

MOTHERS' MILK BANK AT AUSTIN, INC.
(A Nonprofit Organization)
Financial Statements and
Independent Auditors' Report
For the Years Ended
December 31, 2019 and 2018

MOTHERS' MILK BANK AT AUSTIN, INC.
TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Statements of Financial Position	3
Statements of Activities	5
Statements of Functional Expenses	
Year Ended December 31, 2019	6
Year Ended December 31, 2018	7
Statements of Cash Flows	8
Notes to Financial Statements	9



Independent Auditors' Report

Board of Directors
Mothers' Milk Bank at Austin, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Mothers' Milk Bank at Austin, Inc., a nonprofit organization, which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 auditors' 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 auditors consider 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 Mothers' Milk Bank at Austin, Inc. as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Atchley & Associates, LLP

Austin, Texas

June 8, 2020

MOTHERS' MILK BANK AT AUSTIN, INC.
Statements of Financial Position
December 31, 2019 and 2018

ASSETS

	2019	2018
Current assets		
Cash	\$ 3,220,189	\$ 2,924,661
Receivables		
Program service fees, net of allowance for uncollectible receivables of \$31,816 and \$56,003, respectively	562,358	523,403
Grants	331,000	25,000
Prepaid expenses	94,028	72,637
Inventory	12,181	13,917
Total current assets	4,219,756	3,559,618
Fixed assets		
Building	5,179,555	5,005,802
Land	1,605,060	1,605,060
Refrigerators and other equipment	434,768	408,254
Furniture and office equipment	211,447	203,606
Less accumulated depreciation	(771,332)	(584,104)
Net fixed assets	6,659,498	6,638,618
Other assets		
Grants receivable	-	25,000
Deposits held by others	250	250
Total other assets	250	25,250
Total assets	\$ 10,879,504	\$ 10,223,486

The Notes to Financial Statements are an integral part of these financial statements.

MOTHERS' MILK BANK AT AUSTIN, INC.
Statements of Financial Position - Continued
December 31, 2019 and 2018

LIABILITIES AND NET ASSETS

	2019	2018
Current liabilities		
Accounts payable	\$ 57,875	\$ 66,354
Accrued salaries and taxes	3,895	9,046
Accrued vacation	47,442	37,354
Notes payable, current portion (see note 3)	188,716	540,456
Security deposits	7,656	7,656
Total current liabilities	305,584	660,866
Notes payable, noncurrent (see note 3)	1,818,870	2,190,185
Total liabilities	2,124,454	2,851,051
Net assets		
Net assets without donor restrictions		
Available for current operations	1,187,061	(5,049)
Investment in fixed assets	6,659,498	6,638,618
Total net assets without donor restrictions	7,846,559	6,633,569
Net assets with donor restrictions (see note 6)	908,491	738,866
Total net assets	8,755,050	7,372,435
Total liabilities and net assets	\$ 10,879,504	\$ 10,223,486

The Notes to Financial Statements are an integral part of these financial statements.

MOTHERS' MILK BANK AT AUSTIN, INC.
Statements of Activities
For the years ended December 31, 2019 and 2018

	2019	2018
Net assets without donor restrictions		
Revenues and other support		
Program service fees		
Clinical service fees	\$ 3,796,161	\$ 3,599,149
Contributions and other revenue		
Bottle revenue	125,122	195,148
Contributions	122,024	171,627
Contributed goods (see note 7)	58,811	4,376
Investment income - interest	42,889	21,778
Other income	191,978	43,720
Net assets released from restrictions (see note 6)	165,007	160,239
Total revenues and other support	4,501,992	4,196,037
Expenses		
Cost of bottles sold	75,165	110,584
Program services		
Milk bank	2,689,228	2,598,508
Supporting services		
Management and general	273,450	254,578
Fundraising	251,159	178,580
Total expenses	3,289,002	3,142,250
Increase (decrease) in net assets without donor restrictions	1,212,990	1,053,787
Net assets with donor restrictions		
Contributions	334,632	747,065
Net assets released from restrictions (see note 6)	(165,007)	(160,239)
Increase (decrease) in net assets with donor restrictions	169,625	586,826
Change in net assets	1,382,615	1,640,613
Net assets, beginning of the year	7,372,435	5,731,822
Net assets, end of the year	\$ 8,755,050	\$ 7,372,435

The Notes to Financial Statements are an integral part of these financial statements.

