

Martha's Kitchen

Financial Statements

June 30, 2020
(With Comparative Totals for 2019)



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Martha's Kitchen
San Jose, California

We have audited the accompanying financial statements of Martha's Kitchen (a California nonprofit corporation) (the "Organization"), 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Martha's Kitchen as of June 30, 2020, 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.

Change in Accounting Principle

As described in Note 2 to the financial statements, the Organization has adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to that matter.

Emphasis of Matter

As described in Note 10 of the financial statements, on March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. However, the ultimate financial impact and duration of these events cannot be reasonably estimated at this time. Our opinion is not modified with respect to that matter.

Report on Summarized Comparative Information

We have previously audited Martha's Kitchen's 2019 financial statements, and our report dated September 11, 2019 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Armanino^{LLP}
San Jose, California

October 26, 2020

Martha's Kitchen
Statement of Financial Position
June 30, 2020
(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,168,840	\$ 140,872
Inventory	72,520	36,621
Prepaid expenses	42,078	69,281
Prepaid Visa cards to be distributed	335,000	-
Total current assets	<u>1,618,438</u>	<u>246,774</u>
Property and equipment, net	<u>849,069</u>	<u>861,700</u>
Investments	<u>5,999,501</u>	<u>6,143,963</u>
Total assets	<u><u>\$ 8,467,008</u></u>	<u><u>\$ 7,252,437</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 409,762	\$ 4,004
Accrued expenses	99,751	90,060
Deferred revenue	-	55,600
Total current liabilities	<u>509,513</u>	<u>149,664</u>
Paycheck Protection Program forgivable loan	<u>196,312</u>	<u>-</u>
Total liabilities	<u>705,825</u>	<u>149,664</u>
Net assets		
Without donor restrictions		
Undesignated	30,334	1,381,615
Board-designated operating reserve	1,500,000	1,300,000
Board-designated lease improvements reserve	1,500,000	1,500,000
Board-designated kitchen upgrades/replacement reserve	500,000	500,000
Board-designated facility reserve	1,500,000	-
Board-designated endowment	2,395,521	2,421,158
Total without donor restrictions	<u>7,425,855</u>	<u>7,102,773</u>
With donor restrictions	<u>335,328</u>	<u>-</u>
Total net assets	<u>7,761,183</u>	<u>7,102,773</u>
Total liabilities and net assets	<u><u>\$ 8,467,008</u></u>	<u><u>\$ 7,252,437</u></u>

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

Martha's Kitchen
Statement of Activities
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	Without Donor Restrictions	With Donor Restrictions	2020 Total	2019 Total
Support and revenue				
Grants and contributions	\$ 1,300,580	\$ 390,328	\$ 1,690,908	\$ 662,665
In-kind contributions	1,598,777	-	1,598,777	642,789
Investment income, net	357,352	-	357,352	368,854
Special event revenue	149,504	-	149,504	172,346
Less: cost of direct benefits to donors	(51,838)	-	(51,838)	(70,114)
Sacred Heart Nativity School lunch program	96,589	-	96,589	94,876
Government grants	-	272,500	272,500	50,132
Other revenue	-	-	-	2,299
Net assets released from restrictions	327,500	(327,500)	-	-
Total support and revenue	<u>3,778,464</u>	<u>335,328</u>	<u>4,113,792</u>	<u>1,923,847</u>
Functional expenses				
Program services	<u>3,069,864</u>	<u>-</u>	<u>3,069,864</u>	<u>1,773,027</u>
Support services				
Management and general	242,854	-	242,854	171,656
Fundraising	<u>142,664</u>	<u>-</u>	<u>142,664</u>	<u>115,018</u>
Total support services	<u>385,518</u>	<u>-</u>	<u>385,518</u>	<u>286,674</u>
Total functional expenses	<u>3,455,382</u>	<u>-</u>	<u>3,455,382</u>	<u>2,059,701</u>
Change in net assets	323,082	335,328	658,410	(135,854)
Net assets, beginning of year	<u>7,102,773</u>	<u>-</u>	<u>7,102,773</u>	<u>7,238,627</u>
Net assets, end of year	<u>\$ 7,425,855</u>	<u>\$ 335,328</u>	<u>\$ 7,761,183</u>	<u>\$ 7,102,773</u>

