

Miriam's Kitchen, Inc.

Financial Statements

For the Year Ended September 30, 2017



HERTZBACH
certified public accountants • consultants

Miriam's Kitchen, Inc.

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For the Year Ended September 30, 2017

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To the Board of Directors of
Miriam's Kitchen, Inc.
Washington, DC

Independent Auditor's Report

We have audited the accompanying financial statements of Miriam's Kitchen (a nonprofit organization), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Miriam's Kitchen as of September 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Hertzbach & Company, P. A.

Hertzbach & Company, P.A.
Arlington, Virginia

January 22, 2018

Miriam's Kitchen, Inc.

Statement of Financial Position
September 30, 2017

Assets	
Current assets	
Cash and cash equivalents	\$ 185,194
Accounts receivable	179,568
Pledges receivable (less allowance of \$4,001)	118,625
Inventory	3,930
Prepaid expenses	64,648
Deposits	2,800
	<hr/>
Total current assets	554,765
	<hr/>
Property and equipment, net	131,723
Other assets	
Investments	1,423,774
Pledges receivable - long term	18,500
	<hr/>
Total assets	<u><u>\$ 2,128,762</u></u>
Liabilities and Net Assets	
Current liabilities	
Accounts payable and accrued expenses	\$ 270,566
	<hr/>
Total current liabilities	270,566
	<hr/>
Net assets	
Unrestricted	1,675,834
Temporarily restricted	182,362
	<hr/>
Total net assets	1,858,196
	<hr/>
Total liabilities and net assets	<u><u>\$ 2,128,762</u></u>

See independent auditor's report and accompanying notes to the financial statements.

Miriam's Kitchen, Inc.

Statement of Activities
For the Year Ended September 30, 2017

Revenue

Cash contributions	\$	2,865,354
Permanent Supportive Housing program revenue		800,104
Behavioral Health grant revenue		470,085
In kind contributions		184,959
Investment income		22,084
Realized and unrealized gains (losses) on investments		76,236
Miscellaneous income		14,426
Assets released from restriction		378,786
		<hr/>
Total unrestricted support and revenue		4,812,034
		<hr/>

Expenses

Program services		
Meals		894,542
Case management		965,662
Miriam's studio		93,228
Permanent supportive housing		886,201
Outreach		590,003
Advocacy		401,809
Development		455,513
Administration		193,676
		<hr/>
Total expenses		4,480,634
		<hr/>
Increase in unrestricted net assets		331,400
		<hr/>

Changes in temporarily restricted net assets

Contributions		167,767
Assets released from restriction		(378,786)
		<hr/>
Decrease in temporarily restricted net assets		(211,019)
		<hr/>

Change in net assets

		120,381
		<hr/>
Net assets, beginning of year		1,737,815
		<hr/>
Net assets, end of year	\$	1,858,196
		<hr/>

Represented by

Unrestricted	\$	1,675,834
Temporarily restricted		182,362
		<hr/>
Net assets, end of year	\$	1,858,196
		<hr/>

See independent auditor's report and accompanying notes to the financial statements.

Miriam's Kitchen, Inc.

