

Martha's Kitchen

Financial Statements
and Single Audit Reports and Schedules

June 30, 2021
(With Comparative Totals for 2020)



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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, 2021, 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 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, 2021, 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.

Emphasis of Matter

As described in Note 14 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.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2021, on our consideration of the Organization'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 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 the Organization'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 the Organization's internal control over financial reporting and compliance.

Report on Summarized Comparative Information

We have previously audited Martha's Kitchen's 2020 financial statements, and our report dated October 26, 2020 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, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Armanino^{LLP}
San Jose, California

December 2, 2021

Martha's Kitchen
Statement of Financial Position
June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,348,395	\$ 1,168,840
Grants and contributions receivable	94,297	-
Inventory	296,941	72,520
Prepaid expenses	79,540	42,078
Prepaid Visa cards to be distributed	-	335,000
Other current assets	5,000	-
Total current assets	<u>1,824,173</u>	<u>1,618,438</u>
Property and equipment, net	<u>999,481</u>	<u>849,069</u>
Investments	<u>7,572,730</u>	<u>5,999,501</u>
Total assets	<u><u>\$ 10,396,384</u></u>	<u><u>\$ 8,467,008</u></u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 57,068	\$ 409,762
Accrued expenses	80,375	99,751
Deferred revenue	37,500	-
Total current liabilities	<u>174,943</u>	<u>509,513</u>
Paycheck Protection Program forgivable loan	<u>-</u>	<u>196,312</u>
Total liabilities	<u>174,943</u>	<u>705,825</u>
Net assets		
Without donor restrictions		
Undesignated	625,920	30,334
Board-designated operating reserve	1,700,000	1,500,000
Board-designated lease improvements reserve	1,500,000	1,500,000
Board-designated kitchen upgrades/replacement reserve	500,000	500,000
Board-designated new facility	2,000,000	1,500,000
Board-designated new facility kitchen reserve	1,500,000	-
Board-designated endowment	2,395,521	2,395,521
Total without donor restrictions	<u>10,221,441</u>	<u>7,425,855</u>
With donor restrictions	<u>-</u>	<u>335,328</u>
Total net assets	<u>10,221,441</u>	<u>7,761,183</u>
Total liabilities and net assets	<u><u>\$ 10,396,384</u></u>	<u><u>\$ 8,467,008</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, 2021
(With Comparative Totals for 2020)

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
Support and revenue				
In-kind contributions	\$ 8,176,439	\$ -	\$ 8,176,439	\$ 1,598,777
Grants and contributions	1,834,751	156,039	1,990,790	1,690,908
Investment income, net	1,573,345	-	1,573,345	357,352
Government grants	-	1,121,518	1,121,518	272,500
Forgiveness of Paycheck Protection Program loan	196,312	-	196,312	-
Sacred Heart Nativity School lunch program	-	39,968	39,968	96,589
Other revenue	9,818	-	9,818	-
Special event revenue	-	-	-	149,504
Less: cost of direct benefits to donors	-	-	-	(51,838)
Net assets released from restrictions	<u>1,652,853</u>	<u>(1,652,853)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>13,443,518</u>	<u>(335,328)</u>	<u>13,108,190</u>	<u>4,113,792</u>
Functional expenses				
Program services	<u>10,184,481</u>	<u>-</u>	<u>10,184,481</u>	<u>3,069,864</u>
Support services				
Management and general	320,021	-	320,021	242,854
Fundraising	<u>143,430</u>	<u>-</u>	<u>143,430</u>	<u>142,664</u>
Total support services	<u>463,451</u>	<u>-</u>	<u>463,451</u>	<u>385,518</u>
Total functional expenses	<u>10,647,932</u>	<u>-</u>	<u>10,647,932</u>	<u>3,455,382</u>
Change in net assets	2,795,586	(335,328)	2,460,258	658,410
Net assets, beginning of year	<u>7,425,855</u>	<u>335,328</u>	<u>7,761,183</u>	<u>7,102,773</u>
Net assets, end of year	<u>\$ 10,221,441</u>	<u>\$ -</u>	<u>\$ 10,221,441</u>	<u>\$ 7,761,183</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, 2021
(With Comparative Totals for 2020)