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

Martha's Kitchen
Statement of Functional Expenses
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	Program Services	Management and General	Fundraising	2020 Total	2019 Total
Personnel expenses					
Salaries and wages	\$ 615,639	\$ 130,548	\$ 76,003	\$ 822,190	\$ 700,632
Employee benefits	123,908	26,275	15,298	165,481	121,877
Payroll taxes	50,729	10,078	5,665	66,472	55,790
Total personnel expenses	<u>790,276</u>	<u>166,901</u>	<u>96,966</u>	<u>1,054,143</u>	<u>878,299</u>
Expenses					
Donated food and goods distributed	1,562,878	-	-	1,562,878	632,250
Purchased food distributed	230,327	-	-	230,327	136,975
Occupancy	149,877	8,160	8,160	166,197	166,661
Depreciation and amortization	106,165	-	-	106,165	119,478
Equipment rental and maintenance	105,607	-	-	105,607	33,237
Supplies	54,851	12,482	-	67,333	8,976
Professional services	2,176	47,759	5,969	55,904	12,975
Costs of direct benefits to donors	-	-	51,838	51,838	70,114
Insurance	34,683	2,264	1,752	38,699	34,864
Travel	26,224	2,293	-	28,517	20,469
Printing and publications	-	-	22,439	22,439	3,659
Miscellaneous	1,537	314	6,172	8,023	220
Telephone	5,263	658	658	6,579	4,505
Postage and shipping	-	1,440	548	1,988	3,194
Dues and subscriptions	-	583	-	583	1,539
Donated services	-	-	-	-	2,400
Total expenses	<u>2,279,588</u>	<u>75,953</u>	<u>97,536</u>	<u>2,453,077</u>	<u>1,251,516</u>
Less: expenses included with revenues on the statement of activities	<u>-</u>	<u>-</u>	<u>(51,838)</u>	<u>(51,838)</u>	<u>(70,114)</u>
	<u>\$ 3,069,864</u>	<u>\$ 242,854</u>	<u>\$ 142,664</u>	<u>\$ 3,455,382</u>	<u>\$ 2,059,701</u>
Percentage of total	<u>89 %</u>	<u>7 %</u>	<u>4 %</u>	<u>100 %</u>	

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

Martha's Kitchen
Statement of Cash Flows
For the Year Ended June 30, 2020
(With Comparative Totals for 2019)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities		
Change in net assets	\$ 658,410	\$ (135,854)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Donated food and goods received	(1,598,777)	(640,389)
Donated food and goods distributed	1,562,878	632,250
Depreciation and amortization	106,165	119,478
Net realized and unrealized gains on investments	(223,523)	(65,846)
Changes in operating assets and liabilities		
Accounts receivable	-	1,250
Prepaid expenses	27,203	7,968
Prepaid Visa cards to be distributed	(335,000)	-
Accounts payable	362,224	(13,459)
Accrued expenses	9,691	49,016
Deferred revenue	(55,600)	(23,350)
Net cash provided by (used in) operating activities	<u>513,671</u>	<u>(68,936)</u>
Cash flows from investing activities		
Purchases of property and equipment	(50,000)	(2,957)
Purchases of investments	(1,700,410)	(5,543,595)
Sales of investments	<u>2,068,395</u>	<u>5,540,916</u>
Net cash provided by (used in) investing activities	<u>317,985</u>	<u>(5,636)</u>
Cash flows from financing activities		
Proceeds from Paycheck Protection Program forgivable loan	<u>196,312</u>	-
Net cash provided by financing activities	<u>196,312</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	1,027,968	(74,572)
Cash and cash equivalents, beginning of year	<u>140,872</u>	<u>215,444</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,168,840</u></u>	<u><u>\$ 140,872</u></u>