Statement of Functional Expenses
For the Year Ended September 30, 2017

	Program services										Total	
	Meals	Case Management	Miriam's Studio	Permanent supportive housing	Outreach	Advocacy	Development	Administration				
Advocacy supplies	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,667	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,667
Bad debt expense	-	-	-	-	-	-	-	-	-	-	33,480	33,480
Board and staff development	7,108	6,972	3,314	5,744	4,310	4,667	1,417	1,395	-	-	-	34,927
Cleaning	42,580	42,580	21,290	-	-	-	-	-	-	-	-	106,450
Client support	-	35,087	6,192	23,932	-	-	-	-	-	-	-	65,211
Communications	5,399	5,618	2,464	4,731	2,016	3,557	2,538	689	-	-	-	27,012
Depreciation and amortization	4,152	4,483	432	4,114	2,739	1,865	2,115	744	-	-	-	20,644
Loss on disposal of assets	359	374	164	315	134	237	169	46	-	-	-	1,798
Financial solicitation	-	-	-	-	-	-	97,520	-	-	-	-	97,520
Food and kitchen supplies	192,574	-	-	-	-	-	-	-	-	-	-	192,574
Insurance	6,280	6,534	2,867	5,503	2,345	4,137	2,952	802	-	-	-	31,420
Miscellaneous	7,893	8,193	3,641	6,926	3,249	5,248	3,442	1,099	-	-	-	39,691
Occupancy	23,874	29,522	13,349	29,329	11,424	20,473	15,980	4,300	-	-	-	148,251
Office supplies and expense	15,736	16,374	7,183	13,790	5,877	10,367	7,397	2,008	-	-	-	78,732
Professional fees	47,951	75,201	14,327	29,349	12,707	22,745	19,349	69,714	-	-	-	291,343
Program support	-	-	13,898	57,230	35,103	-	-	-	-	-	-	106,231
Repairs and maintenance	72,484	2,396	2,396	-	-	-	-	-	-	-	-	77,276
Salaries and benefits	464,404	728,429	-	701,954	508,700	316,377	300,872	78,921	-	-	-	3,099,657
Strategic plan implementation	3,748	3,899	1,711	3,284	1,399	2,469	1,762	478	-	-	-	18,750
Total expenses	\$ 894,542	\$ 965,662	\$ 93,228	\$ 886,201	\$ 590,003	\$ 401,809	\$ 455,513	\$ 193,676	\$ -	\$ -	\$ -	\$ 4,480,634

See independent auditor's report and accompanying notes to the financial statements.

Miriam's Kitchen, Inc.

Statement of Cash Flows
For the Year Ended September 30, 2017

Cash flow provided by operating activities:

Change in net assets	\$	120,381
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation		20,644
Donation of stock		(10,220)
Donation of fixed assets		(68,213)
Gain/loss on investments		(75,404)
Loss on disposal of fixed assets		1,798
(Increase) decrease in operating assets		
Accounts receivable		31,251
Pledges receivable		256,256
Prepaid expenses		(10,810)
Inventory		(1,530)
Increase (decrease) in operating liabilities		
Accounts payable and accrued expenses		11,989
Deferred income		(71,990)
Net cash provided by operating activities		<u>204,152</u>

Cash flow (used) by investing activities

Proceeds from sale of stock		10,216
Acquisition of fixed assets		(24,040)
Net disposition of investments		<u>(354,649)</u>
Net cash (used) by investing activities		<u>(368,473)</u>
Net (decrease) in cash and cash equivalents		(164,321)

Cash, beginning of year		<u>349,515</u>
Cash, end of year	\$	<u><u>185,194</u></u>

See independent auditor's report and accompanying notes to the financial statements.

Miriam's Kitchen, Inc.

Notes to the Financial Statements
For the Year Ended September 30, 2017

1) Nature of Business and Summary of Significant Accounting Policies

Nature of Business

Miriam's Kitchen (the Organization) was founded in 1983 under the laws of the District of Columbia with a mission to end chronic homelessness in Washington, DC. While ending chronic homelessness might sound impossible, the Organization knows that it is not. Its philosophy begins with dignity – connecting its chronically homeless guests with the highest quality, most nutritious meals in the city. It happens through belonging – its case managers build a community where each individual feels safe getting the help that they need, when they are ready to receive it. It continues through change – in partnership with people who have experienced homelessness, they advocate for the D.C. government to make investments in the housing programs that are most proven to end homelessness. Meanwhile, they partner with other service providers and government agencies to change the way homeless services are delivered in Washington. It is completed with housing – the most successful intervention for chronic homelessness is permanent supportive housing, which couples permanent housing with supportive services that target the specific needs of an individual.

