

Audited Financial Statements



mothers' milk bank

June 30, 2021

Quigley & Miron

San Jose Mothers' Milk Bank
Audited Financial Statements
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Independent Auditor's Report

Board of Directors
San Jose Mothers' Milk Bank
San Jose, California

We have audited the accompanying financial statements of San Jose Mothers' Milk Bank (Organization), a nonprofit organization, which comprise the statement of financial position as of June 30, 2021, and the related statement 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 of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of San Jose Mothers' Milk Bank as of June 30, 2021, and the changes in its net assets and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited San Jose Mothers' Milk Bank's June 30, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 26, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Ziegler & Miron". The signature is written in a cursive, flowing style.

Campbell, California
April 27, 2022

San Jose Mothers' Milk Bank
Statement of Financial Position
June 30, 2021
(with comparative totals for 2020)

| | <u>2021</u> | <u>2020</u> |
|---|----------------------------|----------------------------|
| Assets | | |
| Cash and cash equivalents | \$ 719,444 | \$ 523,535 |
| PPP advance—restricted cash | 260,344 | |
| Investments—Note 3 | 2,294,252 | 1,974,354 |
| Accounts receivable—Note 4 | 454,872 | 360,094 |
| Accrued interest receivable | 547 | 1,747 |
| Prepaid expenses | 54,813 | 72,851 |
| Property and equipment, net—Note 5 | 541,758 | 586,638 |
| Total Assets | <u>\$ 4,326,030</u> | <u>\$ 3,519,219</u> |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable and accrued expenses | \$ 103,334 | \$ 94,358 |
| Salaries and employee benefits payable | 163,624 | 141,884 |
| PPP advance—Note 6 | 260,344 | |
| Total Liabilities | <u>527,302</u> | <u>236,242</u> |
| Net Assets | | |
| Without donor restrictions | 3,798,728 | 3,282,977 |
| Total Net Assets | <u>3,798,728</u> | <u>3,282,977</u> |
| Total Liabilities and Net Assets | <u>\$ 4,326,030</u> | <u>\$ 3,519,219</u> |

See notes to financial statements.

San Jose Mothers' Milk Bank
Statement of Activities
Year Ended June 30, 2021
(with comparative totals for 2020)

| | <u>2021</u> | <u>2020</u> |
|---|----------------------------|----------------------------|
| Operating Activities | | |
| Revenue and Public Support | | |
| Fees for services | \$ 3,558,362 | \$ 3,064,406 |
| Interest and dividends—Note 3 | 74,505 | 76,736 |
| Other income | 270 | 7,544 |
| Government grants | 47,367 | |
| Contributions and grants | 27,189 | 18,948 |
| In-kind contributions | | 2,195 |
| | <u>3,707,693</u> | <u>3,169,829</u> |
| Expenses | | |
| Milk bank services | 3,063,780 | 2,931,419 |
| Supporting services | | |
| Management and administration | 403,141 | 406,364 |
| Fund development | 93,696 | 71,582 |
| | <u>3,560,617</u> | <u>3,409,365</u> |
| Change in Net Assets from Operations | 147,076 | (239,536) |
| Nonoperating Activities | | |
| Investment return, net—Note 3 | 368,675 | (46,807) |
| | <u>368,675</u> | <u>(46,807)</u> |
| Change in Net Assets | 515,751 | (286,343) |
| Net Assets at Beginning of Year | 3,282,977 | 3,569,320 |
| Net Assets at End of Year | <u>\$ 3,798,728</u> | <u>\$ 3,282,977</u> |

See notes to financial statements.

San Jose Mothers' Milk Bank
Statement of Functional Expenses
Year Ended June 30, 2021
(with comparative totals for 2020)

