

## **Martha's Kitchen**

Financial Statements  
and Single Audit Reports and Schedules

June 30, 2023  
(With Comparative Totals for 2022)



## TABLE OF CONTENTS

|                                                                                                                                                                                                                                 | <u>Page No.</u> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| Independent Auditor's Report                                                                                                                                                                                                    | 1 - 3           |
| Statement of Financial Position                                                                                                                                                                                                 | 4               |
| Statement of Activities                                                                                                                                                                                                         | 5               |
| Statement of Functional Expenses                                                                                                                                                                                                | 6               |
| Statement of Cash Flows                                                                                                                                                                                                         | 7               |
| Notes to Financial Statements                                                                                                                                                                                                   | 8 - 20          |
| Single Audit Reports and Schedules                                                                                                                                                                                              |                 |
| Independent Auditor's Report on Internal Control Over Financial Reporting<br>and on Compliance and Other Matters Based on an Audit of Financial<br>Statements Performed in Accordance with <i>Government Auditing Standards</i> | 22 - 23         |
| Independent Auditor's Report on Compliance for Each Major Program and on<br>Internal Control Over Compliance Required by the Uniform Guidance                                                                                   | 24 - 26         |
| Schedule of Expenditures of Federal Awards                                                                                                                                                                                      | 27              |
| Notes to Schedule of Expenditures of Federal Awards                                                                                                                                                                             | 28              |
| Schedule of Findings and Questioned Costs                                                                                                                                                                                       | 29 - 30         |
| Summary Schedule of Prior Audit Findings                                                                                                                                                                                        | 31              |



## INDEPENDENT AUDITOR'S REPORT

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

### **Opinion**

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, 2023, and the related statements of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements.

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, 2023, 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.

### **Basis for Opinion**

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Martha's Kitchen and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Report on Summarized Comparative Information**

We have previously audited Martha's Kitchen's 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 27, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Martha's Kitchen's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Martha's Kitchen's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Martha's Kitchen's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

## Supplementary Information

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 October 30, 2023, 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.



Armanino<sup>LLP</sup>  
San Jose, California

October 30, 2023

Martha's Kitchen  
Statement of Financial Position  
June 30, 2023  
(With Comparative Totals for 2022)

|                                                       | <u>2023</u>                 | <u>2022</u>                 |
|-------------------------------------------------------|-----------------------------|-----------------------------|
| ASSETS                                                |                             |                             |
| Current assets                                        |                             |                             |
| Cash and cash equivalents                             | \$ 496,125                  | \$ 1,348,106                |
| Grants and contributions receivable                   | 766,792                     | 255,822                     |
| Inventory                                             | 231,597                     | 203,716                     |
| Prepaid expenses                                      | 178,140                     | 69,187                      |
| Other current assets                                  | 15,000                      | 5,000                       |
| Total current assets                                  | <u>1,687,654</u>            | <u>1,881,831</u>            |
| Property and equipment, net                           | <u>1,253,102</u>            | <u>1,184,741</u>            |
| Investments                                           | <u>8,529,422</u>            | <u>7,833,218</u>            |
| Total assets                                          | <u><u>\$ 11,470,178</u></u> | <u><u>\$ 10,899,790</u></u> |
| LIABILITIES AND NET ASSETS                            |                             |                             |
| Current liabilities                                   |                             |                             |
| Accounts payable                                      | \$ 138,155                  | \$ 209,169                  |
| Accrued expenses                                      | 124,621                     | 97,115                      |
| Deferred revenue                                      | 69,000                      | -                           |
| Total current liabilities                             | <u>331,776</u>              | <u>306,284</u>              |
| Net assets                                            |                             |                             |
| Without donor restrictions                            |                             |                             |
| Undesignated                                          | 911,998                     | 997,985                     |
| Board-designated operating reserve                    | 2,000,000                   | 1,700,000                   |
| Board-designated lease improvements reserve           | 1,000,000                   | 1,500,000                   |
| Board-designated kitchen upgrades/replacement reserve | 500,000                     | 500,000                     |
| Board-designated new facility kitchen reserve         | 1,500,000                   | 1,500,000                   |
| Board-designated construction contingency             | 500,000                     | -                           |
| Board-designated new facility                         | 2,000,000                   | 2,000,000                   |
| Board-designated endowment                            | 2,500,000                   | 2,395,521                   |
| Total without donor restrictions                      | <u>10,911,998</u>           | <u>10,593,506</u>           |
| With donor restrictions                               | <u>226,404</u>              | <u>-</u>                    |
| Total net assets                                      | <u>11,138,402</u>           | <u>10,593,506</u>           |
| Total liabilities and net assets                      | <u><u>\$ 11,470,178</u></u> | <u><u>\$ 10,899,790</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, 2023  
(With Comparative Totals for 2022)