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

Martha's Kitchen
Notes to Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

1. NATURE OF OPERATIONS

Martha's Kitchen (the "Organization") is a nonprofit public benefit corporation whose mission is to provide hot meals and support to people in need in Santa Clara County, California, and surrounding areas. The Organization began in the 1960s when founder Louise Benson gave out peanut butter sandwiches and other essentials to the people in need from her garage in the Willow Glen area of San Jose, California. When neighbors complained about the lines of poor people in the neighborhood, she moved her ministry to her home parish in 1981. A few years later, the Organization was absorbed by Catholic Charities until 2001 when it incorporated as an independent nonprofit organization.

The Organization leases kitchen and dining room facilities at 311 Willow Street, San Jose, California from the Catholic Diocese of San Jose. During the year ended June 30, 2020, 579,342 meals were either served at the facility or distributed to other food service facilities. In addition, substantial food products donated to the Organization were re-distributed to other charitable food service facilities and needy families for their use.

The Organization provides meals and support to people in need in the following counties:

- Santa Clara
- Santa Cruz
- San Benito
- Merced
- San Mateo
- Monterey
- Alameda

At the time of publication of this audit, Martha's Kitchen presently serves as the largest food bank in San Benito County and Western Merced County.

The Organization measures success by counting the number of meals prepared and the number of serving sites. In the past five years, the Organization has more than doubled the number of meals it prepares from less than 250,000 to over 575,000 a year; and more than doubled the number of partners-serving sites from 30 to 77. When the COVID-19 pandemic hit, the Organization nearly doubled the number of hot meals being served. The amount of groceries distributed has also increased dramatically since the onset of COVID-19 and the Organization distributed more than one million pounds of groceries in the past year, compared to roughly 200,000 pounds of food a year before.

The Organization is a community-driven organization. For a small organization, this soup kitchen received 15,623 hours of volunteer time during the year ended June 30, 2020 to help with its mission of feeding the hungry. The local food bank and grocery stores as well as large venues donate food and supplies which totaled \$1,598,777 in the year ended June 30, 2020.

Martha's Kitchen
Notes to Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting and financial statement presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Organization reports its financial position and operating activities in two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

- *Net assets without donor restrictions* - Net assets not subject to donor imposed stipulations.
- *Net assets with donor restrictions* - Net assets subject to donor-imposed stipulations that will be met by actions of the Organization, and/or the passage of time, or are maintained in perpetuity by the Organization. When the donor-imposed stipulation ends or the Organization satisfies an action, the Organization reclassifies net assets with donor restrictions to net assets without donor restrictions.

Change in accounting principle

In June 2018, the Financial Accounting Standards Board issued Accounting Standard Update ("ASU") 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies the criteria for evaluating whether a transaction is a contribution or an exchange transaction and whether a contribution is conditional or unconditional. The Organization adopted ASU 2018-08 with a date of the initial application of July 1, 2019, using the modified prospective method.

The adoption of ASU 2018-08 did not have a significant impact on Organization's financial position, result of operations, or cash flows. The Organization has evaluated contributions received and has determined that there is no change as a result of the adoption of the standard.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

Cash and cash equivalents include highly liquid investments and investments with an original maturity of three months or less, and exclude donor restricted receipts and amounts designated for long-term purposes. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash accounts.

Martha's Kitchen
Notes to Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments may include cash, certificates of deposit, corporate bonds, municipal bonds, governmental obligations, and equity securities. Such investments with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses, and interest and dividends, are included in the change in net assets.

Fair value measurements

The Organization's investments are reported at fair value in the accompanying statement of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflect future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs are indirectly observable, and Level 3 inputs are unobservable and have the lowest priority. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 and 2 inputs because they generally provide the most reliable evidence of fair value. No Level 3 inputs were needed for the organization for the years ended June 30, 2020 and 2019.

