KITCHENS FOR GOOD

FINANCIAL STATEMENTS

JUNE 30, 2018 AND 2017

Leaf & Cole, LLP
Certified Public Accountants

KITCHENS FOR GOOD
FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

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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

Report on the Financial Statements

We have audited the accompanying financial statements of Kitchens for Good, which comprise the statement of financial position as of June 30, 2018, 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 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 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.

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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, 2018, 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.

Prior Period Financial Statements

The financial statements of Kitchens for Good as of June 30, 2017, were audited by other auditors whose report dated November 27, 2017, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2018, on our consideration of Kitchens for Good'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 to solely 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'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's internal control over financial reporting and compliance.

Leaf & Cole LLP

San Diego, California
October 19, 2018

KITCHENS FOR GOOD
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

ASSETS

		2018		2017
Current Assets: (Notes 2, 3 and 5)				
Cash and cash equivalents	$	596,266	$	188,765
Accounts receivable		172,999		92,268
Contributions receivable		116,864		125,072
Inventory		100,926		89,180
Prepaid expenses		6,880		1,750
Total Current Assets		993,935		497,035
Noncurrent Assets: (Notes 2, 3, 4 and 5)				
Contributions receivable, net		60,206		-
Property and equipment, net		134,550		36,503
Deposits		13,196		13,196
Total Noncurrent Assets		207,952		49,699
TOTAL ASSETS	$	1,201,887	$	546,734

LIABILITIES AND NET ASSETS

		2018		2017
Current Liabilities: (Notes 2, 5 and 6)				
Accounts payable and accrued expenses	$	324,191	$	201,031
Accrued rent		102,210		90,420
Customer deposits		53,501		44,970
Deferred rent		15,167		22,156
Line of credit		160,000		144,494
Current portion of notes payable		10,437		17,212
Total Current Liabilities		665,506		520,283
Noncurrent Liabilities: (Note 6)				
Notes payable		72,350		8,305
Total Noncurrent Liabilities		72,350		8,305
Total Liabilities		737,856		528,588
Commitment (Note 8)				
Net Assets: (Notes 2 and 7)				
Unrestricted		150,703		(210,618)
Temporarily restricted		313,328		228,764
Total Net Assets		464,031		18,146
TOTAL LIABILITIES AND NET ASSETS	$	1,201,887	$	546,734

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

KITCHENS FOR GOOD
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018			2017		
	Unrestricted Operations	Temporarily Restricted	Total	Unrestricted Operations	Temporarily Restricted	Total
Support and Revenue:						
Grants and contributions	$ 1,545,630	$ 313,328	$ 1,858,958	$ 787,960	$ 249,713	$ 1,037,673
Program revenue	1,702,383	-	1,702,383	1,488,071	-	1,488,071
Other income	2,154	-	2,154	2,928	-	2,928
Net assets released from restrictions	228,764	(228,764)	-	173,949	(173,949)	-
Total Support and Revenue	3,478,931	84,564	3,563,495	2,452,908	75,764	2,528,672
Program and Supporting Service Expenses:						
Program Services:						
Project Kitchen	1,592,201	-	1,592,201	1,283,886	-	1,283,886
Project Launch	599,856	-	599,856	429,474	-	429,474
Project Nourish	434,738	-	434,738	288,204	-	288,204
Total Program Services	2,626,795	-	2,626,795	2,001,564	-	2,001,564
Supporting Services:						
Management and general	361,468	-	361,468	359,770	-	359,770
Fundraising	129,347	-	129,347	130,427	-	130,427
Total Supporting Services	490,815	-	490,815	490,197	-	490,197
Total Program and Supporting Service Expenses	3,117,610	-	3,117,610	2,491,761	-	2,491,761
Change in Net Assets	361,321	84,564	445,885	(38,853)	75,764	36,911
Net Assets at Beginning of Year	(210,618)	228,764	18,146	(171,765)	153,000	(18,765)
NET ASSETS AT END OF YEAR	$ 150,703	$ 313,328	$ 464,031	$ (210,618)	$ 228,764	$ 18,146