|                                            | Without<br>Donor<br>Restrictions | With Donor<br>Restrictions | 2023<br>Total        | 2022<br>Total        |
|--------------------------------------------|----------------------------------|----------------------------|----------------------|----------------------|
| Support and revenue                        |                                  |                            |                      |                      |
| In-kind contributions                      | \$ 6,734,530                     | \$ -                       | \$ 6,734,530         | \$ 5,485,389         |
| Grants and contributions                   | 1,460,494                        | 429,327                    | 1,889,821            | 3,115,456            |
| Government grants                          | 364,090                          | 737,266                    | 1,101,356            | 1,379,242            |
| Investment income (loss), net              | 923,947                          | -                          | 923,947              | (1,191,658)          |
| Sacred Heart Nativity School lunch program | -                                | 65,536                     | 65,536               | 109,253              |
| Other revenue                              | 8,279                            | -                          | 8,279                | 7,596                |
| Proceeds from fundraising events           | -                                | -                          | -                    | 153,822              |
| Less: cost of direct benefits to donors    | -                                | -                          | -                    | (69,196)             |
| Net assets released from restrictions      | 1,005,725                        | (1,005,725)                | -                    | -                    |
| Total support and revenue                  | <u>10,497,065</u>                | <u>226,404</u>             | <u>10,723,469</u>    | <u>8,989,904</u>     |
| Functional expenses                        |                                  |                            |                      |                      |
| Program services                           | <u>9,325,618</u>                 | <u>-</u>                   | <u>9,325,618</u>     | <u>7,872,099</u>     |
| Support services                           |                                  |                            |                      |                      |
| Management and general                     | 661,639                          | -                          | 661,639              | 556,306              |
| Fundraising                                | 191,316                          | -                          | 191,316              | 189,434              |
| Total support services                     | <u>852,955</u>                   | <u>-</u>                   | <u>852,955</u>       | <u>745,740</u>       |
| Total functional expenses                  | <u>10,178,573</u>                | <u>-</u>                   | <u>10,178,573</u>    | <u>8,617,839</u>     |
| Change in net assets                       | 318,492                          | 226,404                    | 544,896              | 372,065              |
| Net assets, beginning of year              | <u>10,593,506</u>                | <u>-</u>                   | <u>10,593,506</u>    | <u>10,221,441</u>    |
| Net assets, end of year                    | <u>\$ 10,911,998</u>             | <u>\$ 226,404</u>          | <u>\$ 11,138,402</u> | <u>\$ 10,593,506</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, 2023  
(With Comparative Totals for 2022)

