

*Financial Statements*

**STRONG FOOD/L.A. KITCHEN**

December 31, 2015



# HENSIEK & CARON

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## INDEPENDENT AUDITOR'S REPORT

To The Board of Directors  
Strong Food/L.A. Kitchen

We have audited the accompanying financial statements of Strong Food/L.A. Kitchen (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and changes in net assets, cash flows and functional expenses 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.

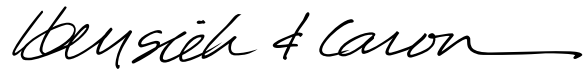
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Strong Food/L.A. Kitchen as of December 31, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited Strong Food/L.A. Kitchen's 2014 financial statements, and our report dated May 11, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Pasadena, California  
March 28, 2016

**STRONG FOOD/L.A. KITCHEN**  
**STATEMENT OF FINANCIAL POSITION**  
**DECEMBER 31, 2015**

**WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,082,489	\$ 315,879
Grants receivable	930,000	257,021
Prepaid expenses	24,333	4,448
Loan origination costs, net of accumulated amortization of \$8,950 in 2015 and \$0 in 2014	35,800	44,750
Security deposit	20,596	-
Property and equipment, net	2,900,038	148,923
<b>Total Assets</b>	<b>\$ 4,993,256</b>	<b>\$ 771,021</b>
 <b>Liabilities</b>		
Accounts payable	\$ 583,019	\$ 18,555
Accrued salaries	114,604	41,399
Deferred rent	18,803	-
Accrued interest payable	56,618	-
Line of credit	250,000	-
Loan payable	1,883,734	-
<b>Total Liabilities</b>	<b>2,906,778</b>	<b>59,954</b>
 <b>Net Assets</b>		
Unrestricted	2,032,925	137,952
Temporarily restricted	53,553	573,115
<b>Total Net Assets</b>	<b>2,086,478</b>	<b>711,067</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 4,993,256</b>	<b>\$ 771,021</b>

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

**STRONG FOOD/L.A. KITCHEN**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
**WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2014**

	2015			2014
	Unrestricted	Temporarily Restricted	Total	Total
<b>Support and Revenue</b>				
Grants	\$ 1,230,036	\$ 783,963	\$ 2,013,999	\$ 495,000
Contributions	649,788	-	649,788	271,420
Special events, net of direct expenses of \$196,867 in 2015 and \$41,865 in 2014	1,750	-	1,750	14,770
Program income, net of cost of goods sold of \$16,473 in 2015 and \$0 in 2014	48,936	-	48,936	6,650
Interest	137	-	137	39
Net assets released from purpose restrictions	1,303,525	(1,303,525)	-	-
<b>Total Support and Revenue</b>	3,234,172	(519,562)	2,714,610	787,879
<b>Expenses</b>				
Program services	919,383	-	919,383	573,149
Management and general	275,404	-	275,404	77,223
Fundraising	144,412	-	144,412	88,382
<b>Total Expenses</b>	1,339,199	-	1,339,199	738,754
<b>Change in Net Assets</b>	1,894,973	(519,562)	1,375,411	49,125
<b>Net Assets, Beginning of Year</b>	137,952	573,115	711,067	661,942
<b>Net Assets, End of Year</b>	\$ 2,032,925	\$ 53,553	\$ 2,086,478	\$ 711,067

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

**STRONG FOOD/L.A. KITCHEN**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
**WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>2015</u>	<u>2014</u>
<b>Cash Flows from Operating Activities</b>		
Cash received from donors	\$ 2,189,425	\$ 981,034
Cash received from program recipients	65,409	6,650
Cash paid to suppliers and employees	(881,128)	(738,084)
Interest received	137	39
Interest paid	(1,953)	-
<b>Net Cash Provided by Operating Activities</b>	<u>1,371,890</u>	<u>249,639</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(2,718,418)	(39,628)
Payment of security deposit	(20,596)	-
<b>Net Cash Flows Used in Investing Activities</b>	<u>(2,739,014)</u>	<u>(39,628)</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from line of credit	250,000	-
Proceeds from loan payable	1,883,734	-
Cash paid for loan origination fees	-	(44,750)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<u>2,133,734</u>	<u>(44,750)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	766,610	165,261
<b>Cash and Cash Equivalents, Beginning</b>	<u>315,879</u>	<u>150,618</u>
<b>Cash and Cash Equivalents, Ending</b>	<u><u>\$ 1,082,489</u></u>	<u><u>\$ 315,879</u></u>

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

**STRONG FOOD/L.A. KITCHEN**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
**WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2014**  
**(CONTINUED)**

**Reconciliation of the Change in Net Assets To Net Cash**

**Provided by Operating Activities**

Change in Net Assets	\$ 1,375,411	\$ 49,125
Adjustments to reconcile the change in net assets to net cash provided by operating activities		
Depreciation and amortization	32,871	11,196
Gifts in kind	-	(85,000)
(Increase) Decrease in:		
Grants receivable	(672,979)	242,979
Prepaid expenses	(19,885)	(1,277)
Increase in:		
Accounts payable	564,464	5,496
Accrued salaries	73,205	27,120
Deferred rent	18,803	-
	<u>\$ 1,371,890</u>	<u>\$ 249,639</u>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 1,371,890</b>	<b>\$ 249,639</b>