The Organization is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, it has been organized and operated exclusively for charitable purposes.

Method of Accounting

The Organization uses the accrual basis of accounting for financial reporting whereby revenue is recognized when earned and expenses are recognized when incurred. The Organization's primary source of revenue and contributions are recognized as unrestricted unless specified by the donor for a specific use in future periods.

Contributed Goods and Services

Support from donated food usage has been recorded at its estimated fair value. Support arising from contributed services of volunteers has not been recognized in the accompanying financial statements because an objective basis is not available to assign fair values to such items. Donated services requiring the use of specialized skills that would have been required to be purchased if not provided by donation are recognized in the financial statements at their estimated fair value.

For the year ended September 30, 2017, in-kind contributions were received for food in the amount of \$100,614, donated services for kitchen renovations in the amount of \$68,213, and other donated services in the amount of \$16,132.

FDIC and SIPC Insurance

The entity maintains its cash accounts primarily with banks located in Washington, D.C. The total cash balances are insured by the FDIC up to \$250,000 per bank. At times, these balances may exceed the federally insured limits; however, the entity has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances at September 30, 2017.

Inventory

The Organization holds immaterial amounts of inventory, consisting of various food items and paper products, the costs of which have been expensed in the accompanying financial statements. The Organization also provides gift cards to clients when they first move into their homes for household goods and had \$3,930 worth of gift cards left on hand at September 30, 2017.

See independent auditor's report.

Miriam's Kitchen, Inc.

Notes to the Financial Statements (Continued)
For the Year Ended September 30, 2017

1) Nature of Business and Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The Organization considers cash on hand, cash on deposit with banks, and all highly liquid investments with original maturity dates of three months or less to be cash equivalents.

Temporarily Restricted Revenue

Temporarily restricted revenue received and released from restriction in the same year is reported as unrestricted revenue.

Use of Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Functional Expense Allocation

The Organization prepares its statement of functional expense using management estimates for the allocations. The allocations are based upon an estimate of time spent by staff in different program areas, which forms the basis for allocating other costs such as space use, volunteer support and transportation. Indirect costs are allocated based upon total cost prior to indirect costs,

Investments

Investments are reported at fair value in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-320, Investments. Unrealized gains and losses are shown as changes in net assets.

Receivables

Receivables are recorded at cost, no interest is charged on accounts and accounts are written off at the point management deems them to be uncollectible. In 2017, management determined that a 10% reserve, or \$4,001, for uncollectable receivables should be used for pledges donated from America's Charities.

Property and Equipment

Equipment and other personal property is recorded at cost and depreciation is computed on the accelerated method over a five year to seven-year useful life. Real property is depreciated on the accelerated method over a 15 or 27.5-year life.

Expenditures for maintenance and repairs and minor betterments that do not extend the lives of the assets are charged to expense as incurred. Major expenditures which extend the lives of the assets are capitalized.

Fair Value of Financial Instruments

The Organization has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures. ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This pronouncement did not require any new fair value measurements and its adoption did not affect the results of operations or financial position of the Organization.

See independent auditor's report.

Miriam's Kitchen, Inc.

Notes to the Financial Statements (Continued)
For the Year Ended September 30, 2017

1) Nature of Business and Summary of Significant Accounting Policies (Continued)

Subsequent Events

Subsequent events have been evaluated through January 22, 2018, which is the date the financial statements were available to be issued.

2) Property and Equipment

The following is a summary of property and equipment held at September 30, 2017:

Dining room renovations	\$	90,781
Kitchen equipment		45,754
Kitchen renovations		86,697
Office equipment		57,032
Van		22,454
		<hr/>
Total property and equipment		302,718
Less: accumulated depreciation		(170,995)
		<hr/>
Property and equipment, net	\$	<u>131,723</u>

Depreciation and amortization expense for the year ending September 30, 2017 was \$20,644.

