

Audited Financial Statements



mothers' milk bank

June 30, 2022

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

Opinion

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, 2022, 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 the Organization as of June 30, 2022, 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.

Basis of Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 the Organization 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the Organization's ability to continue as a going concern for one year after the date that the financial statements are 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 GAAS 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 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 GAAS, 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 the Organization'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 the Organization'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.

Report on Comparative Information

We have previously audited San Jose Mothers' Milk Bank's June 30, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 27, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

DRAFT

Campbell, California
May 10, 2023

San Jose Mothers' Milk Bank
Statement of Financial Position
June 30, 2022
(with comparative totals for 2021)

	<u>2022</u>	<u>2021</u>
Assets		
Cash and cash equivalents	\$ 747,791	\$ 719,444
Restricted cash—PPP advance		260,344
Investments—Note 3	1,937,177	2,294,252
Accounts receivable—Note 4	416,614	454,872
Accrued interest receivable		547
Prepaid expenses	91,805	54,813
Property and equipment, net—Note 5	427,349	541,758
	<u>3,620,736</u>	<u>4,326,030</u>
Total Assets	\$ 3,620,736	\$ 4,326,030
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 59,290	\$ 103,334
Salaries and employee benefits payable	107,203	163,624
PPP advance—Note 6		260,344
	<u>166,493</u>	<u>527,302</u>
Total Liabilities	166,493	527,302
Net Assets		
Without donor restrictions	3,422,243	3,798,728
With donor restrictions—Note 9	32,000	
	<u>3,454,243</u>	<u>3,798,728</u>
Total Net Assets	3,454,243	3,798,728
Total Liabilities and Net Assets	\$ 3,620,736	\$ 4,326,030

See notes to financial statements.

San Jose Mothers' Milk Bank
Statement of Activities
Year Ended June 30, 2022
(with comparative totals for 2021)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>2022</u>	<u>2021</u>
Operating Activities				
Revenue and Public Support				
Fees for services	\$ 3,686,805	\$	\$ 3,686,805	\$ 3,558,362
Government grants		32,000	32,000	47,367
PPP grant—Note 6	260,344		260,344	
Contributions and grants	13,616		13,616	27,189
Interest and dividends—Note 3	163,478		163,478	74,505
Other income				270
	<u>4,124,243</u>	<u>32,000</u>	<u>4,156,243</u>	<u>3,707,693</u>
Expenses				
Milk bank services	3,541,492		3,541,492	3,063,780
Supporting services				
Management and administration	430,659		430,659	403,141
Fund development	91,844		91,844	93,696
	<u>4,063,995</u>		<u>4,063,995</u>	<u>3,560,617</u>
	<u>60,248</u>	<u>32,000</u>	<u>92,248</u>	<u>147,076</u>
Nonoperating Activities				
Investment return, net—Note 3	(436,733)		(436,733)	368,675
	<u>(436,733)</u>		<u>(436,733)</u>	<u>368,675</u>
	<u>(376,485)</u>	<u>32,000</u>	<u>(344,485)</u>	<u>515,751</u>
Net Assets at Beginning of Year	<u>3,798,728</u>		<u>3,798,728</u>	<u>3,282,977</u>
Net Assets at End of Year	<u>\$ 3,422,243</u>	<u>\$ 32,000</u>	<u>\$ 3,454,243</u>	<u>\$ 3,798,728</u>

See notes to financial statements.

San Jose Mothers' Milk Bank
Statement of Functional Expenses
Year Ended June 30, 2022
(with comparative totals for 2021)

	<u>Supporting Services</u>				
	<u>Milk Bank Services</u>	<u>Management and Admin- istration</u>	<u>Fund Development</u>	<u>2022 Total</u>	<u>2021 Total</u>
Salaries	\$ 1,222,147	\$ 187,877	\$ 74,884	\$ 1,484,908	\$ 1,406,783
Employee benefits—Note 7	188,900	19,315	5,876	214,091	185,264
Payroll taxes	98,783	13,310	4,724	116,817	108,990
Total Personnel Expenses	1,509,830	220,502	85,484	1,815,816	1,701,037
Program supplies	584,546			584,546	488,075
Shipping and delivery	562,093	690		562,783	469,263
Donor blood and blood testing	233,238			233,238	194,146
Office expenses	110,142	52,544		162,686	113,730
Occupancy	100,131	31,808	1,414	133,353	131,945
Depreciation	103,026	20,239	1,321	124,586	131,947
Advertising and promotion	102,813			102,813	21,745
Contracted services	60,000	9,199	700	69,899	76,492
Telephone	43,313	9,869	1,645	54,827	58,959
Merchant fees	52,495		110	52,605	44,597
Professional fees and services		42,240		42,240	41,382
Event registration fees	32,095			32,095	3,888
Insurance		31,452		31,452	28,456
Travel	15,539	10,584	808	26,931	11,210
Dues and subscriptions	20,531	722		21,253	21,638
Equipment rent and maintenance	10,444		323	10,767	19,934
Printing and publications	1,256		39	1,295	1,285
Other expenses		810		810	888
Total Expenses	\$ 3,541,492	\$ 430,659	\$ 91,844	\$ 4,063,995	\$ 3,560,617