- *Level 1* - Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.
- *Level 2* - Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.
- *Level 3* - Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

Property and equipment

Property and equipment valued in excess of \$1,000 at time of acquisition or donation are capitalized.

Martha's Kitchen
Notes to Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

Depreciation and amortization of property and equipment is computed using the straight-line method over the following estimated useful lives:

Leasehold improvements	25 years
Furniture, fixtures and equipment	3 - 15 years
Automobiles	5 years

Revenue recognition

Contributions are recognized when the donor makes a pledge to give that is, in substance, an unconditional promise. The Organization periodically reviews the pledges for collectability. As a result of these reviews pledges deemed uncollectible are written off directly to bad debt expense. For the years ended June 30, 2020 and 2019, there was no bad debt expense.

Contributions are recorded as without donor restrictions or with donor restrictions depending on the nature of donor restrictions. Contributions with donor restrictions are reported as increases in net assets with donor restrictions. When the restriction is met the amount is shown as a reclassification of net assets with donor restrictions to net assets without donor restrictions.

Sacred Heart Nativity School lunch program revenue is recognized based on the meals provided.

In-kind contributions

Donated supplies and equipment are recorded at their fair market value as of the date of the donation. Contributed services, which require specialized skills and which the Organization would have paid for if not donated, are recorded at the estimated fair market value at the time the services are rendered. The Organization also receives donated services that do not require specific expertise and are appropriately not reflected in the accompanying financial statements, but which are nonetheless central to the Organization's operations.

Donated food and goods from Second Harvest of Silicon Valley was valued ranging from \$1.49 to \$1.74 per pound for the year ended June 30, 2020. This valuation is based on a cost study conducted for Feeding America. Donated food from sources other than Second Harvest of Silicon Valley was valued based on the estimated purchase price by the category of the food using a variety of sources for comparison.

Advertising costs

Advertising costs are expensed as incurred. For the years ended June 30, 2020 and 2019, advertising expense totaled \$22,122 and \$200, respectively.

Martha's Kitchen
Notes to Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expense allocation

The costs of providing the program and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the program and support services benefited. Indirect expense allocations are based on an analysis of personnel time, square footage, and similar factors.

Income tax status

The Organization is exempt from Federal and state income taxes under section 501(c)(3) of the Internal Revenue Code and the corresponding sections of the California Revenue and Taxation Act. Management has evaluated the Organization's operations and concluded the financial statements do not include any uncertain tax positions. Accordingly, no provision for income taxes has been made in the accompanying statements.

Concentrations of credit risk

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist of cash, bonds, and equities. The Organization maintains cash deposit and transaction accounts with major U.S. and international banks, which, from time to time, may exceed federally insured limits. Management of the Organization periodically assesses the financial condition of the institutions and believes that the risk of any loss is minimal.

Accrued vacation

Accrued vacation represents vacation earned, but not taken as of June 30, 2020 and 2019, and is included in "accrued expenses" in the statement of financial position. The accrued vacation balance as of June 30, 2020 and 2019 was \$30,026 and \$31,194, respectively.

Subsequent events

Management of the Organization has evaluated events and transactions subsequent to June 30, 2020 for potential recognition or disclosure in the financial statements. The Organization did not have subsequent events that required recognition or disclosure in the financial statements for the year ended June 30, 2020. Subsequent events have been evaluated through the date the financial statements became available to be issued, October 26, 2020.

Martha's Kitchen
Notes to Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

3. INFORMATION REGARDING LIQUIDITY AND FUNDS AVAILABLE

As part of the Organization's liquidity management it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Investments include endowment funds consisting of a board-designated endowment in amount of \$2,395,521. As described in Note 12, the board-designated endowment has a spending rate of up to 5%. Accordingly, \$119,776 of appropriations from the board-designated endowment will be available within the next 12 months. The board-designated endowment could be made available in its entirety if needed.