3) Contributions

Contributions include the following for the year ended September 30, 2017:

	Unrestricted	In-kind	Restricted	Total
Foundations	\$ 857,330	\$ -	\$ 62,012	\$ 919,342
Corporations/other organizations	562,845	184,959	84,302	832,106
Individuals	1,364,019	-	13,000	1,377,019
Government	81,160	-	8,453	89,613
	<hr/>	<hr/>	<hr/>	<hr/>
Total contributions	\$ <u>2,865,354</u>	\$ <u>184,959</u>	\$ <u>167,767</u>	\$ <u>3,218,080</u>

For the year ended September 30, 2017, \$88,294 was received from members of the Board of Directors and staff.

4) Related-Party Transactions

Western Presbyterian Church provides the use of space to house the Organization's operations. Included in the September 30, 2017 accounts receivable is \$3,427 due from the Church for over reimbursement for expenses paid.

See independent auditor's report.

Miriam's Kitchen, Inc.

Notes to the Financial Statements (Continued)
For the Year Ended September 30, 2017

4) Related-Party Transactions (Continued)

The Organization makes payments to Western Presbyterian Church to defray the Church's costs associated with the Organization's use of additional space for its case management program. The current payment is \$88,336 per year, but the amount would drop to \$66,252 per year if the Kitchen cancels its expanded use of the premises. The agreement expires June 21, 2018 with rights to extend for three successive additional periods of one year each. The usage fee shall increase 2% annually on the anniversary of the execution of the agreement. If certain additional space becomes available, the Organization has a right of first refusal for use of that space. If the right is exercised, an additional \$5,000 will be included in the annual usage fee. The Organization also reimburses the church for certain spending costs. During the year ended September 30, 2017, the Organization paid the church \$736,310.

5) 403(b) Plan

In January 2017, the Board of Directors authorized the establishment of a defined contribution 403(b) Plan. The Plan name is the Miriam's Kitchen 403(b) Plan, and all permanent employees who work over 20 hours a week are eligible to make elective deferrals and to receive employer contributions equal to a discretionary portion of their salaries after 6 months of consecutive service. The employer contributions as of the year ended September 30, 2017 were \$124,143.

6) Unconditional Promises to Give

Individuals have pledged the following amounts, either directly or through America's Charities (AC) and the Combined Federal Campaign (CFC) as of September 30, 2017:

	Direct pledges	AC and CFC	Total
To be paid in 2018-2019	\$ 82,613	\$ 36,012	\$ 118,625

Management believes that 100% of all direct pledges are collectible. The AC and CFC amounts are based upon pledges received and determined in the year indicated. Due to the low rates of return currently available on investments, no discount has been recorded on the above pledges. Indirect pledges have a tendency to be harder to collect and, therefore, management has recorded a 10% reserve for uncollectable indirect pledges.

7) Fair Value of Financial Instruments

The following table represents the historical cost basis and estimated fair values of financial instruments at September 30, 2017:

	Cost basis	Fair value
Vanguard Funds	\$ 1,152,106	\$ 1,423,774

The fair values of the financial instruments shown in the preceding table represent management's best estimates of the amounts that would be received to sell those assets in an orderly transaction between market participants as of the dates shown. Those fair value measurements maximize the use of observable units.

See independent auditor's report.

Miriam's Kitchen, Inc.

Notes to the Financial Statements (Continued)
For the Year Ended September 30, 2017

7) Fair Value of Financial Instruments (Continued)

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and cash equivalents – the net carrying amounts, at face value, approximate fair value because of the short maturity of these instruments.

Mutual Funds – Fair values for securities are measured using prices provided by its investment managers and its custodian bank multiplied by the quantity held. Both the investment managers and the custodian bank use a variety of pricing sources to determine market valuations. Each designate specific pricing services or indexes for each sector of the market based upon the provider's expertise. The securities portfolio is highly liquid, which allows for a high percentage of the portfolio to be priced through pricing services.

