# Kitchens for Good

## Financial Statements

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## June 30, 2017 and 2016

**Kitchens for Good**
**Audited Financial Statements**

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Polito Eppich
CPAs and Business Advisors

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

**Report on Summarized Comparative Information**

We have previously audited the Kitchens for Good's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 24, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Polito Eppich Associates LLP

November 27, 2017
San Marcos, California

**Kitchens for Good**
**Statement of Financial Position**
**June 30, 2017 and 2016**

| | 2017 | 2016 |
|---|---|---|
| **Assets** | | |
| **Current Assets** | | |
| Cash | $ 188,765 | $ 139,862 |
| Accounts receivable | 92,268 | 89,233 |
| Contributions receivable | 125,072 | 30,000 |
| Inventory | 89,180 | 18,343 |
| Prepaid expenses | 1,750 | 11,979 |
| **Total Current Assets** | 497,035 | 289,417 |
| **Property and Equipment, net** | 36,503 | 0 |
| **Other Assets** | | |
| Intangible assets, net | 2,132 | 0 |
| Deposits | 13,196 | 13,196 |
| | $ 548,866 | $ 302,613 |
| **Liabilities and Net Assets** | | |
| **Current Liabilities** | | |
| Accounts payable | $ 84,336 | $ 86,590 |
| Accrued payroll and related expenses | 92,943 | 56,826 |
| Accrued rent | 90,420 | 49,592 |
| Customer deposits | 44,970 | 53,219 |
| Deferred rent | 22,156 | 29,168 |
| Other current liabilities | 23,752 | 9,983 |
| Line of credit | 144,494 | 0 |
| Current portion of note payable | 17,212 | 6,948 |
| **Total Current Liabilities** | 520,283 | 292,326 |
| **Long-Term Debt** | | |
| Note payable, net current portion | 10,437 | 29,052 |
| | 530,720 | 321,378 |
| **Net Assets** | | |
| Unrestricted | (210,618) | (171,765) |
| Temporarily restricted | 228,764 | 153,000 |
| | 18,146 | (18,765) |
| **Total Liabilities and Net Assets** | $ 548,866 | $ 302,613 |

See accompanying notes and independent auditors' report.

**Kitchens for Good**
**Statement of Activities**
**For the Year Ended June 30, 2017**
***with Comparative Totals for the Year Ended June 30, 2016***

| | Unrestricted | Temporarily Restricted | 2017 Total | *2016 Total* |
|---|---|---|---|---|
| **Revenue and Support** | | | | |
| Contributions and grant reimbursements | $ 787,960 | $ 249,713 | $ 1,037,673 | $ 571,445 |
| Program revenue | 1,488,071 | 0 | 1,488,071 | 938,433 |
| Other income | 2,928 | 0 | 2,928 | 0 |
| Total revenue and support | 2,278,959 | 249,713 | 2,528,672 | 1,509,878 |
| Net assets released from restriction | 173,949 | (173,949) | 0 | 0 |
| | 2,452,908 | 75,764 | 2,528,672 | 1,509,878 |
| **Expenses** | | | | |
| Program services: | | | | |
| Project kitchen | 1,468,659 | 0 | 1,468,659 | 1,029,497 |
| Project launch | 532,905 | 0 | 532,905 | 343,300 |
| Support services: | | | | |
| Management and general | 359,770 | 0 | 359,770 | 149,823 |
| Fundraising | 130,427 | 0 | 130,427 | 94,259 |
| Total expenses | 2,491,761 | 0 | 2,491,761 | 1,616,879 |
| **Change in Net Assets** | (38,853) | 75,764 | 36,911 | (107,001) |
| **Net Assets at Beginning of Year** | (171,765) | 153,000 | (18,765) | 88,236 |
| **Net Assets at End of Year** | $ (210,618) | $ 228,764 | $ 18,146 | $ (18,765) |

See accompanying notes and independent auditors' report.

# Kitchens for Good
## Statement of Functional Expenses
## For the Year Ended June 30, 2017
### *with Comparative Totals for the Year Ended June 30, 2016*