MOTHERS' MILK BANK AT AUSTIN, INC.
Statement of Functional Expenses
For the year ended December 31, 2019

	Program Services - Milk Bank	Management and General	Fundraising	Total
Expenses				
Salaries	\$ 771,371	\$ 93,706	\$ 89,522	\$ 954,599
Fringe benefits	90,660	10,602	20,335	121,597
Payroll taxes	58,060	7,775	6,630	72,465
Total personnel costs	<u>920,091</u>	<u>112,083</u>	<u>116,487</u>	<u>1,148,661</u>
Other operating expenses				
Bad debt	13,533	-	-	13,533
Bank charges and interest	15,408	38,536	2,341	56,285
Charitable assistance	188,519	-	-	188,519
Clinical operations costs	927,242	-	-	927,242
Depreciation	152,294	17,467	17,467	187,228
Dues and subscriptions	18,156	1,055	1,647	20,858
Equipment leases	15,145	1,893	1,894	18,932
Events	15,960	-	44,464	60,424
In-kind expense	45,663	1,875	11,273	58,811
Insurance	29,494	3,687	3,687	36,868
Interest	92,678	11,544	11,543	115,765
Lease expense	-	42,430	-	42,430
Marketing	21,586	14	10,622	32,222
Meetings	3,123	2,895	149	6,167
Miscellaneous	531	1,285	-	1,816
Office supplies	14,383	943	1,414	16,740
Postage and delivery	24,813	2,978	5,353	33,144
Printing	29,161	132	2,287	31,580
Professional fees	12,229	15,336	1,456	29,021
Public relations	-	-	-	-
Repairs and maintenance	42,809	7,885	5,044	55,738
Staff development	3,062	546	20	3,628
Technology expense	17,917	990	1,191	20,098
Telephone and communications	37,160	4,599	7,635	49,394
Travel	6,748	182	90	7,020
Utilities	40,760	5,095	5,095	50,950
Volunteer recognition	763	-	-	763
Total expenses	<u>\$ 2,689,228</u>	<u>\$ 273,450</u>	<u>\$ 251,159</u>	<u>\$ 3,213,837</u>

The Notes to Financial Statements are an integral part of these financial statements.

MOTHERS' MILK BANK AT AUSTIN, INC.
Statement of Functional Expenses
For the year ended December 31, 2018

	Program Services - Milk Bank	Management and General	Fundraising	Total
Expenses				
Salaries	\$ 642,063	\$ 147,653	\$ 96,400	\$ 886,116
Fringe benefits	105,320	10,703	14,059	130,082
Payroll taxes	49,987	11,362	7,050	68,399
Total personnel costs	<u>797,370</u>	<u>169,718</u>	<u>117,509</u>	<u>1,084,597</u>
Other operating expenses				
Bad debt	134,471	-	-	134,471
Bank charges and interest	13,800	28,840	2,249	44,889
Charitable assistance	263,448	-	-	263,448
Clinical operations costs	731,328	-	-	731,328
Depreciation	185,040	13,227	5,669	203,936
Dues and subscriptions	16,943	606	1,608	19,157
Equipment leases	14,954	1,163	499	16,616
Events	7,442	4	24,410	31,856
In-kind expense	1,361	543	-	1,904
Insurance	32,188	2,503	1,073	35,764
Interest	131,242	21,341	4,375	156,958
Lease expense	-	-	-	-
Marketing	14,873	28	57	14,958
Meetings	3,654	617	286	4,557
Miscellaneous	4,011	1,584	70	5,665
Office supplies	14,986	1,135	8,373	24,494
Postage and delivery	17,636	1,424	2,556	21,616
Printing	19,630	250	1,647	21,527
Professional fees	15,889	1,236	530	17,655
Public relations	28,000	-	-	28,000
Repairs and maintenance	36,384	3,023	1,154	40,561
Staff development	1,534	-	70	1,604
Technology expense	23,712	1,174	503	25,389
Telephone and communications	36,457	2,836	4,215	43,508
Travel	10,277	145	64	10,486
Utilities	40,894	3,181	1,363	45,438
Volunteer recognition	984	-	300	1,284
Total expenses	<u>\$ 2,598,508</u>	<u>\$ 254,578</u>	<u>\$ 178,580</u>	<u>\$ 3,031,666</u>

The Notes to Financial Statements are an integral part of these financial statements.