|                                                                      | Program Services    | Management and<br>General | Fundraising       | 2023<br>Total        | 2022<br>Total       |
|----------------------------------------------------------------------|---------------------|---------------------------|-------------------|----------------------|---------------------|
| Personnel expenses                                                   |                     |                           |                   |                      |                     |
| Salaries and wages                                                   | \$ 1,346,373        | \$ 335,471                | \$ 62,391         | \$ 1,744,235         | \$ 1,591,505        |
| Employee benefits                                                    | 212,929             | 57,110                    | 12,801            | 282,840              | 245,434             |
| Payroll taxes                                                        | <u>103,146</u>      | <u>22,443</u>             | <u>4,704</u>      | <u>130,293</u>       | <u>121,895</u>      |
| Total personnel expenses                                             | <u>1,662,448</u>    | <u>415,024</u>            | <u>79,896</u>     | <u>2,157,368</u>     | <u>1,958,834</u>    |
| Donated food and goods distributed                                   | 6,327,600           | -                         | -                 | 6,327,600            | 5,280,083           |
| Purchased food and supplies distributed                              | 345,560             | -                         | -                 | 345,560              | 228,367             |
| Occupancy, including in-kind                                         | 504,868             | 87,455                    | 23,902            | 616,225              | 534,418             |
| Depreciation and amortization                                        | 189,131             | 1,620                     | 1,037             | 191,788              | 167,940             |
| Travel                                                               | 135,301             | 2,020                     | 68                | 137,389              | 149,973             |
| Professional services                                                | 5,131               | 75,116                    | 5,057             | 85,304               | 72,072              |
| Insurance                                                            | 66,387              | 8,379                     | 8,360             | 83,126               | 67,317              |
| Equipment rental and maintenance                                     | 59,450              | 371                       | 2,099             | 61,920               | 50,916              |
| Printing and publications                                            | -                   | -                         | 59,680            | 59,680               | 38,919              |
| Miscellaneous                                                        | 5,095               | 36,150                    | 3,354             | 44,599               | 37,249              |
| Supplies                                                             | 105                 | 21,017                    | 2,386             | 23,508               | 16,644              |
| Telephone                                                            | 8,968               | 5,927                     | 831               | 15,726               | 8,891               |
| Outside services                                                     | 15,574              | -                         | -                 | 15,574               | -                   |
| Dues and subscriptions                                               | -                   | 5,232                     | 4,640             | 9,872                | 4,639               |
| Postage and shipping                                                 | -                   | 3,328                     | 6                 | 3,334                | 1,577               |
| Costs of direct benefits to donors                                   | -                   | -                         | -                 | -                    | 69,196              |
| Total                                                                | <u>7,663,170</u>    | <u>246,615</u>            | <u>111,420</u>    | <u>8,021,205</u>     | <u>6,728,201</u>    |
| Less: expenses included with revenues on the statement of activities | <u>-</u>            | <u>-</u>                  | <u>-</u>          | <u>-</u>             | <u>(69,196)</u>     |
|                                                                      | <u>\$ 9,325,618</u> | <u>\$ 661,639</u>         | <u>\$ 191,316</u> | <u>\$ 10,178,573</u> | <u>\$ 8,617,839</u> |
| Percentage of total                                                  | <u>91 %</u>         | <u>7 %</u>                | <u>2 %</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, 2023  
(With Comparative Totals for 2022)

|                                                                                                      | <u>2023</u>       | <u>2022</u>         |
|------------------------------------------------------------------------------------------------------|-------------------|---------------------|
| Cash flows from operating activities                                                                 |                   |                     |
| Change in net assets                                                                                 | \$ 544,896        | \$ 372,065          |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities |                   |                     |
| Donated food and goods received                                                                      | (5,959,304)       | (4,707,957)         |
| Donated supplies received                                                                            | (389,572)         | (478,900)           |
| Donated equipment received                                                                           | (130,546)         | (55,424)            |
| Donated food and goods distributed                                                                   | 6,327,600         | 5,280,083           |
| Depreciation and amortization                                                                        | 191,788           | 167,940             |
| Net realized and unrealized (gains) losses on investments                                            | (699,815)         | 1,297,290           |
| Changes in operating assets and liabilities                                                          |                   |                     |
| Grants and contributions receivable                                                                  | (510,970)         | (161,525)           |
| Prepaid expenses                                                                                     | (108,953)         | 10,353              |
| Other current assets                                                                                 | (10,000)          | -                   |
| Accounts payable                                                                                     | 33,665            | 40,816              |
| Accrued expenses                                                                                     | 27,506            | 16,740              |
| Deferred revenue                                                                                     | <u>69,000</u>     | <u>(37,500)</u>     |
| Net cash provided by (used in) operating activities                                                  | <u>(614,705)</u>  | <u>1,743,981</u>    |
| Cash flows from investing activities                                                                 |                   |                     |
| Purchases of property and equipment                                                                  | (240,887)         | (186,492)           |
| Purchases of investments                                                                             | (4,227,423)       | (6,959,266)         |
| Sales of investments                                                                                 | <u>4,231,034</u>  | <u>5,401,488</u>    |
| Net cash used in investing activities                                                                | <u>(237,276)</u>  | <u>(1,744,270)</u>  |
| Net decrease in cash and cash equivalents                                                            | (851,981)         | (289)               |
| Cash and cash equivalents, beginning of year                                                         | <u>1,348,106</u>  | <u>1,348,395</u>    |
| Cash and cash equivalents, end of year                                                               | <u>\$ 496,125</u> | <u>\$ 1,348,106</u> |