	Program Services	Management and General	Fundraising	2021 Total	2020 Total
Personnel expenses					
Salaries and wages	\$ 929,321	\$ 199,766	\$ 78,069	\$ 1,207,156	\$ 819,237
Employee benefits	140,286	21,990	12,234	174,510	165,481
Payroll taxes	<u>72,208</u>	<u>14,803</u>	<u>5,240</u>	<u>92,251</u>	<u>66,472</u>
Total personnel expenses	<u>1,141,815</u>	<u>236,559</u>	<u>95,543</u>	<u>1,473,917</u>	<u>1,051,190</u>
Donated food and goods distributed	7,630,200	-	-	7,630,200	1,562,878
Purchased food and supplies distributed	311,633	-	-	311,633	283,930
Occupancy, including in-kind	409,752	18,500	11,267	439,519	166,197
Gift cards distributed	335,000	-	-	335,000	-
Depreciation and amortization	115,950	270	-	116,220	106,165
Travel	111,939	3,450	25	115,414	28,517
Equipment rental and maintenance	75,144	-	-	75,144	105,607
Insurance	40,680	3,784	3,294	47,758	38,699
Professional services	5,682	32,979	2,684	41,345	55,904
Printing and publications	-	-	21,783	21,783	22,439
Telephone	8,909	1,853	1,135	11,897	6,579
Supplies	320	7,579	56	7,955	16,683
Dues and subscriptions	-	1,729	6,098	7,827	583
Miscellaneous	(2,543)	10,053	141	7,651	8,023
Contributions	-	2,500	-	2,500	-
Postage and shipping	-	765	1,404	2,169	1,988
Costs of direct benefits to donors	-	-	-	-	51,838
Total	<u>9,042,666</u>	<u>83,462</u>	<u>47,887</u>	<u>9,174,015</u>	<u>2,456,030</u>
Less: expenses included with revenues on the statement of activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(51,838)</u>
	<u>\$ 10,184,481</u>	<u>\$ 320,021</u>	<u>\$ 143,430</u>	<u>\$ 10,647,932</u>	<u>\$ 3,455,382</u>
Percentage of total	<u>96 %</u>	<u>3 %</u>	<u>1 %</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, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 2,460,258	\$ 658,410
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Donated food and goods received	(7,854,621)	(1,598,777)
Donated equipment	(100,032)	-
Donated food and goods distributed	7,630,200	1,562,878
Depreciation and amortization	116,220	106,165
Net realized and unrealized gains on investments	(1,476,674)	(223,523)
Forgiveness of Paycheck Protection Program loan	(196,312)	-
Changes in operating assets and liabilities		
Grants and contributions receivable	(94,297)	-
Prepaid expenses	297,538	27,203
Prepaid Visa cards to be distributed	-	(335,000)
Other current assets	(5,000)	-
Accounts payable	(352,694)	362,224
Accrued expenses	(19,376)	9,691
Deferred revenue	<u>37,500</u>	<u>(55,600)</u>
Net cash provided by operating activities	<u>442,710</u>	<u>513,671</u>
Cash flows from investing activities		
Purchases of property and equipment	(166,600)	(50,000)
Purchases of investments	(7,946,302)	(1,700,410)
Sales of investments	<u>7,849,747</u>	<u>2,068,395</u>
Net cash provided by (used in) investing activities	<u>(263,155)</u>	<u>317,985</u>
Cash flows from financing activities		
Proceeds from Paycheck Protection Program forgivable loan	<u>-</u>	<u>196,312</u>
Net cash provided by financing activities	<u>-</u>	<u>196,312</u>
Net increase in cash and cash equivalents	179,555	1,027,968
Cash and cash equivalents, beginning of year	<u>1,168,840</u>	<u>140,872</u>
Cash and cash equivalents, end of year	<u>\$ 1,348,395</u>	<u>\$ 1,168,840</u>

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

Martha's Kitchen
Notes to Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

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. It also leases kitchen and dining room facilities at 112 East Beach Street, Watsonville, California from the Presbytery of San Jose. During the year ended June 30, 2021, 929,389 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
- Madera
- Fresno

At the time of publication of this audit, Martha's Kitchen presently serves as the largest food bank in both 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 tripled the number of meals it prepares from less than 250,000 to over 929,000 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 3.6 million pounds of groceries in the past year, compared to roughly one million pounds of food a year before.