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

KITCHENS FOR GOOD
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Program Services				Supporting Services			
	Project Kitchen	Project Launch	Project Nourish	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Program and Supporting Services
Personnel	$ 715,253	$ 292,211	$ 157,457	$ 1,164,921	$ 199,014	$ 102,621	$ 301,635	$ 1,466,556
Food and beverage	221,751	35,124	176,375	433,250	1,031	-	1,031	434,281
Occupancy	203,027	146,177	2,520	351,724	12,615	-	12,615	364,339
Event rentals and services	162,892	2,105	14,089	179,086	82	-	82	179,168
Payroll taxes and fees	70,107	30,652	15,624	116,383	18,113	9,340	27,453	143,836
Insurance	59,351	22,349	13,865	95,565	41,099	6,786	47,885	143,450
Kitchen supplies	74,942	19,441	23,750	118,133	370	-	370	118,503
Professional fees	57	14,717	11,608	26,382	22,662	10,600	33,262	59,644
Marketing	6,587	713	2,825	10,125	19,770	-	19,770	29,895
Bank services charges	19,754	-	32	19,786	3,587	-	3,587	23,373
Repairs and maintenance	11,372	6,149	1,909	19,430	3,830	-	3,830	23,260
Meals and transportation	6,788	5,652	7,172	19,612	2,417	-	2,417	22,029
Computer and internet	13,846	1,821	1,247	16,914	4,465	-	4,465	21,379
Interest expense	-	-	-	-	19,158	-	19,158	19,158
Office supplies	1,078	6,847	202	8,127	6,092	-	6,092	14,219
Uniforms	1,180	12,164	168	13,512	332	-	332	13,844
Depreciation	6,098	1,980	5,049	13,127	-	-	-	13,127
Bad debt	12,355	-	64	12,419	592	-	592	13,011
Telephone	2,073	-	159	2,232	4,825	-	4,825	7,057
Dues and subscriptions	2,350	-	270	2,620	904	-	904	3,524
License and fees	646	1,289	323	2,258	460	-	460	2,718
Outsourced services	694	465	30	1,189	50	-	50	1,239
Total Program and Supporting Services Expenses	$ 1,592,201	$ 599,856	$ 434,738	$ 2,626,795	$ 361,468	$ 129,347	$ 490,815	$ 3,117,610

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

KITCHENS FOR GOOD
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Progran Services				Supporting Services			
	Project Kitchen	Project Launch	Project Nourish	Total Program Services	Management and General	Fundraising	Total Supporting Services	Total Program and Supporting Services
Personnel	$ 562,419	$ 174,821	$ 84,638	$ 821,878	$ 151,953	$ 47,792	$ 199,745	$ 1,021,623
Occupancy	200,262	140,250	636	341,148	10,764	-	10,764	351,912
Food and beverage	168,682	10,341	139,495	318,518	-	523	523	319,041
Professional fees	5,800	32,000	18,075	55,875	109,655	54,500	164,155	220,030
Event rentals and services	157,387	2,198	392	159,977	-	-	-	159,977
Payroll taxes and fees	62,102	18,169	8,807	89,078	15,890	5,018	20,908	109,986
Insurance	47,671	12,757	10,102	70,530	28,057	3,165	31,222	101,752
Kitchen supplies	40,048	13,497	12,465	66,010	490	-	490	66,500
Meals and transportation	3,330	5,830	7,969	17,129	4,719	-	4,719	21,848
Marketing	1,001	224	-	1,225	-	18,829	18,829	20,054
Repairs and maintenance	10,645	4,445	2,438	17,528	1,838	-	1,838	19,366
Bank services charges	13,141	-	-	13,141	556	-	556	13,697
Office supplies	337	5,067	83	5,487	7,172	-	7,172	12,659
License and fees	2,070	377	312	2,759	7,336	-	7,336	10,095
Computer and internet	4,547	1,056	-	5,603	4,013	45	4,058	9,661
Uniforms	688	7,421	-	8,109	508	-	508	8,617
Interest expense	186	-	-	186	8,155	-	8,155	8,341
Outsourced services	749	225	-	974	4,628	-	4,628	5,602
Telephone	770	459	-	1,229	3,882	-	3,882	5,111
Depreciation	2,051	-	2,347	4,398	-	-	-	4,398
Dues and subscriptions	-	337	445	782	154	555	709	1,491
Total Program and Supporting Services Expenses	$ 1,283,886	$ 429,474	$ 288,204	$ 2,001,564	$ 359,770	$ 130,427	$ 490,197	$ 2,491,761