Supplemental schedule of noncash investing and financing activities

|                                                     |      |            |
|-----------------------------------------------------|------|------------|
| Property and equipment included in accounts payable | \$ - | \$ 111,284 |
|-----------------------------------------------------|------|------------|

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

Martha's Kitchen  
Notes to Financial Statements  
June 30, 2023  
(With Comparative Totals for 2022)

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, 2023, 1,273,388 meals and 1,929,355 pounds of groceries were either served at the facility or distributed to other food service facilities.

The Organization provides meals and support to people in need in the following counties for the year ended June 30, 2023:

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

The Organization measures success by counting the number of meals prepared and the number of serving sites. In the past few years, the Organization has more than tripled the number of meals it prepares from less than 250,000 to over 1,270,000 a year; and more than doubled the number of partners-serving sites from 30 to 65 as of year ended June 30, 2023. 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 1.9 million pounds of groceries in the past year.

The Organization is a community-driven organization. For a small organization, this soup kitchen received 24,248 hours of volunteer time valued at \$904,935 during the year ended June 30, 2023 to help with its mission of feeding the hungry. The value of volunteer time is based on the estimated hourly value of volunteer time in the state of California as determined by Independent Sector ([independentsector.org](http://independentsector.org)). The local food bank and grocery stores as well as large venues donated food, property and equipment, rent and supplies which totaled \$6,734,530 during the year ended June 30, 2023 (see Note 8).

Martha's Kitchen  
Notes to Financial Statements  
June 30, 2023  
(With Comparative Totals for 2022)

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.

Adoption of updated accounting standard

In February 2016, the FASB issued Accounting Standards Codification ("ASC 842") *Leases*. ASC 842 aims to increase transparency and comparability among organizations by requiring lessees to recognize leases with a term greater than 12 months as right-of-use ("ROU") asset and corresponding lease liabilities in the statement of financial position, regardless of lease classification, and requiring disclosure of key information about leasing arrangements. The lease liabilities should be initially measured at the present value of the remaining contractual lease payments. Subsequently, the ROU assets will be amortized generally on a straight-line basis over the lease term, and the lease liabilities will bear interest expense and be reduced for lease payments.

ASC 842 is effective for the fiscal year beginning after December 15, 2021. The Organization adopted ASC 842 on July 1, 2022 using the modified retrospective approach. Lease disclosures for the year ended June 30, 2022 are made under prior lease guidance in FASB ASC 840. The Organization also elected the short-term lease exemption. The Organization's current lease terms do not exceed 12 months.

The adoption of the new lease accounting standard had no impact on the Organization's statement of financial position, operating results and cash flows.

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, 2023  
(With Comparative Totals for 2022)

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, equity securities, and mutual funds. 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, 2023 and 2022.

- *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, 2023  
(With Comparative Totals for 2022)

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      |
| Software                          | 5 years      |

Revenue recognition

Grants and contributions are recognized when the donor makes a promise to give that is, in substance, an unconditional promise. The Organization periodically reviews its grants and contributions receivable for collectability. As a result of these reviews, grants and contributions receivable deemed uncollectible are written off directly to bad debt expense. For the years ended June 30, 2023 and 2022, there was no bad debt expense.