| | <u>Supporting Services</u> | | | <u>2021 Total</u> | <u>2020 Total</u> |
|-----------------------------------|-------------------------------|--|-----------------------------|-----------------------|-----------------------|
| | <u>Milk Bank Services</u> | <u>Management and Admin- istration</u> | <u>Fund Development</u> | | |
| Salaries | \$ 1,139,274 | \$ 191,855 | \$ 75,654 | \$ 1,406,783 | \$ 1,337,827 |
| Employee benefits—Note 7 | 156,309 | 23,193 | 5,762 | 185,264 | 177,351 |
| Payroll taxes | 93,893 | 11,393 | 3,704 | 108,990 | 110,507 |
| Total Personnel Expenses | 1,389,476 | 226,441 | 85,120 | 1,701,037 | 1,625,685 |
| Program supplies | 488,075 | | | 488,075 | 461,906 |
| Shipping and delivery | 465,196 | 4,067 | | 469,263 | 461,781 |
| Donor blood and milk testing | 194,146 | | | 194,146 | 191,965 |
| Depreciation | 109,356 | 21,192 | 1,399 | 131,947 | 128,885 |
| Occupancy | 98,731 | 31,815 | 1,399 | 131,945 | 150,993 |
| Office expenses | 102,159 | 9,918 | 1,653 | 113,730 | 45,146 |
| Contracted services | 56,842 | 18,950 | 700 | 76,492 | 63,083 |
| Telephone | 46,577 | 10,613 | 1,769 | 58,959 | 34,588 |
| Merchant fees | 44,302 | | 295 | 44,597 | 39,400 |
| Professional fees and services | | 41,382 | | 41,382 | 73,000 |
| Insurance | | 28,456 | | 28,456 | 24,244 |
| Advertising and promotion | 21,703 | 42 | | 21,745 | 30,501 |
| Dues and subscriptions | 20,781 | 857 | | 21,638 | 17,838 |
| Equipment rent and maintenance | 19,336 | | 598 | 19,934 | 12,165 |
| Travel | 2,474 | 8,400 | 336 | 11,210 | 25,445 |
| Event registration fees | 3,888 | | | 3,888 | 18,264 |
| Printing and publications | 738 | 508 | 39 | 1,285 | 3,523 |
| Other expenses | | 500 | 388 | 888 | 953 |
| Total Expenses | \$ 3,063,780 | \$ 403,141 | \$ 93,696 | \$ 3,560,617 | \$ 3,409,365 |

See notes to financial statements.

San Jose Mothers' Milk Bank
Statement of Cash Flows
Year Ended June 30, 2021
(with comparative totals for 2020)

| | <u>2021</u> | <u>2020</u> |
|--|-------------------|-------------------|
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ 515,751 | \$ (286,343) |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation | 131,947 | 128,885 |
| Investment (gains) losses | (368,905) | 46,577 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (94,778) | (69,580) |
| Accrued interest receivable | 1,200 | 457 |
| Prepaid expenses | 18,038 | (7,327) |
| Accounts payable and accrued expenses | 8,976 | 23,469 |
| Salaries and employee benefits payable | 21,740 | 42,505 |
| PPP advance | 260,344 | |
| Net Cash Provided by (Used in) Operating Activities | 494,313 | (121,357) |
| Cash Flows from Investing Activities | | |
| Purchase of property and equipment | (87,067) | (8,534) |
| Purchase of investments | (56,096) | (141,553) |
| Proceeds from sales and maturities of investments | 105,103 | 190,927 |
| Net Cash Provided by (Used in) Investing Activities | (38,060) | 40,840 |
| Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash | 456,253 | (80,517) |
| Cash, Cash Equivalents, and Restricted Cash at Beginning of Year | 523,535 | 604,052 |
| Cash, Cash Equivalents, and Restricted Cash at End of Year | \$ 979,788 | \$ 523,535 |

San Jose Mothers' Milk Bank
Notes to Financial Statements
June 30, 2021
(with comparative totals for 2020)

Note 1—Organization and Summary of Significant Accounting Policies

Organization—San Jose Mothers' Milk Bank (Organization), established in 1974 in San Jose, California, is a 501(c)(3) non-profit tissue bank providing safe and processed breast milk for babies and others who are under the care of a health care professional. The Organization collects excess breast milk from volunteer breastfeeding mothers, stores the breast milk for optimal nutritional value, processes the breast milk to remove viruses and bacteria that may cause illness and distributes the donor human milk to hospitals and families. As a charter member of the Human Milk Banking Association of North America (HMBANA), the Organization's standards of processing donated breast milk are the basis of operation for all milk banking organizations. The Organization is licensed as a Tissue Bank in California and Maryland and is registered with the Food and Drug Administration (FDA).