Martha's Kitchen
Notes to Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

1. NATURE OF OPERATIONS (continued)

The Organization is a community-driven organization. For a small organization, this soup kitchen received 16,025 hours of volunteer time during the year ended June 30, 2021 to help with its mission of feeding the hungry. The local food bank and grocery stores as well as large venues donate food, fixed assets and supplies which totaled \$8,176,439 in the year ended June 30, 2021.

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 May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts With Customers (Topic 606)*. This ASU provides a five-step analysis of contracts to determine when and how revenue is recognized and replaces most existing revenue recognition guidance in U.S. GAAP. The core principle of the new guidance is that an entity should reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The Organization adopted ASU 2014-09 with a date of the initial application of July 1, 2020, using the full retrospective method. The adoption of ASU 2014-09 did not have a significant impact on the Organization's financial position, results of operations, or cash flows. No changes were required to previously reported revenue as a result of the adoption of this 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.

Martha's Kitchen
Notes to Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2021 and 2020.

- *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.

Martha's Kitchen
Notes to Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements (continued)

- *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 \$2,500 at time of acquisition or donation are capitalized.

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	5 - 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, 2021 and 2020, 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. Donated rent is valued based on the rent price for comparable space in the same area. 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.

Martha's Kitchen
Notes to Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In-kind contributions (continued)

Donated food and goods from Second Harvest of Silicon Valley was valued ranging from \$1.70 to \$1.79 per pound for the year ended June 30, 2021. Donated food from sources other than Second Harvest of Silicon Valley was valued at \$1.79 per pound. This valuation is based on a cost study conducted for Feeding America.

Advertising costs

Advertising costs are expensed as incurred. For the years ended June 30, 2021 and 2020, advertising expense totaled \$21,783 and \$22,122, respectively.

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, 2021 and 2020, and is included in "accrued expenses" in the statement of financial position. The accrued vacation balance as of June 30, 2021 and 2020 was \$53,699 and \$30,026, respectively.

Martha's Kitchen
Notes to Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

Management of the Organization has evaluated events and transactions subsequent to June 30, 2021 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, 2021. Subsequent events have been evaluated through the date the financial statements became available to be issued, December 2, 2021.

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, 2021 to fund general expenditures and other obligations as they become due:

Cash and cash equivalents	\$ 1,348,395
Grants and contributions receivable	94,297
Investments	<u>7,572,730</u>
	<u>9,015,422</u>
Less: portion not available for current use	
Board-designated endowment (\$2,395,521 less expected appropriations of \$119,776)	(2,275,745)
Board-designated new facility	(2,000,000)
Board-designated new facility kitchen reserve	(1,500,000)
Board-designated lease improvements reserve	(1,500,000)
Board-designated kitchen upgrades/replacement reserve	<u>(500,000)</u>
	<u>(7,775,745)</u>
	<u>\$ 1,239,677</u>

The Organization has unrestricted cash and cash equivalents and investments available for general operation purposes. As of June 30, 2021, the Organization had \$1,239,677 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditures.

Martha's Kitchen
Notes to Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

4. INVENTORY

Inventory consisted of the following:

	<u>2021</u>	<u>2020</u>
Donated food	\$ 296,941	\$ 72,520

5. INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Stocks	\$ 5,405,165	\$ -	\$ -	\$ 5,405,165
Mutual funds	2,022,151	-	-	2,022,151
Cash and equivalents	<u>145,414</u>	<u>-</u>	<u>-</u>	<u>145,414</u>
	<u>\$ 7,572,730</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,572,730</u>

The following table sets forth by level, within the fair value hierarchy, the Organization's assets 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>

Investment income consisted of the following:

	<u>2021</u>	<u>2020</u>
Net realized and unrealized gains	\$ 1,476,674	\$ 223,523
Interest and dividends	<u>144,601</u>	<u>170,158</u>
	1,621,275	393,681
Investment fees	<u>(47,930)</u>	<u>(36,329)</u>
	<u>\$ 1,573,345</u>	<u>\$ 357,352</u>

Martha's Kitchen
Notes to Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	<u>2021</u>	<u>2020</u>
Leasehold improvements	\$ 2,045,502	\$ 2,045,502
Furniture, fixtures and equipment	534,152	439,468
Automobiles	327,420	179,589
Software	<u>8,106</u>	<u>-</u>
	2,915,180	2,664,559
Accumulated amortization and depreciation	<u>(1,915,699)</u>	<u>(1,815,490)</u>
	<u>\$ 999,481</u>	<u>\$ 849,069</u>

Amortization and depreciation expense totaled \$116,220 and \$106,165 for the years ended June 30, 2021 and 2020, 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 ("SBA"). The term on the loan is two years and the annual interest rate is 1%. 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.