The following is a quantitative disclosure which describes assets that are available within one year of June 30, 2020 to fund general expenditures and other obligations as they become due:

Cash and cash equivalents	\$ 1,168,840
Investments	<u>5,999,501</u>
	<u>7,168,341</u>
Less: portion not available for current use	
Net assets restricted for a specified purpose	(335,328)
Board-designated endowment (\$2,395,521 less authorized appropriation of \$119,776)	(2,275,745)
Board-designated facility reserve	(1,500,000)
Board-designated lease improvements reserve	(1,500,000)
Board-designated kitchen upgrades/replacement reserve	<u>(500,000)</u>
	<u>(6,111,073)</u>
	<u>\$ 1,057,268</u>

The Organization has unrestricted cash and cash equivalents and investments available for general operation purposes. As of June 30, 2020, the Organization had \$1,057,268 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures.

4. INVENTORY

Inventory consisted of the following:

	<u>2020</u>	<u>2019</u>
Donated food	<u>\$ 72,520</u>	<u>\$ 36,621</u>
	<u>\$ 72,520</u>	<u>\$ 36,621</u>

Martha's Kitchen
Notes to Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

5. INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Stocks	\$ 3,224,074	\$ -	\$ -	\$ 3,224,074
Mutual funds	2,566,943	-	-	2,566,943
Certificates of deposit	-	101,089	-	101,089
Cash and equivalents	92,990	-	-	92,990
Corporate bonds	<u>-</u>	<u>14,405</u>	<u>-</u>	<u>14,405</u>
	<u>\$ 5,884,007</u>	<u>\$ 115,494</u>	<u>\$ -</u>	<u>\$ 5,999,501</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Stocks	\$ 3,066,749	\$ -	\$ -	\$ 3,066,749
Mutual funds	2,528,271	-	-	2,528,271
Certificates of deposit	-	401,113	-	401,113
Cash and equivalents	136,329	-	-	136,329
Corporate bonds	<u>-</u>	<u>11,501</u>	<u>-</u>	<u>11,501</u>
	<u>\$ 5,731,349</u>	<u>\$ 412,614</u>	<u>\$ -</u>	<u>\$ 6,143,963</u>

Investment income consisted of the following:

	<u>2020</u>	<u>2019</u>
Net realized and unrealized gains	\$ 223,523	\$ 65,846
Interest and dividends	170,158	146,255
Capital gains distributions	<u>-</u>	<u>163,481</u>
	393,681	375,582
Investment fees	<u>(36,329)</u>	<u>(6,728)</u>
	<u>\$ 357,352</u>	<u>\$ 368,854</u>

Martha's Kitchen
Notes to Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	<u>2020</u>	<u>2019</u>
Leasehold improvements	\$ 2,045,502	\$ 2,045,502
Furniture, fixtures and equipment	439,468	451,428
Automobiles	<u>179,589</u>	<u>117,175</u>
	2,664,559	2,614,105
Accumulated amortization and depreciation	<u>(1,815,490)</u>	<u>(1,752,405)</u>
	<u><u>\$ 849,069</u></u>	<u><u>\$ 861,700</u></u>

Amortization and depreciation expense totaled \$106,165 and \$119,478 for the years ended June 30, 2020 and 2019, respectively.

7. PAYCHECK PROTECTION PROGRAM FORGIVABLE LOAN

On April 24, 2020, the Organization received loan proceeds of \$196,312 from a promissory note issued by Heritage Bank of Commerce, under the Paycheck Protection Program ("PPP") which was established under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act and is administered by the U.S. Small Business Administration. The term on the loan is two years and the annual interest rate is 1.00%. Payments of principal and interest are deferred for the first six months of the loan. Under the terms of the CARES Act, PPP loan recipients can apply for and be granted forgiveness for all or a portion of the loans granted under PPP. Such forgiveness will be determined based on the use of the loan proceeds for payroll costs, rent and utility expenses and the maintenance of workforce and compensation levels with certain limitations. The Organization intends to apply for forgiveness of the PPP loan with respect to these covered expenses.