See notes to financial statements.

San Jose Mothers' Milk Bank
Statement of Cash Flows
Year Ended June 30, 2022
(with comparative totals for 2021)

	2022	2021
Cash Flows from Operating Activities		
Change in net assets	\$ (344,485)	\$ 515,751
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	124,586	131,947
Investment (gains) losses	436,503	(368,905)
Changes in operating assets and liabilities:		
Accounts receivable	38,258	(94,778)
Accrued interest receivable	547	1,200
Prepaid expenses	(36,992)	18,038
Accounts payable and accrued expenses	(44,044)	8,976
Salaries and employee benefits payable	(56,421)	21,740
PPP advance	(260,344)	260,344
Net Cash Provided by (Used in) Operating Activities	(142,392)	494,313
Cash Flows from Investing Activities		
Purchase of property and equipment	(10,177)	(87,067)
Purchase of investments	(79,428)	(56,096)
Proceeds from sales and maturities of investments		105,103
Net Cash Used in Investing Activities	(89,605)	(38,060)
Net Increase (Decrease) in Cash, Cash Equivalents, and Restricted Cash	(231,997)	456,253
Cash, Cash Equivalents, and Restricted Cash at Beginning of Year	979,788	523,535
Cash, Cash Equivalents, and Restricted Cash at End of Year	\$ 747,791	\$ 979,788

See notes to financial statements.

San Jose Mothers' Milk Bank
Notes to Financial Statements
June 30, 2022
(with comparative totals for 2021)

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).

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:

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.

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.

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

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

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 earned on investments. 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, 2022 or 2021. 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.

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.

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).

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

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

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of cash flows at June 30, 2022 and 2021.

	<u>2022</u>	<u>2021</u>
Cash Accounts Reported in Statement of Financial Position		
Cash and cash equivalents	\$ 747,791	\$ 719,444
Restricted cash—PPP advance		260,344
	<hr/>	<hr/>
Total Cash, Cash Equivalents, and Restricted Cash Reported in the Statement of Cash Flows	<u><u>\$ 747,791</u></u>	<u><u>\$ 979,788</u></u>

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. Interest and dividend income earned on investments is recognized when received and is reported as interest and dividends under revenue and public support in the statement of activities.

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 in securities, and receivables.

The Organization places its cash and cash equivalents with high credit quality financial institutions where the funds are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. Such cash balances may exceed FDIC insurance limits during the normal course of business.

Cash held in investment accounts at investment custodians is insured by the Securities Investors Protection Corporation (SIPC) up to \$250,000 and the investments in securities are insured up to \$500,000, per institution. SIPC insurance protects the custody function of the investment custodian; it does not provide protection against fluctuations in market value. At times, such balances are in excess of the SIPC coverage limits.

The Organization is subject to credit risk to the extent any financial institution with which it conducts business is unable to fulfill contractual obligations on its behalf. The Organization's management has assessed the credit risk associated with its cash deposits and investments held at June 30, 2022 and 2021, and believes it is not exposed to any significant credit risk with its cash and cash equivalents and investments, however, due to the current risk and uncertainties affecting financial institutions (see Note 11), the related impact cannot be reasonably estimated at this time.

Accounts receivable at June 30, 2022 and 2021 are due from nonprofit organizations well-known to the Organization, with favorable past payment histories. Management of the Organization has assessed the credit risk associated with these accounts receivable and has determined that an allowance for potential uncollectible amounts is not necessary.

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

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

Contracts with Customers—Accounting standards require an organization to recognize revenue arising from contracts with customers at the time the customer obtains control of a contracted goods or service. 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.