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

KITCHENS FOR GOOD
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities:		
Change in net assets	$ 445,885	$ 36,911
Adjustments to Reconcile Change in Net Assets to Net Cash Provided By (Used In) Operating Activities:		
Depreciation	13,127	4,398
Amortization of deferred financing costs	2,482	426
Deferred rent	(6,989)	(7,012)
In-kind inventory contribution	-	(71,014)
(Increase) Decrease in:		
Accounts receivable	(80,731)	(3,035)
Contributions receivable, net	(51,998)	(95,072)
Inventory	(11,746)	177
Prepaid expenses	(5,130)	10,229
Increase (Decrease) in:		
Accounts payable and accrued expenses	123,160	47,632
Accrued rent	11,790	40,828
Customer deposits	8,531	(8,249)
Net Cash Provided by (Used in) Operating Activities	448,381	(43,781)
Cash Flows From Investing Activities:		
Purchase of property and equipment	(111,174)	(40,901)
Net Cash Used in Investing Activities	(111,174)	(40,901)
Cash Flows From Financing Activities:		
Proceeds from line of credit	210,000	144,494
Payments on line of credit	(194,494)	(85,151)
Proceeds from notes payable	75,000	76,800
Payments on notes payable	(17,212)	-
Payments for deferred financing costs	(3,000)	(2,558)
Net Cash Provided by Financing Activities	70,294	133,585
Net Increase in Cash and Cash Equivalents	407,501	48,903
Cash and Cash Equivalents at Beginning of Year	188,765	139,862
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 596,266	$ 188,765
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 8,981	$ 7,915

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

KITCHENS FOR GOOD
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 1 - Organization:

Kitchens for Good (the "Organization") is a California Non-Profit Organization incorporated in 2014. Located in San Diego, California, the Organization's mission is to break the cycles of food waste, hunger, and poverty through innovative solutions in workforce training, healthy food production and social enterprise.

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, students give back to the community by preparing nutritious meals out of rescued and donated food for hunger relief partners. Students 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 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, 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.

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 87,345 nutritious meals, prepared by the Organization's culinary students, staff, and volunteers. The Organization distributes these healthy meals to high-need populations including at risk youth through after-school programs, low-income seniors at several senior centers, 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.

Note 2 - Significant Accounting Policies: (Continued)

Financial Statement Presentation

The financial statements present information regarding the financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

- Unrestricted net assets – Net assets not subject to donor imposed stipulations

- Temporarily restricted net assets – Net assets subject to donor imposed stipulations that will be met by actions of the Organization and/or the passage of time. When a donor stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

- Permanently restricted net assets – Net assets subject to donor imposed stipulations requiring that they be maintained permanently by the Organization. The income from these assets is available for either general operations or specific programs as specified by the donor.

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, 2018 and 2017.

Inventory

Inventory consists of raw food, cooking ingredients, kitchen supplies and small wares. Food cost is valued at the lower of cost or market using the first-in, first-out (FIFO) method. Supplies and small wares are on a specific identification basis.

Note 2 - Significant Accounting Policies: (Continued)

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, 2018 and 2017.

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 unrestricted 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 restricted. 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 temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over the estimated useful asset lives as follows:

Furniture and equipment	5 - 10 years
Vehicles	5 years

Depreciation totaled $13,127 and $4,398 at June 30, 2018 and 2017, respectively.

Maintenance and repairs are charged to operations as incurred. Upon sale or disposition of property and 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 deferred financing 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 $2,482 and $426 for the years ended June 30, 2018 and 2017, respectively.

Compensated Absences

Accumulated unpaid vacation totaling $33,743 and $12,747 at June 30, 2018 and 2017, 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 $15,167 and $22,156 at June 30, 2018 and 2017, respectively.

Note 2 - Significant Accounting Policies: (Continued)

Revenue Recognition

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 unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. 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.

Donated Services and Materials

The Organization received food donations which are recorded at fair value and totaled $75,477 and $49,032 for the years ended June 30, 2018 and 2017, respectively, and have been included in revenue and expense for the years ended June 30, 2018 and 2017.

The Organization received donations for professional services which are recorded at fair value and totaled $5,462 and $69,233 for the years ended June 30, 2018 and 2017, respectively and have been included in revenue and expenses for the years ended June 30, 2018 and 2017.