MOTHERS' MILK BANK AT AUSTIN, INC.
Statements of Cash Flows
For the years ended December 31, 2019 and 2018

	2019	2018
Cash flows provided by (used by) operating activities		
Change in net assets	\$ 1,382,615	\$ 1,640,613
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	187,228	203,936
Bad debt expense	13,533	134,471
Non-cash contribution	-	(651,065)
Non-cash interest expense from recoverable grant	100,375	-
(Increase) decrease in operating assets		
Receivables	(333,488)	(57,562)
Prepaid expense	(21,391)	(16,117)
Inventory	1,736	12,750
Increase (decrease) in operating liabilities		
Accounts payable	(8,479)	26,821
Accrued salaries and taxes	(5,151)	6,852
Accrued vacation	10,088	(3,397)
Security deposit	-	7,656
Net cash provided by (used by) operating activities	1,327,066	1,304,958
Cash flows provided by (used by) investing activities		
Purchase of fixed assets	(208,108)	(33,412)
Net cash provided by (used by) investing activities	(208,108)	(33,412)
Cash flows provided by (used by) financing activities		
Payments on notes payable	(823,430)	(1,107,519)
Net cash provided by (used by) financing activities	(823,430)	(1,107,519)
Net increase (decrease) in cash	295,528	164,027
Cash		
Beginning of year	2,924,661	2,760,634
End of year	\$ 3,220,189	\$ 2,924,661
Supplemental Disclosures of Cash Flow Information		
Cash Paid During the Year for:		
Interest	\$ 26,526	\$ 67,719

The Notes to Financial Statements are an integral part of these financial statements.

MOTHERS' MILK BANK AT AUSTIN, INC.
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 1: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

Mothers' Milk Bank at Austin, Inc. (the Organization) is a nonprofit corporation whose mission is to save babies' lives by providing prescribed donor human milk. As such, the milk bank screens healthy lactating women, pasteurizes their milk, verifies safe product, and dispenses the milk to multiple hospitals and outpatients in multiple states. The Organization is a member of the Human Milk Banking Association of North America, a nonprofit membership corporation of all nonprofit milk banks on the continent.

The principal source of revenue and support for the Organization's mission is program service fees, supplemented by charitable contributions.

Summary of Significant Accounting Policies

Basis of Accounting: The accompanying financial statements have been prepared on the accrual basis of accounting.

Cash and Cash Equivalents: For the purposes of the statements of cash flows, the Organization considers money market funds and all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Trade Accounts Receivable: Trade accounts receivable are recorded at the amount the Organization expects to collect on outstanding balances. The Organization provides for probable uncollectible amounts through an allowance for doubtful accounts. As of December 31, 2019 and 2018, the allowance for doubtful accounts was \$31,816 and \$56,003, respectively.

Grant and Pledge Receivables: Grant and pledge receivables are recorded at the amount the Organization expects to collect on outstanding balances. Grant and pledge receivables that are due within one year are classified as current assets.

Fixed Assets: Fixed assets are capitalized at cost, if the cost is more than \$1,000 and if the estimated useful service life of the item is more than one year. Contributed property and equipment are recorded at fair value at the date of donation. Depreciation of fixed assets is computed over the estimated useful service life of the asset (generally 5-40 years) using the straight-line method of computation. Depreciation expense and accumulated depreciation reported in the financial statements are considered accounting estimates.

MOTHERS' MILK BANK AT AUSTIN, INC.
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 1: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventory: Inventory is valued at the lower of cost (first-in, first-out method) or net realizable value. Inventory at December 31, 2019 and 2018, consists of bottles to be sold to other milk banks.