Grants and contributions are recorded as without donor restrictions or with donor restrictions depending on the nature of donor restrictions. Grants and 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.

Martha's Kitchen  
Notes to Financial Statements  
June 30, 2023  
(With Comparative Totals for 2022)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Donated food and goods from Second Harvest of Silicon Valley was valued ranging from \$1.57 to \$1.93 per pound for the year ended June 30, 2023. Donated food from sources other than Second Harvest of Silicon Valley was valued at \$1.93 per pound. This valuation is based on a cost study conducted for Feeding America. See Note 8.

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 (see Note 1).

Advertising costs

Advertising costs are expensed as incurred. For the years ended June 30, 2023 and 2022, advertising expense totaled \$59,680 and \$38,919, 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.

Martha's Kitchen  
Notes to Financial Statements  
June 30, 2023  
(With Comparative Totals for 2022)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accrued vacation

Accrued vacation represents vacation earned, but not taken as of June 30, 2023 and 2022, and is included in accrued expenses in the statement of financial position. The accrued vacation balance as of June 30, 2023 and 2022 was \$81,840 and \$73,690, respectively.

Subsequent events

Management of the Organization has evaluated events and transactions subsequent to June 30, 2023 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, 2023. Subsequent events have been evaluated through the date the financial statements became available to be issued, October 30, 2023.

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 the amount of \$2,500,000. As described in Note 11, the board-designated endowment has a spending rate of up to 5%. Accordingly, \$125,000 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.

Martha's Kitchen  
Notes to Financial Statements  
June 30, 2023  
(With Comparative Totals for 2022)

3. INFORMATION REGARDING LIQUIDITY AND FUNDS AVAILABLE (continued)

The following is a quantitative disclosure which describes assets that are available within one year of June 30, 2023 to fund general expenditures and other obligations as they become due:

|                                                                                    |                     |
|------------------------------------------------------------------------------------|---------------------|
| Cash and cash equivalents                                                          | \$ 496,125          |
| Grants and contributions receivable                                                | 766,792             |
| Investments                                                                        | <u>8,529,422</u>    |
|                                                                                    | <u>9,792,339</u>    |
| Less: portion not available for current use                                        |                     |
| Net assets restricted for a specified purpose                                      | (226,404)           |
| Board-designated lease improvements reserve                                        | (1,000,000)         |
| Board-designated kitchen upgrades/replacement reserve                              | (500,000)           |
| Board-designated new facility kitchen reserve                                      | (1,500,000)         |
| Board-designated construction contingency                                          | (500,000)           |
| Board-designated new facility                                                      | (2,000,000)         |
| Board-designated endowment (\$2,500,000 less expected appropriations of \$125,000) | <u>(2,375,000)</u>  |
|                                                                                    | <u>(8,101,404)</u>  |
|                                                                                    | <u>\$ 1,690,935</u> |

The Organization has unrestricted cash and cash equivalents and investments available for general operation purposes. As of June 30, 2023, the Organization had \$1,690,935 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>2023</u> | <u>2022</u> |
|--------------|-------------|-------------|
| Donated food | \$ 231,597  | \$ 203,716  |

Martha's Kitchen  
Notes to Financial Statements  
June 30, 2023  
(With Comparative Totals for 2022)

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, 2023:

|                    | <u>Level 1</u>      | <u>Level 2</u> | <u>Level 3</u> | <u>Fair Value</u>   |
|--------------------|---------------------|----------------|----------------|---------------------|
| Equities           | \$ 6,411,572        | \$ -           | \$ -           | \$ 6,411,572        |
| Mutual funds       | 1,211,359           | -              | -              | 1,211,359           |
| Fixed income funds | <u>906,491</u>      | <u>-</u>       | <u>-</u>       | <u>906,491</u>      |
|                    | <u>\$ 8,529,422</u> | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ 8,529,422</u> |