In January 2021, the SBA granted full forgiveness of the loan and accordingly, the Organization has recognized \$196,312 of the PPP loan proceeds as Forgiveness of Paycheck Protection Program loan in the accompanying statement of activities.

8. CONDITIONAL CONTRIBUTIONS

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

Martha's Kitchen
Notes to Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

8. CONDITIONAL CONTRIBUTIONS (continued)

Conditional contributions consisted of the following:

	<u>2021</u>	<u>2020</u>
Recognizable in one year or less		
General operations with outcomes and match requirements	\$ 52,500	\$ -
Cost reimbursement contribution for purchase of a specific vehicle from a donor designated vendor	<u>-</u>	<u>56,718</u>
	<u>\$ 52,500</u>	<u>\$ 56,718</u>

9. IN-KIND CONTRIBUTIONS

In-kind contributions consisted of the following:

	<u>2021</u>	<u>2020</u>
Donated food and goods to be distributed	\$ 7,854,621	\$ 1,598,777
Donated rent	212,108	-
Donated equipment	100,032	-
Donated supplies	<u>9,678</u>	<u>-</u>
	<u>\$ 8,176,439</u>	<u>\$ 1,598,777</u>

10. COMMITMENTS AND CONTINGENCIES

Operating leases

The Organization occupies a 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 Organization also occupies a premises located at 112 East Beach Street, Watsonville, California located in United Presbyterian Church. The property is leased for one-year period beginning December 1, 2020. The lease payment is \$1 annually.

Martha's Kitchen
Notes to Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

10. COMMITMENTS AND CONTINGENCIES (continued)

Operating leases (continued)

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

<u>Year ending June 30,</u>	
2022	\$ 76,092
2023	<u>76,092</u>
	<u>\$ 152,184</u>

The Organization also rents storage facilities on a monthly basis for approximately \$2,300 per month. Rent expense (excluding in-kind) for the years ended June 30, 2021 and 2020 totaled \$117,272 and \$87,085, respectively.

11. RELATED PARTY TRANSACTIONS

During the years ended June 30, 2021 and 2020, the Organization held investments with Morgan Stanley valued at approximately \$7.5 million and \$6 million, respectively (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, 2021 and 2020 totaled approximately \$47,900 and \$36,000, 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 and 2020 to designate funds totaling \$1,500,000 for an operating reserve. The board of directors designated an additional \$200,000 to the operating reserve during 2021 for a total of \$1,700,000. 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.

Martha's Kitchen
Notes to Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

12. BOARD-DESIGNATED NET ASSETS (continued)

Board-designated new facility

Martha's Kitchen's board of directors passed a board resolution during 2020 to designate funds totaling \$1,500,000 for a new facility. The board designated an additional \$500,000 in 2021 bringing this amount to \$2,000,000.

Board-designated new facility kitchen reserve

Realizing the staggering cost to build a new kitchen facility which is now badly needed to allow Martha's Kitchen to keep pace with the growing demand for meals, in 2021 the board designated \$1,500,000 in reserve for a new kitchen facility to be built soon.

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, 2021 and 2020, the board-designated endowment fund balance was \$2,395,521 and \$2,395,521, respectively.

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.

Martha's Kitchen
Notes to Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

12. BOARD-DESIGNATED NET ASSETS (continued)

Investment objective (continued)

Target investment allocation will be as follows:

	<u>Target</u>	<u>Minimum</u>	<u>Maximum</u>
Equity	60 %	50 %	70 %
Fixed income	20 %	15 %	25 %
Certificates of deposit	20 %	15 %	25 %

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	20 %
Small/medium cap stocks	20 %

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

Net assets with donor restrictions consisted of the following:

	<u>Balance at June 30, 2020</u>	<u>Additions</u>	<u>Releases</u>	<u>Balance at June 30, 2021</u>
\$1,000 per family to those in dire straits	\$ 335,328	\$ -	\$ (335,328)	\$ -
Meal distribution services	-	1,121,518	(1,121,518)	-
Purchase for trucks	-	156,039	(156,039)	-
Lunch program	<u>-</u>	<u>39,968</u>	<u>(39,968)</u>	<u>-</u>
	<u>\$ 335,328</u>	<u>\$ 1,317,525</u>	<u>\$ (1,652,853)</u>	<u>\$ -</u>