The Organization received kitchen supplies and small wares which are recorded at fair value and totaled $-0- and $71,014 for the years ended June 30, 2018 and 2017, respectively, and have been included in revenue and expenses for the years ended June 30, 2018 and 2017.

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, 2018 and 2017, did not meet the requirements above, therefore no amounts were recognized in the financial statements for volunteer time.

Allocated Expenses

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 support services 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 the Organization's management.

Note 2 - Significant Accounting Policies: (Continued)

Income Tax Status

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, 2018, 2017, 2016 and 2015 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. The Organization 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.

Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 19, 2018, the date the financial statements were available to be issued.

Reclassification

The Organization has reclassified certain prior year information to conform with the current year presentation.

Note 3 - Contributions Receivable:

Contributions receivable consist of the following at June 30:

	2018	2017
Current:		
Due in less than one year	$ 116,864	$ 125,072
Total Current, Net	116,864	125,072
Noncurrent:		
Due in one to five years	65,000	-
Less: Discounts to present value	(4,794)	-
Total Noncurrent, Net	60,206	-
Total Contributions Receivable, Net	$ 177,070	$ 125,072

The contributions receivable have been discounted to their present value using a discount rate between 2.52% – 2.63% at June 30, 2018.

Note 4 - Property and Equipment:

Property and equipment consist of the following at June 30:

	2018	2017
Furniture and equipment	$ 88,520	$ -
Vehicles	63,555	40,901
Subtotal	152,075	40,901
Less: Accumulated depreciation	(17,525)	(4,398)
Property and Equipment, Net	$ 134,550	$ 36,503

Note 5 - Line of Credit:

The Organization has a line of credit with a lender in the amount of $200,000 with interest at the lender's prime rate plus 1% (6.50% at June 30, 2018). The line of credit matures on May 31, 2019 and is secured by substantially all the Organization's assets. The balance on the line of credit totaled $160,000 and $144,494 at June 30, 2018 and 2017, respectively.

Note 6 - Notes Payable:

Notes payable consist of the following at June 30:

	2018	2017
Note payable to The Parker Foundation in the original amount of $36,000. Payable in monthly payments of $1,500, including interest at 4.00%, due February 23, 2019. Unsecured.	$ 10,437	$ 27,649
Note payable to The Roberts Enterprise Development Fund in the original amount of $75,000. Monthly interest payments of $750, including interest at 4.00% through December 2019, then 5.25%, due December 20, 2022. Unsecured.	75,000	-
Total Notes Payable	85,437	27,649
Less: Unamortized debt issuance costs	(2,650)	(2,132)
Notes Payable, Net	$ 82,787	$ 25,517

Debt issuance costs total $5,558 and $2,558, less accumulated amortization of $2,908 and $426 at June 30, 2018 and 2017, respectively.

Future principal payments on the notes payable are as follows:

Years Ended June 30	
2019	$ 10,437
2020	-
2021	-
2022	-
2023	75,000
Total	$ 85,437

Note 7 - Temporarily Restricted Net Assets:

Temporarily restricted net assets are available for the following purposes at June 30:

	2018	2017
Expansion	$ 120,952	$ -
Time restriction	100,000	125,000
Repairs for Celebration Hall	30,445	-
Equipment	29,756	4,063
Project Launch	27,175	9,638
Fund development	5,000	17,063
Kitchen remodel	-	73,000
Total Temporarily Restricted Net Assets	$ 313,328	$ 228,764

Net assets in the amount of $228,764 and $173,949 were released from restrictions during the year ended June 30, 2018 and 2017, respectively by incurring expenses satisfying the purpose restrictions specified by donors.

Note 8 - 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, 2018, September 30, 2019 and October 15, 2020. The unpaid balance of accrued percentage rent as of June 30, 2018 and 2017 totaled $102,210 and $90,420, respectively. Rent expense for the years ended June 30, 2018 and 2017 was $239,057 and $231,960, respectively.

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

Years Ended June 30	
2019	$ 140,004
2020	140,004
2021	35,001
Total	$ 315,009

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

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, which comprise the statement of financial position as of June 30, 2018, 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 October 19, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Kitchens for Good's internal control over financial reporting (internal control) to determine the 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's internal control. Accordingly, we do not express an opinion on the effectiveness of Kitchens for Good'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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kitchens for Good'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 determination of financial statement amounts. 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 the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Leaf & Cole LLP

San Diego, California
October 19, 2018