8. CONDITIONAL CONTRIBUTIONS

Conditional grants are recognized when the Organization meets the terms of the conditions in the contribution or grant agreement.

Conditional contributions consisted of the following:

	<u>2020</u>	<u>2019</u>
Recognizable in one year or less		
Cost reimbursement contribution for purchase of a specific vehicle from a donor designated vendor	<u><u>\$ 56,718</u></u>	<u><u>\$ -</u></u>

Martha's Kitchen
Notes to Financial Statements
June 30, 2020
(With Comparative Totals for 2019)

9. IN-KIND CONTRIBUTIONS

In-kind contributions consisted of the following:

	<u>2020</u>	<u>2019</u>
Donated food and goods	\$ 1,598,777	\$ 640,389
Donated services	<u>-</u>	<u>2,400</u>
	<u>\$ 1,598,777</u>	<u>\$ 642,789</u>

10. COMMITMENTS AND CONTINGENCIES

Operating leases

The Organization occupies premises located at 311 Willow Street, San Jose, California located in Sacred Heart Parish Hall. The property is leased for a twenty-year period beginning July 1, 2003, with an option to renew for an additional five-year period.

The monthly rental payments during the current year have been \$6,341 per month.

The scheduled minimum lease payments under the lease terms are as follows:

<u>Year ending June 30,</u>	
2021	\$ 76,092
2022	76,092
2023	<u>76,092</u>
	<u>\$ 228,276</u>

The Organization also rents storage facilities on a monthly basis for approximately \$1,000 per month. Rent expense for the years ended June 30, 2020 and 2019 totaled \$87,085 and \$86,297, respectively.

Contingencies

The Organization was successful in obtaining a grant in the amount of \$250,000 from the City of San Jose Community Development Block Grant program to pay for other construction costs incurred to bring the kitchen up to all code requirements and for enlarging the kitchen. The agreement provided for a lien secured by a deed of trust on the leasehold interest held by the Organization with the Catholic Diocese of San Jose. The lien was in effect until December 31, 2019, and provided that the note would become due and payable if (a) there was a sale of the facility by the Organization prior to December 31, 2019, (b) upon a change in use of the facility prior to December 31, 2019, or (c) upon a default under the Deed of Trust secured by the leasehold interest.

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10. COMMITMENTS AND CONTINGENCIES (continued)

COVID-19 impact

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic and recommended containment and mitigation measures worldwide. The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses and shelter in place orders.

During the COVID-19 pandemic, the Organization's services have generally been considered essential in nature and have not been materially interrupted. As the situation continues to evolve, the Organization is closely monitoring the impact of the COVID-19 pandemic on all aspects of its business, including how it impacts its customers, subcontractors, suppliers, vendors and employees, in addition to how the COVID-19 pandemic impacts its ability to provide services to the public. The Organization believes the ultimate impact of the COVID-19 pandemic on its operating results, cash flows and financial condition is likely to be determined by factors which are uncertain and unpredictable.

11. RELATED PARTY TRANSACTIONS

During the years ended June 30, 2020 and 2019, the Organization held investments with Morgan Stanley valued at approximately \$6 million (see Note 5). A member of the Organization's Board of Directors and Finance Advisory Committee is a Senior Vice President at Morgan Stanley. Investment fees paid to Morgan Stanley for the years ended June 30, 2020 and 2019 totaled approximately \$36,000 and \$6,700, respectively, as reported on the monthly investment statements.

12. BOARD-DESIGNATED NET ASSETS

Board-designated operating reserve

Martha's Kitchen's board of directors passed a board resolution during 2019 to designate funds totaling \$1,300,000 for an operating reserve. The board of directors designated an additional \$200,000 to the operating reserve during 2020. The operating reserve amount is based on one year of budgeted cash operating expenses.