The following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30, 2022:

|                      | <u>Level 1</u>      | <u>Level 2</u> | <u>Level 3</u> | <u>Fair Value</u>   |
|----------------------|---------------------|----------------|----------------|---------------------|
| Equities             | \$ 5,708,404        | \$ -           | \$ -           | \$ 5,708,404        |
| Mutual funds         | 1,306,132           | -              | -              | 1,306,132           |
| Fixed income funds   | 664,755             | -              | -              | 664,755             |
| Cash and equivalents | <u>153,927</u>      | <u>-</u>       | <u>-</u>       | <u>153,927</u>      |
|                      | <u>\$ 7,833,218</u> | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ 7,833,218</u> |

Investment income (loss) consisted of the following:

|                                            | <u>2023</u>       | <u>2022</u>           |
|--------------------------------------------|-------------------|-----------------------|
| Net realized and unrealized gains (losses) | \$ 699,815        | \$ (1,297,290)        |
| Interest and dividends                     | <u>290,589</u>    | <u>165,364</u>        |
|                                            | 990,404           | (1,131,926)           |
| Investment fees                            | <u>(66,457)</u>   | <u>(59,732)</u>       |
|                                            | <u>\$ 923,947</u> | <u>\$ (1,191,658)</u> |

Martha's Kitchen  
Notes to Financial Statements  
June 30, 2023  
(With Comparative Totals for 2022)

6. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

|                                           | <u>2023</u>                | <u>2022</u>                |
|-------------------------------------------|----------------------------|----------------------------|
| Leasehold improvements                    | \$ 2,092,364               | \$ 2,045,502               |
| Furniture, fixtures and equipment         | 930,345                    | 822,352                    |
| Automobiles                               | 392,420                    | 392,420                    |
| Software                                  | <u>34,486</u>              | <u>8,106</u>               |
|                                           | 3,449,615                  | 3,268,380                  |
| Accumulated depreciation and amortization | <u>(2,196,513)</u>         | <u>(2,083,639)</u>         |
|                                           | <u><u>\$ 1,253,102</u></u> | <u><u>\$ 1,184,741</u></u> |

Depreciation and amortization expense totaled \$191,788 and \$167,940 for the years ended June 30, 2023 and 2022, respectively.

7. 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>2023</u> | <u>2022</u> |
|--------------------------------------------------------------------|-------------|-------------|
| Recognizable in one year or less                                   |             |             |
| Cost reimbursement contribution for purchase of specific equipment | \$ -        | \$ 111,283  |

8. IN-KIND CONTRIBUTIONS

In-kind contributions consisted of the following:

|                                          | <u>2023</u>                | <u>2022</u>                |
|------------------------------------------|----------------------------|----------------------------|
| Donated food and goods to be distributed | \$ 5,959,304               | \$ 4,707,957               |
| Donated supplies                         | 389,572                    | 478,900                    |
| Donated rent                             | 255,108                    | 243,108                    |
| Donated equipment                        | <u>130,546</u>             | <u>55,424</u>              |
|                                          | <u><u>\$ 6,734,530</u></u> | <u><u>\$ 5,485,389</u></u> |

Martha's Kitchen  
Notes to Financial Statements  
June 30, 2023  
(With Comparative Totals for 2022)

8. IN-KIND CONTRIBUTIONS (continued)

The Organization recognized contributed nonfinancial assets within revenue, including contributed food and goods, rent, supplies and equipment. Unless otherwise noted, contributed nonfinancial assets did not have donor-imposed restrictions.

Donated food and goods to be distributed consists of food and goods contributed by donors for use by the Organization's program and are valued at \$1.93 per pound. Donated food and goods received from Second Harvest of Silicon Valley were valued ranging from \$1.57 to \$1.93 per pound for the year ended June 30, 2023. The valuation is based on a cost study conducted for Feeding America. Donated supplies consists of goods contributed by donors for use in the Organization's programs, and are valued based on management's online research of the sales price of similar items as of the date of the donation. Donated rent consists of facilities rented to the Organization valued based on the rent price for comparable space in the same area. Donated equipment was valued based on management's online research of the sales price of similar equipment at the time of donation.