Fair Value Hierarchy

The Organization follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosure. ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows.

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liabilities.

The following tables present the Organization's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2017:

See independent auditor's report.

Miriam's Kitchen, Inc.

Notes to the Financial Statements (Continued)
For the Year Ended September 30, 2017

7) Fair Value of Financial Instruments (Continued)

	September 30, 2017	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs
	Total	Level 1	Level 2	Level 3
Financial assets				
Investments:				
Treasury money market fund	\$ 525,168	\$ 525,168	\$ -	\$ -
Bond index funds	242,874	242,874	-	-
Growth index fund	234,381	234,381	-	-
Inflation protection security	45,439	45,439	-	-
Small cap index fund	148,380	148,380	-	-
Large cap index fund	20,749	20,749	-	-
Total international stock	97,658	97,658	-	-
Value index fund	109,125	109,125	-	-
Total	<u>\$ 1,423,774</u>	<u>\$ 1,423,774</u>	<u>\$ -</u>	<u>\$ -</u>

8) Gains (Losses) on Investment

The organization had an unrealized gain on its investments during the year ended September 30, 2017 of \$75,408. In addition, they recognized a loss of \$4 on the sale of donated stock as follows:

Cost	Proceeds	Loss
<u>\$ 10,220</u>	<u>\$ 10,216</u>	<u>\$ 4</u>

9) Line of Credit

On June 12, 2012, the Organization entered into a line of credit agreement with PNC Bank which allows the Organization to draw a maximum of \$100,000. The term of the loan is one year from the commencement date or a later date as designated by the bank. The Organization did not draw on the line of credit. In July 2017, the Organization extended the line for an additional year at an annual interest rate of 6.5%.

10) Permanent Supportive Housing Program

Miriam's Kitchen has an agreement with the DC Department of Human Services (DC-DHS) to provide case management services to participants in the city's Permanent Supportive Housing program. Under the agreement, Miriam's Kitchen provides case management supportive services to individuals, with funds available to provide utility and emergency funds to participating clients. Miriam's Kitchen is paid monthly by DC-DHS based on the number of clients served. The agreement has 4 one-year extension options and the

Organization has exercised the third one-year option for the year ending September 30, 2017. During the year ended September 30, 2017, the Organization received \$800,104 under the agreement.

See independent auditor's report.

Miriam's Kitchen, Inc.

Notes to the Financial Statements (Continued)
For the Year Ended September 30, 2017

11) Outreach Program

In 2016, Miriam's Kitchen entered into an agreement with the DC Department of Behavioral Health (DBH) to provide support to the most vulnerable and hard-to-reach people experiencing homelessness through the city's Outreach Program for the period March 15, 2016 through February 18, 2019 for up to \$415,677 per year. Miriam's Kitchen receives advanced payments every three months, of which 80% is to be expended before receipt of the next installment. If Miriam's Kitchen does not expend the entire 80% of funds, DBH will deduct any unspent funds from the final advance payment.

12) Occupancy Obligations

Miriam's Kitchen entered into an agreement with Western Presbyterian Church on July 20, 2015 which extends the original agreement entered into on June 22, 2009. The extended agreement ends June 21, 2018 and sets an annual cost sharing fee of \$86,604, which increases by 2% annually on the anniversary of the execution of the agreement. As of September 30, 2017, the future minimum commitments under this agreement are \$68,028. The agreement has three one-year extension options which must be exercised 90 days prior to the current agreement termination date.

Miriam's Kitchen entered into a lease agreement to lease a housing unit to use as office space. The lease commences May 1, 2017 and ends April 30, 2018, with an annual rent of \$34,440. As of September 30, 2017, the future commitments under this lease are \$20,090.

Future minimum occupancy commitments for the years ending September 30 are:

2018	\$	<u>88,118</u>
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See independent auditor's report.