| | Program Services | | Supporting Services | | | |
|---|---|---|---|---|---|---|
| | Project Kitchen | Project Launch | Management and General | Fundraising | 2017 Total | *2016 Total* |
| Personnel expenses | $ 632,982 | $ 188,896 | $ 151,953 | $ 47,792 | $ 1,021,623 | $ 708,456 |
| Occupancy expenses | 200,898 | 140,250 | 10,764 | 0 | 351,912 | 211,832 |
| Food and beverage | 246,516 | 72,002 | 0 | 523 | 319,041 | 174,856 |
| Professional fees | 7,650 | 48,225 | 109,655 | 54,500 | 220,030 | 42,746 |
| Event rentals and services | 157,387 | 2,590 | 0 | 0 | 159,977 | 122,428 |
| Payroll taxes and fees | 69,527 | 19,551 | 15,890 | 5,018 | 109,986 | 64,436 |
| Insurance | 56,094 | 14,436 | 28,057 | 3,165 | 101,752 | 80,033 |
| Kitchen supplies | 44,921 | 21,089 | 490 | 0 | 66,500 | 18,699 |
| Meals and transportation | 11,158 | 5,971 | 4,719 | 0 | 21,848 | 26,324 |
| Marketing | 1,001 | 224 | 0 | 18,829 | 20,054 | 25,578 |
| Repairs and maintenance | 12,874 | 4,654 | 1,838 | 0 | 19,366 | 25,031 |
| Bank service charges | 13,141 | 0 | 556 | 0 | 13,697 | 7,184 |
| Office supplies | 420 | 5,067 | 7,172 | 0 | 12,659 | 7,111 |
| License and fees | 2,382 | 377 | 7,336 | 0 | 10,095 | 1,828 |
| Computer and internet | 4,547 | 1,056 | 4,013 | 45 | 9,661 | 22,036 |
| Uniforms | 688 | 7,421 | 508 | 0 | 8,617 | 3,206 |
| Interest expense | 186 | 0 | 7,729 | 0 | 7,915 | 0 |
| Outsourced services | 749 | 225 | 4,628 | 0 | 5,602 | 63,619 |
| Telephone | 770 | 459 | 3,882 | 0 | 5,111 | 3,964 |
| Depreciation and amortization | 4,398 | 0 | 426 | 0 | 4,824 | 0 |
| Dues and subscriptions | 370 | 412 | 154 | 555 | 1,491 | 1,938 |
| Miscellaneous | 0 | 0 | 0 | 0 | 0 | 5,574 |
| Total expenses | $ 1,468,659 | $ 532,905 | $ 359,770 | $ 130,427 | $ 2,491,761 | $ 1,616,879 |

See accompanying notes and independent auditors' report.

## Kitchens for Good
### Statement of Cash Flows
### For the Years Ended June 30, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Increase (Decrease) in net assets | $ 36,911 | $ (107,001) |
| Adjustments to reconcile increase in net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 4,824 | 0 |
| Deferred rent | (7,012) | 29,168 |
| In-kind inventory contribution | (71,014) | 0 |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (3,035) | (89,233) |
| Contributions receivable | (95,072) | (30,000) |
| Inventory | 177 | (18,343) |
| Prepaid expenses | 10,229 | (11,979) |
| Deposits | 0 | (13,196) |
| Accounts payable | (2,254) | 86,590 |
| Accrued payroll and related expenses | 36,117 | 56,826 |
| Accrued rent | 40,828 | 49,592 |
| Customer deposits | (8,249) | 53,219 |
| Other current liabilities | 13,769 | 9,983 |
| **Net cash (used in) provided by operating activities** | (43,781) | 15,626 |
| **Cash flow from investing activities:** | | |
| Purchase of property and equipment | (40,901) | 0 |
| Loan fees | (2,558) | 0 |
| **Net cash used in investing activities:** | (43,459) | 0 |
| **Cash flow from financing activities** | | |
| Proceeds from line of credit | 144,494 | 0 |
| Proceeds from notes payable | 76,800 | 36,000 |
| Payments on notes payable | (85,151) | 0 |
| **Net cash provided by financing activities** | 136,143 | 36,000 |
| **Net increase in cash** | 48,903 | 51,626 |
| **Cash, beginning of year** | 139,862 | 88,236 |
| **Cash, ending of year** | $ 188,765 | $ 139,862 |
| **Supplemental disclosures of cash flows information** | | |
| Cash payments for: | | |
| Interest | $ 7,915 | $ 0 |

See accompanying notes and independent auditors' report.

## Note 1: Organization

**Nature of Activities:** 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 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, students give back to the community by preparing nutritious meals out of rescued and donated food for hunger relief partners. Students also get on the job training experience by working 5-15 hours a week in the catering enterprise.

**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 students 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.

## Note 2: Summary of Significant Accounting Policies

**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 $73,000 is designated for the purchase of noncurrent assets as of June 30, 2017.

**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, 2017 and 2016, because management believes that all amounts are collectible.

**Contributions Receivable:** Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Management provides a valuation allowance for uncollectible amounts based on historical collections and its assessment of the current status of individual receivables. Accordingly, there was no allowance for doubtful accounts at June 30, 2017 and 2016.

**Inventories:** Inventories consist of raw food, cooking ingredients, kitchen supplies and small wares. Food cost is determined using the first-in, first-out (FIFO) method. Supplies and small wares are valued on a specific identification basis.

**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 have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ("GAAP"). 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.