9. 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 lease expired on June 30, 2023. The landlord has given the Organization a written commitment to extend the lease for five years. However, at this time, no actual lease extension has been executed, therefore for accounting purposes the lease is being treated as a month-to-month lease. The rental payment was \$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 was leased for one-year period beginning March 1, 2022. The lease payment is \$1,000 per month. It was then leased on a monthly basis starting March 1, 2023.

The Organization also rents storage facilities on a monthly basis for approximately \$4,500 per month. Rent expense (excluding in-kind) for the years ended June 30, 2023 and 2022 totaled \$167,792 and \$133,933, respectively.

Purchase commitment

In April 2023, the Organization entered into a contract with Monarch Truck Center to purchase a truck in the amount of \$213,863. The Organization made a deposit of \$10,000 to secure the purchase. The remaining balance will be paid at the expected delivery in Spring 2024.

Martha's Kitchen  
Notes to Financial Statements  
June 30, 2023  
(With Comparative Totals for 2022)

10. RELATED PARTY TRANSACTIONS

During the years ended June 30, 2023 and 2022, the Organization held investments with Morgan Stanley valued at approximately \$8.5 million and \$7.8 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, 2023 and 2022 totaled approximately \$66,500 and \$59,700, respectively, as reported on the monthly investment statements. During the period from December 5, 2022 through October 2, 2023, this individual was not an active member of the Organization's Board of Directors and Finance Advisory Committee but had Emeritus Status. Beginning October 3, 2023, this individual once again became an active member of the Organization's Board of Directors Finance Advisory Committee.

11. 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 as of June 30, 2022. The board of directors designated an additional \$500,000 in the past years to the operating reserve for a total of \$2,000,000 as of June 30, 2023. The target operating reserve amount is based on six to twelve months 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. The amount was reduced to \$1,000,000 in 2023.

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.

Board-designated new facility kitchen reserve

Realizing the staggering cost to build a new kitchen facility which is 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 construction contingency

During 2023, the board designated \$500,000 in reserve for construction contingency for the new facility.

Martha's Kitchen  
Notes to Financial Statements  
June 30, 2023  
(With Comparative Totals for 2022)

11. 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 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, 2023 and 2022, the board-designated endowment fund balance was \$2,500,000 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.

Target investment allocation will be as follows:

|                    | <u>Target</u> | <u>Minimum</u> | <u>Maximum</u> |
|--------------------|---------------|----------------|----------------|
| Equity             | 65 %          | 55 %           | 75 %           |
| Bonds/fixed income | 20 %          | 15 %           | 25 %           |
| Cash equivalents   | 15 %          | 10 %           | 20 %           |

Martha's Kitchen  
Notes to Financial Statements  
June 30, 2023  
(With Comparative Totals for 2022)

11. 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             | 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.

12. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following:

|                                    | <u>Balance at</u><br><u>June 30, 2022</u> | <u>Additions</u>    | <u>Releases</u>       | <u>Balance at</u><br><u>June 30, 2023</u> |
|------------------------------------|-------------------------------------------|---------------------|-----------------------|-------------------------------------------|
| Meal distribution services         | \$ -                                      | \$ 772,741          | \$ (772,741)          | \$ -                                      |
| Purchase of property and equipment | -                                         | 337,342             | (133,342)             | 204,000                                   |
| Lunch program                      | -                                         | 65,536              | (65,536)              | -                                         |
| Payment of storage space           | -                                         | 36,000              | (13,596)              | 22,404                                    |
| Toy distribution services          | -                                         | 20,510              | (20,510)              | -                                         |
|                                    | <u>\$ -</u>                               | <u>\$ 1,232,129</u> | <u>\$ (1,005,725)</u> | <u>\$ 226,404</u>                         |