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

In-Kind Contributions—The Organization records the value of donated materials and services at their fair value at the date of donation. In-kind services are recorded only if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. 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 are not reflected in the accompanying financial statements as they do not meet the criteria for recognition under current accounting standards. The Organization did not receive any in-kind contributions during the years ended June 30, 2022 and 2021.

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, 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 charged directly to the program or supporting service benefitted.

Advertising Expense—Advertising costs are expensed as incurred and amounted to \$102,813 and \$21,745 for the years ended June 30, 2022 and 2021, respectively.

Statement of Cash Flows—The Organization paid no income taxes and no interest expense during the years ended June 30, 2022 and 2021.

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 2021—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, 2021, 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, 2022 and 2021 to cover operating expenses for the next fiscal year:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 747,791	\$ 719,444
Investments	1,937,177	2,294,252
Accounts receivable	416,614	454,872
Current Availability of Financial Assets	<u>\$ 3,101,582</u>	<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, 2022 and 2021.

Investments measured on a recurring basis at June 30, 2022 consist of the following:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income mutual funds	\$ 1,937,177	\$ 1,937,177	\$	\$
Totals	<u>\$ 1,937,177</u>	<u>\$ 1,937,177</u>	<u>\$</u>	<u>\$</u>

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>

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

Note 3—Investments and Fair Value Measurements—Continued

Investment return for the years ended June 30, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Unrealized investment gains (losses)	\$ (436,503)	\$ 364,529
Realized investment gains		4,376
Investment management fees	(230)	(230)
Investment Return, Net	(436,733)	368,675
Interest and dividends	163,478	74,505
Total Return on Investment	<u>\$ (273,255)</u>	<u>\$ 443,180</u>

Note 4—Accounts Receivable

Accounts receivable at June 30, 2022 and 2021 consist of the following:

	<u>2022</u>	<u>2021</u>
Hospitals	\$ 260,240	\$ 212,105
Individuals	156,374	241,501
Other		1,266
Totals	<u>\$ 416,614</u>	<u>\$ 454,872</u>

Note 5—Property and Equipment, Net

Net property and equipment at June 30, 2022 and 2021 consists of the following:

	<u>2022</u>	<u>2021</u>
Leasehold improvements	\$ 813,906	\$ 811,435
Equipment	335,377	327,671
Computer equipment	11,462	11,462
	1,160,745	1,150,568
Less accumulated depreciation	(733,396)	(608,810)
Property and Equipment, Net	<u>\$ 427,349</u>	<u>\$ 541,758</u>

For the years ended June 30, 2022 and 2021 depreciation expense totaled \$124,586 and \$131,947, respectively.

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 to keep their workers on the payroll. The Organization recorded \$260,344 in PPP grant revenue upon receipt of the forgiveness letter from the SBA received during the year ended June 30, 2022.

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

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, 2022 and 2021, the Organization elected to make a 2% non-matching contribution to eligible employees. Employer contributions for the years ended June 30, 2022 and 2021 totaled \$28,439 and \$16,918, respectively.

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 \$133,353 and \$131,945 for the years ended June 30, 2022 and 2021, respectively.

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

<u>Year Ending June 30,</u>	
2023	\$ 172,893
2024	197,202
2025	207,062
2026	52,389
	<hr/>
	<u>\$ 629,546</u>

Note 9—Net Assets with Donor Restrictions

Net assets with donor restrictions for the year June 30, 2022 consist of \$32,000 restricted for milk to low-income families.

Note 10—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 to be applied using the modified retrospective approach and 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.

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

Note 11—Risks and Uncertainties

In March 2023, subsequent to year-end, the shut-down of certain financial institutions raised economic concerns over disruption in the U.S. banking system. The U.S. government took certain actions to strengthen public confidence in the U.S. banking system, however, there can be no certainty that the actions taken by the U.S. government will be effective in mitigating the effects of financial institution failures on the economy, which may include limits on access to short-term liquidity in the near term or other adverse effects. As noted in Note 1, the Organization maintains cash and cash equivalents and investment balances in excess of federally-insured limits. Given the uncertainty of the situation, the related financial impact cannot be reasonably estimated at this time.

Note 12—Subsequent Events

Subsequent events were evaluated by management through May 10, 2023, which is the date the financial statements were available to be issued, and it was concluded that, other than the banking crisis described in Note 11, no other material subsequent events have occurred that would require adjustment to the financial statements or disclosure in the notes to the financial statements.