During the year ended June 30, 2021, the Organization continued to operate under challenges related to the COVID-19 pandemic and continued its mission of enhancing the availability of human breast milk to babies. The strong inventory reserve of raw donor breast milk allowed the Organization to distribute 871,187 ounces of pasteurized donor milk, 13% over previous year. Hospital and outpatient demand for pasteurized donor human milk increased and the Organization was able to meet 100% of the orders. The Organization improved milk processing by building a dedicated milk thawing room which provided a more controlled environment for thawing and increased raw donor milk storage capacity to accommodate a larger inventory reserve by expanding an existing walk-in freezer.

The Organization continued offering virtual milk drives throughout the year to provide community partners the ability to promote milk donations and give milk donors the ability to donate from the safety and comfort of their own home. The Organization added four new milk collection centers, expanding the total number of milk collection centers to 14. Other programs include; Black Infant Health Programs, WIC Services, and hospital-based services as populations need. The Organization continues to work with community partners, physicians, and hospitals to increase the awareness of milk donation and the health benefits of pasteurized donor milk. Breast pump services continue to rise throughout California and the Organization continues to expand services beyond the State of California to assure babies who need donor milk have access.

Programs include Black Infant Health programs, WIC services, and hospital-based services as populations need. Milk drives were also included in Medical professional conferences as a teaching tool for physicians. Organizationally, San Jose Mothers' Milk Bank expanded marketing and public relations of the milk bank, social media and laboratory services this year. Breast pump services are expanding throughout California and continue to rise in distribution as more hospitals and clinics are becoming baby friendly. Additionally, marketing and public relations activities are in progress with the new marketing manager. The Organization is now expanding our services beyond the state of California to assure babies who need donor milk have access.

Financial Statement Presentation—The financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The Organization's net assets are classified based on the existence or absence of donor-imposed restrictions. As such, the net assets of the Organization and changes therein are presented and reported as follows:

San Jose Mothers' Milk Bank
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Net assets without donor restrictions—Net assets that are not subject to donor-imposed stipulations and that may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions—Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; such restrictions that may or will be met either by actions of the Organization and/or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. Generally, the donors of such assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. There were no net assets with donor restrictions as of June 30, 2021 or 2020.

Donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a time restriction expires or a purpose restriction is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions. It is the policy of the Organization to record contributions that are restricted by the donor as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized.

Measure of Operations—The statement of activities reports all changes in net assets, including changes in net assets from operating and nonoperating activities. Operating activities consist of providing safe and processed breast milk for babies and others and related fees for service, and interest and dividends. Nonoperating activities are limited to investment return and other activities considered to be of a more unusual or nonrecurring nature.

Income Taxes—The Organization is a nonprofit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (Code). Accordingly, no provision for income taxes is included in the financial statements. In addition, the Organization has been determined by the Internal Revenue Service not to be a private foundation within the meaning of section 509(a) of the Code.

Accounting standards require an organization to evaluate its tax positions and provide for a liability for any positions that would not be considered 'more likely than not' to be upheld under a tax authority examination. Management has evaluated its tax positions and has concluded that a provision for a tax liability is not necessary at June 30, 2021 or 2020. Generally, the Organization's information returns remain open for examination for a period of three (federal) or four (state of California) years from the date of filing.

San Jose Mothers' Milk Bank
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Recently Adopted Accounting Principles

Revenue Recognition—In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*, which supersedes most of the current revenue recognition requirements. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. The guidance provides a five-step analysis of transactions to determine when and how revenue is recognized. Other major provisions include capitalization of certain contract costs, consideration of time value of money in the transaction price and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The guidance also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The Organization has adopted ASU No. 2014-09 for the year ended June 30, 2021, and noted that there was no material effect on the financial statements.

Restricted Cash—In February 2016, FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU No. 2016-18 clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. The guidance requires entities to present the change in restricted cash and restricted cash equivalents with cash and cash equivalents to reconcile amounts on the balance sheet to the statement of cash flows. Entities are required to disclose the nature of the restrictions, as well as reconcile the totals in the statement of cash flows to cash, cash equivalents, restricted cash, and restricted cash equivalents on the balance sheet when these are shown in more than one line item. The Organization has adopted ASU No. 2016-18 on a retrospective basis for the year ended June 30, 2021, however, the retrospective approach requires that organizations reflect the effect of the new guidance in the earliest year presented in the financial statements, and noted that there was no material effect on the financial statements.