13. EMPLOYEE RETENTION CREDITS

Under the provisions of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") signed into law on March 27, 2020 and the subsequent extension of the CARES Act, the Organization was eligible for a refundable Employee Retention Credit ("ERC") subject to certain criteria. Two critical tests for eligibility exist - a partial or total government-ordered shutdown, or a decline in gross receipts. The decline in gross receipts test is based on a "significant" decline in gross receipts in quarters of 2020 (more than 50%) and 2021 (more than 20%) compared with the same quarters in 2019. The ERC is equal to 50% of qualified wages paid to employees during a quarter, capped at \$10,000 of qualified wages per employee through December 31, 2020. The ERC is equal to 70% of qualified wages paid to employees during calendar 2021 for a maximum credit of \$7,000 per employee for each calendar quarter through September 30, 2021.

During the year ended June 30, 2023, the Organization claimed ERCs of \$364,090 which was recognized as a government grant in the accompanying statement of activities. The ERCs were collected subsequent to the year end.

## 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, 2023, 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 30, 2023.

**Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 or significant deficiencies may exist that were not identified.

## **Report on 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 dark ink that reads "Armanino LLP". The signature is fluid and cursive, with the letters "Armanino" written in a larger, more prominent script than the "LLP" which follows.

Armanino<sup>LLP</sup>  
San Jose, California

October 30, 2023



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**

**Opinion on Each Major Federal Program**

We have audited Martha's Kitchen (a California nonprofit corporation) (the "Organization")'s compliance with the types of compliance requirements identified as subject to audit 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, 2023. 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.

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, 2023.

**Basis for Opinion on Each Major Federal Program**

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* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

**Responsibilities of Management for Compliance**

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Organization's federal programs.

## Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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.

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

Armanino<sup>LLP</sup>  
San Jose, California

October 30, 2023

Martha's Kitchen  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2023

| Federal Grantor/Pass-Through Grantor/<br>Program or Cluster Title    | Assistance<br>Listing<br>Number | Pass-Through<br>Entity<br>Identifying<br>Number | Total Federal<br>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>308,461</u>             |
| U.S. Department of Homeland Security                                 |                                 |                                                 |                               |
| Direct awards:                                                       |                                 |                                                 |                               |
| Emergency Food and Shelter National Board Program                    | 97.024                          | N/A                                             | 80,000                        |
| Pass-through from Second Harvest of Silicon Valley:                  |                                 |                                                 |                               |
| Emergency Food and Shelter National Board Program (Food Commodities) | 97.024                          | N/A                                             | <u>10,452</u>                 |
| Total U.S. Department of Homeland Security                           |                                 |                                                 | <u>90,452</u>                 |
| U.S. Department of Treasury                                          |                                 |                                                 |                               |
| Pass-through from Loaves and Fishes Family Kitchen:                  |                                 |                                                 |                               |
| Coronavirus State and Local Fiscal Recovery Funds                    | 21.027                          | N/A                                             | <u>463,578</u>                |
| U.S. Department of Housing and Urban Development                     |                                 |                                                 |                               |
| Pass-through from Loaves and Fishes Family Kitchen:                  |                                 |                                                 |                               |
| Community Development Block Grants/Entitlement Grants                | 14.218                          | N/A                                             | <u>193,688</u>                |
| Total Expenditures of Federal Awards                                 |                                 |                                                 | <u>\$ 1,056,179</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, 2023

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Martha's Kitchen (a California nonprofit corporation) (the "Organization") under programs of the federal government for the year ended June 30, 2023. 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 minimis indirect cost rate as allowed under the Uniform Guidance.

Martha's Kitchen  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2023

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>Assistance Listing Number</u> |
|-------------------------------------------------------------------------|----------------------------------|
| Coronavirus State and Local Fiscal Recovery Funds                       | 21.027                           |
| Community Development Block Grants/Entitlement Grants                   | 14.218                           |
| Dollar threshold used to distinguish between Type A and Type B programs | \$750,000                        |
| Auditee qualified as low-risk auditee?                                  | Yes                              |

Martha's Kitchen  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2023

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, 2023

There were no prior year findings.