Board-designated lease improvements reserve

Martha's Kitchen's board of directors passed a board resolution during 2019 to designate funds totaling \$1,500,000 for planned leasehold improvements.

Board-designated kitchen upgrades/replacement reserve

Martha's Kitchen's board of directors passed a board resolution during 2019 to designate funds totaling \$500,000 for planned kitchen upgrades and/or kitchen equipment replacement.

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12. BOARD-DESIGNATED NET ASSETS (continued)

Board-designated facility reserve

Martha's Kitchen's board of directors passed a board resolution during 2020 to designate funds totaling \$1,500,000 for a new facility.

Board-designated endowment

Martha's Kitchen's board of directors passed a board resolution during 2005 creating a board-designated endowment fund for long-term support of its operations. Up to 5% of the endowment fund as of the end of the prior fiscal year is authorized for an annual withdrawal to support operations, including investment management fees with respect to the endowment fund, on an as-needed basis during a fiscal year. As of June 30, 2020 and 2019, the board-designated endowment fund balance was \$2,395,521 and \$2,421,158, respectively. During the year ended June 30, 2019 the Organization re-designated some of its board-designated endowment funds to other board-designated funds as described above.

Investment objective

The investment objective for the portfolio is long-term growth of capital with the endeavor to be socially responsible in the Organization's investments. The time horizon for the portfolio is sufficient to assume risk consistent with equity ownership. Cash and/or money market balances will be maintained primarily for reinvestment purposes, with a portion of funds maintained in certificates of deposit to ensure liquidity, if necessary.

The equity portion of the portfolio will be diversified across a number of mutual funds or indices, with particular emphasis on domestic large cap value and growth companies. For diversification and risk minimization purposes, a portion of the equity portfolio will consist of small/medium cap companies and/or international equities.

Fixed income holdings will consist of intermediate government and corporate bonds with investment grade rating by Standard & Poor's or Moody's; or mortgage-backed securities, such as, U.S. Government or Agency Mortgage pass-through securities rated AA or better.

The portfolio's asset allocation will pursue the long-term target mix shown below, which enables the fund to achieve stable portfolio growth with limited downside risk. In varying market environments, the allocation may change within the following guidelines.

Target investment allocation will be as follows:

	<u>Target</u>	<u>Minimum</u>	<u>Maximum</u>
Equity	50 %	40 %	55 %
Fixed income	40 %	35 %	55 %
Certificates of deposit	10 %	- %	- %

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12. BOARD-DESIGNATED NET ASSETS (continued)

Investment objective (continued)

The target mix of the funds invested in mutual funds will be as follows:

Domestic large cap value stocks	30 %
Domestic large cap growth stocks	30 %
International stocks	25 %
Small/medium cap stocks	15 %

The allocation of the mutual fund investments will be reviewed semiannually in July and January and be reallocated to approximate the target mix.

13. NET ASSETS WITH DONOR RESTRICTIONS

Martha's Kitchen received \$335,328 from a private anonymous donor in June 2020 that is to be distributed in increments of \$1,000 to "families in dire straits." The amount shows as both an asset and a liability at year end as none of the awards had been distributed as of June 30, 2020. The awards were later fully distributed in the next fiscal year that began July 1, 2020.

Net assets with donor restrictions consisted of the following:

	<u>Balance at</u> <u>June 30, 2019</u>	<u>Additions</u>	<u>Releases</u>	<u>Balance at</u> <u>June 30, 2020</u>
\$1,000 per family to those in dire straits	\$ -	\$ 335,328	\$ -	\$ 335,328
San Jose Feed Our People Program (COVID-19)	-	250,000	(250,000)	-
Refrigerated van	-	50,000	(50,000)	-
Meals	-	22,500	(22,500)	-
Holiday meals	-	5,000	(5,000)	-
	<u>\$ -</u>	<u>\$ 662,828</u>	<u>\$ (327,500)</u>	<u>\$ 335,328</u>