Contributions—In June 2018, FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU No. 2018-08 clarifies the definition of an exchange transaction. As a result, not-for-profit entities (NFPs) are to account for most federal grants as donor-restricted conditional contributions rather than as exchange transactions (the prevalent practice today). An accommodation ("simultaneous release" option) is provided which, if elected, would allow grants received and used within the same period to be reported in net assets without donor restrictions, consistent with where the grant revenue is reported today. Donors are to use the same criteria as recipients (i.e., a barrier or hurdle coupled with a right of return/right of release) to determine whether gifts or grants are conditional or unconditional. Expense recognition is deferred for conditional arrangements and is immediate for unconditional arrangements. No new disclosures are required. ASU No. 2018-08 has been adopted by the Organization for the year ended June 30, 2020, however, the retrospective approach requires that organizations reflect the effect of the new guidance in the earliest year presented in the financial statements and noted that there was no material effect on the financial statements.

San Jose Mothers' Milk Bank
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Cash, Cash Equivalents, and Restricted Cash—The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Restricted cash consists of funds from the PPP advance (see note 6).

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of cash flows at June 30, 2021.

| | <u>2021</u> | <u>2020</u> |
|--|--------------------------|--------------------------|
| Cash Accounts Reported in Statement of Financial Position | | |
| Cash and cash equivalents | \$ 719,444 | \$ 523,535 |
| PPP advance—restricted cash | 260,344 | |
| | <hr/> | <hr/> |
| Total Cash, Cash Equivalents, and Restricted Cash Reported in the Statement of Cash Flows | <u><u>\$ 979,788</u></u> | <u><u>\$ 523,535</u></u> |

Property and Equipment—Property and equipment is stated at cost if purchased, or fair value at the time of donation if contributed. Property and equipment is depreciated on a straight-line basis over its estimated useful life, ranging from three to ten years. Purchases of equipment in excess of \$1,000 are capitalized.

Concentration of Credit Risk—Financial instruments which potentially subject the Organization to concentrations of credit risk consist of cash and cash equivalents, investments, and accounts receivable. The Organization places its cash, cash equivalents, and certificates of deposit with financial institutions where the funds are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. At times, in the normal course of business, such cash balances are in excess of the FDIC insurance limits, however management deems the risk of loss due to these concentrations to be minimal. The Organization’s investments are managed by a large broker-dealer. Cash held in investment accounts at investment custodians are insured by the Securities Investors Protection Corporation (SIPC) up to \$250,000 and the investments in securities are insured up to \$500,000. At times, such balances of cash and cash equivalents, and investments in securities may be in excess of the FDIC and SIPC coverage limits. In addition, investments in securities are subject to fluctuations in the securities market and thus exposed to market risk. The Organization’s management has assessed the credit risk associated with cash balances and investments and determined that an allowance for potential losses due to credit risk is not necessary.

Accounts receivable are due from hospitals, agencies, and individuals well-known to the Organization. The Organization’s management has assessed the credit risk associated with these accounts receivable and has determined an allowance for potential uncollectible amounts is not necessary.

Investments—Investments are valued at fair market value. Investment transactions are recorded on the trade date. Investment income and realized and unrealized gains and losses, net of investment management fees, are reported as increases or decreases in the appropriate net asset category.

San Jose Mothers' Milk Bank
Notes to Financial Statements—Continued

Note 1—Organization and Summary of Significant Accounting Policies—Continued

Fees for Services—Revenues derived from fees for services are recognized at the time services are provided.

In-Kind Contributions—The Organization receives in-kind contributions of breast milk from countless mothers, without which the Organization could not carry out its mission. However, these contributions have not been reflected on the financial statements as they do not meet the requirements of generally accepted accounting principles. The Organization received in-kind contributions of supplies of \$2,195 for the year ended June 30, 2020, and is included in the program supplies caption of the statement of functional expenses.

Functional Expenses—The costs of providing the various program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the milk bank services and supporting services benefitted. Salaries and wages, employee benefits, payroll taxes, and travel are allocated on the basis of estimates of time and effort. Occupancy and depreciation are allocated on the basis of square footage. All other functional expenses are allocated directly to the program or supporting service benefitted.

Statement of Cash Flows—The Organization paid no income taxes and no interest expense during the years ended June 30, 2021 and 2020.

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Comparative Totals for 2020—The accompanying financial statements include certain prior-year summarized comparative financial information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's audited financial statements for the year ended June 30, 2020, from which the summarized information was derived.