Income Taxes: The Organization is exempt from federal income taxes under Internal Revenue Code Sections 501(c)(3), except for unrelated business income. Unrelated business income tax expense for the years ended December 31, 2019 and 2018, totaled \$0 and \$0, respectively.

The Organization has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740-10, which prescribes a comprehensive model for how an organization should measure, recognize, present, and disclose in its financial statements uncertain tax positions that an organization has taken or expects to take on a tax return.

The Organization's income tax returns are subject to review and examination by federal, state, and local authorities. The Organization is not aware of any activities that would jeopardize its tax-exempt status. The tax returns for the years ending December 31, 2016 to 2019, are open to examination by federal, local, and state authorities.

Recognition of Donor Restrictions: Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions upon which they depend are substantially met. Contributions without donor restrictions are recorded as an increase in net assets without donor restrictions available in the period in which the notice of the unconditional promise to give is received.

Contributions or grants, which contain donor imposed restrictions or stipulations that the contribution cannot be used until a future period, are recorded as contributions with donor restrictions. Contributions, which are restricted with respect to the expenditure of the funds, are recorded as increases in net assets with donor restrictions available in the period in which the notice of grant award is received. Net assets with donor restrictions are reclassified to net assets without donor restrictions in the period in which the use restriction has been met or the time restriction lapses.

Contributions or grants, which contain donor imposed restrictions that the contribution be maintained permanently, are recorded as contributions with donor restrictions.

MOTHERS' MILK BANK AT AUSTIN, INC.
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 1: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Accounting Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Allocation of Costs: The Organization allocates common costs between program services, management and general, and fund raising by management's judgment of the estimated costs related to its activities. The estimates are reviewed periodically and the allocation of costs is revised, if necessary, to reflect changes in the activities of the Organization. The allocations reported in the financial statements are considered significant accounting estimates. These estimates may be adjusted as more current information becomes available and any adjustment could be significant. All expenses are allocated based on time and effort.

Clinical Operations Costs: Clinical operations costs include items such as microbiology tests of milk, bottles for processing, blood tests, and shipping costs.

Advertising: Advertising costs are expensed as incurred.

New Accounting Pronouncement: The Organization adopted FASB Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) and additional ASUs issued to clarify the guidance in ASU 2014-09, which amends the existing accounting standards for revenue recognition. The Organization adopted the new revenue standard utilizing the full retrospective method. The Organization did not restate information reported in prior periods as the adoption of the new revenue standard did not have a material impact on previously reported amounts.

Subsequent Events: Management of the Organization has evaluated subsequent events for disclosure through the date of the independent auditors' report, the date the financial statements were available to be issued.

NOTE 2: CONCENTRATION OF CREDIT RISK

The Organization maintains cash balances at several financial institutions. A portion of such cash and cash equivalents is in excess of insurance limits provided by the Federal Deposit Insurance Corporation and the Securities Investor Protection Corporation. At December 31, 2019, the Organization's uninsured cash balance was \$2,708,740. The Organization considers its funds to be in a high quality financial institution, constantly monitors its financial positions with the institution, and does not anticipate any nonperformance.

MOTHERS' MILK BANK AT AUSTIN, INC.
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 3: NOTES PAYABLE

Notes payable consist of the following at December 31:

	2019	2018
Recoverable grant agreement with a foundation. The agreement requires monthly installments of \$15,726 commencing March 1, 2018, and continuing through March 28, 2026, with a final payment of \$1,305,287 on March 28, 2026. The recoverable grant is interest free.	2,469,037	2,657,753
Note payable to a bank, due June 09, 2022, payable in 36 monthly principal and interest payments of \$30,846 with an interest rate of 3.88% and 23 monthly principal and interest payments of \$36,428 with a variable interest rate of LIBOR plus 1.75%. The agreement is secured by all inventory, accounts, equipment and general intangibles.	-	634,714
	2,469,037	3,292,467
Less current portion	(188,716)	(540,456)
Less imputed interest from recoverable grant agreements	(461,451)	(561,826)
	\$ 1,818,870	\$ 2,190,185

Maturities of notes payable under the note agreements as of December 31, 2019, are:

Year	Amount
2020	\$ 188,716
2021	188,716
2022	188,716
2023	188,716
2024	188,716
Thereafter	1,525,457
	\$ 2,469,037

The carrying value of notes payable with lending institutions approximates fair value as the interest rates approximate market rates available for debt with similar terms. The fair value of recoverable grant agreements are recorded at the discounted present value of future payment obligations.