Martha's Kitchen
Notes to Financial Statements
June 30, 2021
(With Comparative Totals for 2020)

14. RISKS AND UNCERTAINTIES

On March 11, 2020, the World Health Organization declared 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, including California, where Martha's Kitchen operates. The mandates enforced by public health and governmental authorities to contain and combat the outbreak and spread, adversely affected workforces, economies, and financial markets globally. In response, the U.S. Government enacted the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which includes significant provisions to provide relief and assistance to affected organizations. Martha's Kitchen received a PPP loan through the CARES Act which has now been fully forgiven (see Note 7).

The COVID-19 pandemic remains a rapidly evolving situation. In compliance with government mandates, Martha's Kitchen has closed all indoor dining and transitioned to "to go" meal service at all locations. Due to the continued evolution of virus strains such as Delta and Mu, Martha's Kitchen is currently planning to continue with no indoor dining until sometime in 2022. Much uncertainty continues to surround the potential date at which Martha's Kitchen will reopen for indoor dining.

Also, as a result of the societal impacts of COVID-19, demand for meals has caused Martha's Kitchen to expand its total food delivery by 3 times compared to its pre-pandemic levels. These levels remain elevated and are forecast to remain elevated, even when the pandemic winds down. There are various reasons attributed to this, some of which are caused by unemployment, evictions, jail releases, in addition to some clients that always needed help just now finding the safety net of Martha's Kitchen in this pandemic environment.

The increase in operations has led Martha's Kitchen to expand payroll, delivery, and other expenses, but fortunately fundraising has so far kept pace with this expansion of services. Martha's Kitchen is now at a point where it is squeezed severely for space for operations and is actively looking for additional long-term space for kitchen, pantry, and warehouse operations.

SINGLE AUDIT REPORTS AND SCHEDULES

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 of
Martha's Kitchen
San Jose, California

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 Martha's Kitchen (a California nonprofit corporation) (the "Organization"), which comprise the statement of financial position as of June 30, 2021, 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 December 2, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization'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 the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies.

Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino^{LLP}
San Jose, California

December 2, 2021

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited Martha's Kitchen (a California nonprofit corporation) (the "Organization")'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2021. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weakness or significant deficiencies.

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Armanino^{LLP}
San Jose, California

December 2, 2021

Martha's Kitchen
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<u>Expenditures of Federal Awards</u>			
U.S. Department of Agriculture			
Pass-through from Second Harvest of Silicon Valley:			
Emergency Food Assistance Program (Food Commodities)	10.569	N/A	\$ <u>965,296</u>
U.S. Department of Homeland Security			
Direct awards:			
Emergency Food and Shelter National Board Program	97.024	N/A	41,250
Pass-through from Second Harvest of Silicon Valley:			
Emergency Food and Shelter National Board Program (Food Commodities)	97.024	N/A	<u>10,169</u>
Total U.S. Department of Homeland Security			<u>51,419</u>
U.S. Department of Treasury			
Pass-through from Loaves and Fishes Family Kitchen:			
Coronavirus Relief Fund	21.019	N/A	369,600
Pass-through from Second Harvest of Silicon Valley:			
Coronavirus Relief Fund (Food Commodities)	21.019	N/A	<u>55,792</u>
Total U.S. Department of Treasury			<u>425,392</u>
Total Expenditures of Federal Awards			<u>\$ <u>1,442,107</u></u>

The accompanying notes to the Schedule of Expenditures of Federal Awards
are an integral part of this schedule.

Martha's Kitchen
Notes to Schedule of Expenditures of Federal Awards
June 30, 2021

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Martha's Kitchen (the "Organization") under programs of the federal government for the year ended June 30, 2021. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or limited as to reimbursement. Pass-through entity identifying numbers are presented where available and applicable.

3. INDIRECT COST RATE

The Organization has not elected to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

Martha's Kitchen
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2021

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major programs:	

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Emergency Food Assistance Program (Food Commodities)	10.569
Coronavirus Relief Fund	21.019
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	No

Martha's Kitchen
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2021

SECTION II - SUMMARY OF FINANCIAL STATEMENT FINDINGS

There are no financial statement findings to be reported.

SECTION III - SUMMARY OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings to be reported.

Martha's Kitchen
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2021

There were no prior year findings.