**Donated Assets and Services:** Contributions of non-cash assets are recorded at their fair values in the period received. The Organization recorded in-kind contributions of $71,014 in kitchen supplies and small wares, $69,233 in professional legal services and $49,032 in food donations for the year ending June 30, 2017. The Organization recorded $28,984 in food donations and $1,975 in computer expense for the year ending June 30, 2016.

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 based on time records, space utilized and estimates made by the Organization's management.

**Marketing:** Marketing expenses are charged to expense as incurred. Marketing expense was $20,054 and $25,578 for the years ending June 30, 2017 and 2016, respectively.

**Note 2: Summary of Significant Accounting Policies (Continued)**

**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.

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 effect 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, 2017 and 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.

**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.

**Comparative Financial Statements:** The financial statements include certain prior-year summarized comparative information in total but not by net asset class. That information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

**Reclassifications:** Certain accounts for the year ending June 30, 2016 have been reclassified to conform to the current year presentation. The reclassifications have no effect on net assets for the year ending June 30, 2016.

**Managements' Review of Subsequent Events:** The Organization has evaluated subsequent events through the report date, which is the date the financial statements were available to be issued. Management is not aware of any events that have occurred subsequent to June 30, 2017 that would require adjustment to, or disclosure in, these financial statements.

**Note 3: Property and Equipment**

Major classes of property and equipment at June 30, 2017 consist of the following:

| | Useful Life | 2017 |
|---|---|---|
| Vehicles | 5 years | $ 40,901 |
| Less: accumulated depreciation | | (4,398) |
| | | $ 36,503 |

Depreciation expense for property and equipment was $4,398 for the year ending June 30, 2017.

**Note 4: Intangible Assets**

Intangible assets at June 30, 2017 consist of the following:

| | Useful Life | 2017 |
|---|---|---|
| Loan fees | 12 months | $ 2,558 |
| Less: accumulated amortization | | (426) |
| | | $ 2,132 |

Amortization expense for intangible assets was $426 for the year ending June 30, 2017.

**Note 5: Line of Credit**

The Organization has a $200,000 line of credit agreement with Nonprofit Finance Fund, a New York State not-for-profit corporation ("NFF") maturing June 2018. Borrowing under this agreement are subject to variable rates of interest calculated based on The Wall Street Journal under "Money Rates" as the "Prime Rate" rate plus 1.00% (6.5% at June 30, 2017). The line of credit is collateralized by substantially all the Organization's assets. There are no financial covenants. The outstanding balance as of June 30, 2017 and 2016 was $144,494 and $0, respectively.

## Note 6: Note Payable

On March 3, 2016, the Organization entered into a loan agreement with an unrelated foundation for $36,000. The unsecured loan carries an interest rate of 4% maturing on February 23, 2019. Accrual of interest was deferred until January 1, 2017. Monthly installments of $1,500 began 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, 2017 and 2016, the outstanding principal balance was $27,649 and $36,000, respectively.

Future minimum principal payments for the years ending June 30 follow:

| | | |
|---|---|---|
| 2018 | $ | 17,212 |
| 2019 | | 10,437 |
| | $ | 27,649 |

## Note 7: 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. Payments of percentage rent are due September 30, 2017, September 30, 2018, September 30, 2019 and October 15, 2020. The unpaid balance of accrued percentage rent as of June 30, 2017 and 2016 totaled $90,420 and $49,592, respectively. Rent expense for the years ending June 30, 2017 and 2016 was $231,960 and $154,596, respectively.

Future minimum annual payments under the facility lease for the years ending June 30 follow:

| | | |
|---|---|---|
| 2018 | $ | 140,004 |
| 2019 | | 140,004 |
| 2020 | | 140,004 |
| 2021 | | 35,001 |
| | $ | 455,013 |

## Note 8: Temporarily Restricted Net Assets

Temporarily restricted net assets for the years ended June 30, 2017 and 2016 follow:

| | 2017 | 2016 |
|---|---|---|
| Time-restricted contribution receivable | $ 125,000 | $ 0 |
| Kitchen remodel | 73,000 | 73,000 |
| Development coordinator | 17,063 | 0 |
| Project launch program | 9,638 | 0 |
| Equipment for kiosk | 4,063 | 0 |
| Vehicle purchase | 0 | 50,000 |
| Career coach salary | 0 | 30,000 |
| | $ 228,764 | $ 153,000 |

## Note 9: Commitments and Contingencies

From time to time the Organization is involved in various legal actions and proceedings in connection with its operations. While the ultimate outcome of such matters cannot be predicted with certainty, in the opinion of management, no such matter is likely to have a material adverse effect on the Organization's financial position or results of operations.

## Note 10: Concentration of Credit Risk

The Organization maintains cash balances at institutions insured by the Federal Deposit Insurance Corporation. At times, balances 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 and cash equivalents.