Ended <u>June 30</u>	
2021	\$ 89,667
2022	78,000
2023	78,000
2024	78,000
2025	13,000
Total	<u>\$ 336,667</u>

Payroll Protection Program Loan

In April 2020, the Organization received a loan totaling \$395,775 from the U.S. Small Business Administration, under the CARES Act Paycheck Protection Program (“PPP”). The loan is forgivable to the extent that the Organization meets the terms and conditions of the PPP. Any portion of the loan that is not forgiven bears interest at 1%, and is due in April 2022. The Organization has recognized \$265,354 as revenue for the year ended June 30, 2020, since they believe that they have satisfied the terms and conditions of forgiveness of the PPP. The remaining \$130,421 has been included in deferred revenue at June 30, 2020. The Organization expects to satisfy a majority of the terms and conditions of forgiveness of this portion of the PPP during the year ended June 30, 2021.

KITCHENS FOR GOOD, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Note 9 - Commitments and Contingencies: (Continued)

Coronavirus Pandemic Contingency

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. On March 19, 2020, the Governor of California declared a health emergency and issued an order to close all nonessential businesses until further notice. The Organization's hunger relief meal production is considered essential and therefore resumed operations. In June 2020, the Organization decided to close its catering operation because it was no longer sustainable due to the restriction imposed as a result of COVID-19. The Organization is planning for reduced revenues and potential program suspensions, although the duration of those concerns may only be temporary. The related financial impact and duration cannot be reasonably estimated at this time.

Note 10 - Subsequent Events:

In September 2020, the Organization obtained a line of credit with First Republic Bank in the amount of \$500,000 with interest at the Wall Street Journal "prime rate" plus 0.25% through September 2021.

Subsequent to year end, due to construction delays, the Organization signed a Second Amendment to their lease agreement with the Salvation Army to use the El Cajon Corps kitchen for the term of November 16, 2020 to January 31, 2021 for \$500 per month.



Leaf & Cole, LLP
Certified Public Accountants
A Partnership of Professional Corporations

**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance With *Government Auditing Standards***

To the Board of Directors
Kitchens For Good, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Kitchens For Good, Inc., which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated November 23, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kitchens For Good, Inc.'s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kitchens For Good, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Kitchens For Good, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kitchens For Good, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Kitchens for Good, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kitchens For Good, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Leaf & Cole LLP

San Diego, California
November 23, 2020