Note 2—Availability and Liquidity

The Organization's goal is generally to maintain financial assets to meet one year of operating expenses (approximately \$3,000,000).

San Jose Mothers' Milk Bank
Notes to Financial Statements—Continued

Note 2—Availability and Liquidity—Continued

The following represents the availability and liquidity of the Organization's financial assets at June 30, 2021 to cover operating expenses for the next fiscal year:

| | | |
|---|-----------|-------------------------|
| Cash and cash equivalents | \$ | 719,444 |
| Investments | | 2,294,252 |
| Accounts receivable | | 454,872 |
| Current Availability of Financial Assets | \$ | <u>3,468,568</u> |

Note 3—Investments and Fair Value Measurements

In determining the fair value of assets and liabilities, the Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Organization determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are characterized in one of the following levels:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the Organization at the measurement date.

Level 2—Valuations based on observable inputs (other than Level 1), such as quoted prices for similar assets at the measurement date, quoted prices in markets that are not active, or other inputs that are observable, either directly or indirectly.

Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement, and involve management judgment.

The Organization may utilize a practical expedient for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value. The practical expedient used by the Organization to value private investments is the Net Asset Value (NAV) per share, or its equivalent. In some instances, the NAV may not equal the fair value that would be calculated under fair value accounting standards. The Organization had no assets or liabilities classified at NAV as a practical expedient during the years ended June 30, 2021 and 2020.

San Jose Mothers' Milk Bank
Notes to Financial Statements—Continued

Note 3—Investments and Fair Value Measurements—Continued

Investments measured on a recurring basis at June 30, 2021 consist of the following:

| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|---------------------------|----------------------------|----------------------------|------------------|------------------|
| Fixed income mutual funds | \$ 2,294,252 | \$ 2,294,252 | \$ | \$ |
| Totals | <u>\$ 2,294,252</u> | <u>\$ 2,294,252</u> | <u>\$</u> | <u>\$</u> |

Investments measured on a recurring basis at June 30, 2020 consist of the following:

| | <u>Fair Value</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|---------------------------|----------------------------|----------------------------|--------------------------|------------------|
| Fixed income mutual funds | \$ 1,801,090 | \$ 1,801,090 | \$ | \$ |
| Certificates of deposit | 173,264 | | 173,264 | |
| Totals | <u>\$ 1,974,354</u> | <u>\$ 1,801,090</u> | <u>\$ 173,264</u> | <u>\$</u> |

Investment return for the years ended June 30, 2021 and 2020 is as follows:

| | <u>2021</u> | <u>2020</u> |
|--------------------------------------|--------------------------|-------------------------|
| Unrealized investment gains (losses) | \$ 364,529 | \$ (50,700) |
| Realized investment gains | 4,376 | 4,123 |
| Investment management fees | (230) | (230) |
| Investment Return, Net | 368,675 | (46,807) |
| Interest and dividends | 74,505 | 76,736 |
| Total Return on Investment | <u>\$ 443,180</u> | <u>\$ 29,929</u> |

Note 4—Accounts Receivable

Accounts receivable at June 30, 2021 and 2020 consist of the following:

| | <u>2021</u> | <u>2020</u> |
|---------------|--------------------------|--------------------------|
| Hospitals | \$ 212,105 | \$ 180,708 |
| Individuals | 241,501 | 179,386 |
| Other | 1,266 | |
| Totals | <u>\$ 454,872</u> | <u>\$ 360,094</u> |

San Jose Mothers' Milk Bank
Notes to Financial Statements—Continued

Note 5—Property and Equipment, Net

Net property and equipment at June 30, 2021 and 2020 consists of the following:

| | <u>2021</u> | <u>2020</u> |
|------------------------------------|--------------------------|--------------------------|
| Leasehold improvements | \$ 811,435 | \$ 797,960 |
| Equipment | 327,671 | 266,059 |
| Computer equipment | 11,462 | 11,462 |
| | <u>1,150,568</u> | <u>1,075,481</u> |
| Less accumulated depreciation | <u>(608,810)</u> | <u>(488,843)</u> |
| Property and Equipment, Net | <u>\$ 541,758</u> | <u>\$ 586,638</u> |

For the years ended June 30, 2021 and 2020 depreciation expense totaled \$131,947 and \$128,885, respectively. The Organization disposed of \$11,980 of fully depreciated equipment during the year ended June 30, 2021.