MOTHERS' MILK BANK AT AUSTIN, INC.
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 4: LEASING REVENUES

The Organization entered into a leasing agreement with a company to lease out a suite from their property. The lease commenced on December 20, 2018, and terminates on June 30, 2024, with two options for extension periods of five years each. The first rent payment was in July 2019. The leasing agreement requires the tenant to pay the Organization between \$7,656 and \$8,644 per month until termination of the lease. Leasing revenue for the years ended December 31, 2019 and 2018, totaled \$45,938 and \$0, respectively. Following is a schedule by year of future minimum payments required under the lease agreement.

Year	Amount
2020	\$ 93,358
2021	96,322
2022	99,286
2023	102,249
2024	51,866
	\$ 443,081

NOTE 5: COMMITMENTS - OPERATING LEASES

The Organization leases office equipment under two long-term, non-cancelable operating lease agreements. A copier lease requires monthly rental payments and expires on April 3, 2022. A postage meter lease requires monthly rental payments and expires on July 23, 2020. Following is a schedule by year of future minimum rental payments required under the operating lease agreements:

Year	Amount
2020	\$ 15,716
2021	15,540
2022	5,180
	\$ 36,436

MOTHERS' MILK BANK AT AUSTIN, INC.
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 6: NET ASSETS WITH DONOR RESTRICTIONS

During 2019 and 2018, net assets with donor restrictions of \$165,008 and \$160,239, respectively, were released from accompanying stipulations due to the Organization's action or due to the passage of time and are reported as net assets released from restrictions in the statements of activities. Net assets released from restriction during the years ended December 31, 2019 and 2018, consisted of:

	2019	2018
Passage of time - contributions	\$ 100,375	\$ 114,239
Program expenses	64,632	46,000
	\$ 165,007	\$ 160,239

At December 31, 2019 and 2018, net assets with donor restrictions consisted of:

	2019	2018
Restricted for research lab expenditures	\$ 127,040	\$ 127,040
Rockefeller philanthropy	5,000	-
Educational program in community	290,000	-
Restricted for purchase of facilities	25,000	50,000
Recoverable grant	461,451	561,826
	\$ 908,491	\$ 738,866

NOTE 7: CONTRIBUTED GOODS

The valuation of contributed goods is considered an accounting estimate. The estimate may be adjusted as more current information becomes available and any adjustment could be significant. For the years ended December 31, 2019 and 2018, the Organization pasteurized 775,000 and 677,703 ounces of milk, respectively, which were donated to the Organization. As the value of the donated milk cannot be reasonably estimated, no value has been assigned to it. During the years ended December 31, 2019 and 2018, other donated services and items valued at \$58,811 and \$4,376, respectively, were contributed to the Organization.

MOTHERS' MILK BANK AT AUSTIN, INC.
Notes to Financial Statements
December 31, 2019 and 2018

NOTE 8: EMPLOYEE BENEFIT PLAN

The Organization administers a 401k retirement plan (the Plan) covering all employees who have completed one year of service, which requires a minimum of 1,000 annual service hours, and who have attained age 18. The Organization matches 100% of salary deferrals up to 4% of eligible compensation. Employees are immediately vested in their salary deferrals. Employer contributions are vested after 2 years of service. The Organization contributed \$19,072 and \$17,825 to the Plan for the years ended December 31, 2019 and 2018, respectively.

NOTE 9: LIQUIDITY AND AVAILABILITY

The table below presents financial assets available for general expenditures within one year at December 31, 2019:

Financial assets at year end:	
Cash	\$ 3,220,189
Program service fees receivable	562,358
Grants receivable	331,000
Total financial assets	4,113,547
Less assets with donor restrictions	(908,491)
Add grant released from restrictions during 2020	290,000
	(618,491)
Financial assets available to meet general expenditures within one year	\$ 3,495,056

In addition to financial assets available to meet general expenditures within one year, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources. The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents, and grants.