Note 6—PPP Advance

On February 24, 2021, the Organization received a Paycheck Protection Program (PPP) advance for \$260,344 from the U.S. Small Business Administration (SBA). The advance is designed to provide a direct incentive for small businesses struggling from the impact of the COVID-19 pandemic (see Note 10) to keep their workers on the payroll. The Organization has elected to record the PPP grant revenue upon receipt of the forgiveness letter from the SBA, which was received on December 6, 2021, subsequent to year-end.

Note 7—Retirement Plan

The Organization has a simple IRA (Plan) covering all eligible employees who receive at least \$5,000 of compensation. Each participant may elect to contribute up to the maximum limit allowed by federal law. During the years ended June 30, 2021 and 2020, the Organization elected to make a 2% non-matching contribution to eligible employees. Employer contributions for the years ended June 30, 2021 and 2020 totaled \$16,918 and \$18,374, respectively.

San Jose Mothers' Milk Bank
Notes to Financial Statements—Continued

Note 8—Leases

In June 2016, the Organization entered into a 10-year lease agreement for new office space to house their entire operations and in June 2018 signed an expansion for additional office and freezer space. Total occupancy expense related to the lease amounted to \$131,945 and \$150,993 for the years ended June 30, 2021 and 2020, respectively.

Future minimum annual rental commitments by year for this operating lease with remaining terms in excess of one year are as follows:

Year Ending June 30,

| | | |
|------|----|----------------|
| 2022 | \$ | 120,755 |
| 2023 | | 123,170 |
| 2024 | | 125,632 |
| 2025 | | 128,146 |
| 2026 | | 32,194 |
| | | <hr/> |
| | \$ | <u>529,897</u> |

Note 9—Recent Accounting Pronouncements

Leases—In February 2016, FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which requires organizations that lease assets (lessees) to recognize the assets and related liabilities for the rights and obligations created by the leases on the statement of financial position for leases with terms exceeding 12 months. ASU No. 2016-02 defines a lease as a contract or part of a contract that conveys the right to control the use of identified assets for a period of time in exchange for consideration. The lessee in a lease will be required to initially measure the right-of-use asset and the lease liability at the present value of the remaining lease payments, as well as capitalize initial direct costs as part of the right-of-use asset. ASU No. 2016-02 is effective for nonprofit organizations with fiscal years beginning after December 15, 2021, with early adoption permitted. The Organization is currently evaluating the impact that the adoption of ASU No. 2016-02 will have on its financial statements.

Gifts-in-Kind—In September 2020, FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which requires increased transparency around the use and valuation of contributed nonfinancial assets (also known as gifts-in-kind) received by not-for-profit entities. Under the updated guidance, gifts-in-kind are required to be presented as a separate line item in the statement of activities, apart from contributions of cash or other financial assets, and to be disaggregated in the notes to the financial statements by the category that depicts the type of contributed nonfinancial assets. There are additional required disclosures regarding qualitative information denoting whether the gifts-in-kind were monetized or utilized during the reporting period; the entity's policy, if any, about monetizing rather than utilizing contributed nonfinancial assets; and the valuation techniques and inputs used to arrive at a fair value measure. ASU No. 2020-07 is to be applied retrospectively and is effective for annual reporting periods beginning after June 15, 2021, and interim periods within annual reporting periods beginning after June 15, 2022. Early adoption is permitted. The Organization is currently evaluating the impact that the adoption of ASU 2020-07 will have on its financial statements.

San Jose Mothers' Milk Bank
Notes to Financial Statements—Continued

Note 10—Risks and Uncertainties

In early March 2020, the COVID-19 virus was declared a global pandemic. Business continuity, including supply chains and consumer demand across a broad range of industries and countries, has been, and continues to be, severely impacted, as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic. The Organization has continued to conduct its program activities and to monitor the ongoing impact of the pandemic response on its overall operations. At the time of this reporting, the cumulative financial impact of the pandemic on the Organization, if any, cannot be fully determined, therefore no related adjustment has been made to these financial statements.

Note 11—Subsequent Events

Subsequent events were evaluated by management through April 27, 2022, which is the date the financial statements were available to be issued, and it was concluded that other than the PPP forgiveness described in Note 6, no material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.