**Supplemental Disclosure**

Noncash investing transaction		
Additions to property and equipment	\$ 2,775,036	\$ 124,628
Less accrued interest	56,618	-
Less donated professional fees - construction in progress	-	85,000
	<u>\$ 2,718,418</u>	<u>\$ 39,628</u>
<b>Purchase of Property and Equipment</b>	<b>\$ 2,718,418</b>	<b>\$ 39,628</b>

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

**STRONG FOOD/L.A. KITCHEN**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**  
**WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>2015</b>				<b>2014</b>
	<b>Program Services</b>	<b>Management &amp; General</b>	<b>Fundraising</b>	<b>Total</b>	<b>Total</b>
Salaries	\$ 454,600	\$ 75,823	\$ 55,222	\$ 585,645	\$ 516,698
Rent	248,348	33,484	50	281,882	1,800
Professional fees	3,283	75,090	63,000	141,373	33,759
Supplies	106,367	10,049	176	116,592	61,806
Employee benefits	41,833	23,435	16,599	81,867	50,304
Payroll taxes	34,923	4,497	4,670	44,090	36,169
Depreciation amortization	21,856	10,831	185	32,872	11,196
Insurance	-	19,978	-	19,978	5,760
Office expense	134	4,869	1,843	6,846	6,784
Travel	4,827	1,054	31	5,912	2,109
Maintenance	-	4,288	-	4,288	2,118
Marketing and advertising	633	1,908	1,449	3,990	5,843
Bank charges and processing fees	-	2,890	926	3,816	839
Postage and printing	388	2,728	151	3,267	3,095
Utilities	1,611	1,029	-	2,640	474
Interest	-	1,953	-	1,953	-
Training and education	580	789	-	1,369	-
Taxes and licenses	-	709	110	819	-
<b>Total</b>	<b>\$ 919,383</b>	<b>\$ 275,404</b>	<b>\$ 144,412</b>	<b>\$ 1,339,199</b>	<b>\$ 738,754</b>

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



**STRONG FOOD/L.A. KITCHEN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**Note 1 – Organization and Summary of Significant Accounting Policies**

**Organization**

Strong Food/L.A. Kitchen (LAK) is a dynamic nonprofit social enterprise that combines the potential and power of food and people, ensuring that neither goes to waste. LAK is an all-inclusive model that engages those impacted by issues of poverty, hunger, aging, recidivism and foster care, not as mere recipients of aid, but as active participants in creating empowering solutions. LAK will focus on producing and distributing healthy, affordable meals, with an emphasis on serving a rapidly aging senior population.

**Public Support and Revenue**

Donations are recorded as made. All donations are considered to be available for unrestricted use unless specifically restricted by the donor.

Amounts received or promised that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Donated securities and other non-cash donations are recorded at estimated fair values at the date of donation. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

**Method of Accounting**

LAK accounts for financial transactions on the accrual basis of accounting. To ensure observance of limitations and restrictions placed on the use of resources available to LAK, its accounts are maintained in accordance with the principles of fund accounting.

**Cash and Cash Equivalents**

For the purpose of the statement of cash flows, LAK considers all highly liquid debt investments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents are recorded at cost.

**Contributions Receivable**

LAK uses the direct write off method to determine uncollectible receivables. The annual write off is based on prior years experience and management's analysis of specific receivables. Management believes that all receivables at year-end are collectible.

**STRONG FOOD/L.A. KITCHEN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**Note 1 – Organization and Summary of Significant Accounting Policies** (continued)

**Property and Equipment**

Property and equipment is stated at cost. Assets acquired by gift or bequest are stated at market value at the date of acquisition. It is LAK's policy to capitalize expenditures for these items in excess of \$1,500. Depreciation and amortization is recorded, using the straight-line method over the following useful lives:

Leasehold improvements	10 - 30 years
Furniture and fixtures	5 - 7 years
Intangible assets	3 - 15 years

**Income Taxes**

LAK is a nonprofit organization under Section 501(c)(3), and is not classified as a private foundation. Such organizations are not normally subject to income tax; therefore, no provision for income taxes is included in the statements.

The accounting standard on accounting for uncertainty in income taxes provides guidance on how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. Examples of tax positions include the tax-exempt status of LAK and various positions related to the potential sources of unrelated business taxable income (UBIT). LAK believes that it has no uncertain tax positions that impact its financial statements.

LAK files form 990 with the Internal Revenue Service, and files related exempt organization returns in the State of California. The returns are generally no longer subject to examination by the Internal Revenue Service after three years, or by the State of California after four years.

**Use of 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Note 2 – Concentration of Credit Risk**

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist of cash and cash equivalents. LAK maintains its cash balances at various financial institutions. Cash accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per financial institution. At December 31, 2015, LAK uninsured cash balances were \$841,375.

**STRONG FOOD/L.A. KITCHEN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**Note 3 – Loan Origination Costs**

Loan origination costs consist of the following:

	<u>2015</u>	<u>2014</u>
Loan origination costs	\$ 44,750	\$ 44,750
Less accumulated amortization	8,950	-
	<u>\$ 35,800</u>	<u>\$ 44,750</u>

**Note 4 – Property and Equipment**

Property and equipment consists of the following:

	<u>2015</u>	<u>2014</u>
Intangible assets		
Website	\$ 27,589	\$ 27,589
Branding	15,000	15,000
Furniture and fixtures	67,203	-
Machinery and equipment	61,784	-
Leasehold improvements	13,185	-
Vehicles	113,514	-
Capitalized interest	56,618	-
Construction in progress	2,587,361	124,628
	<u>2,942,254</u>	<u>167,217</u>
Less accumulated depreciation and amortization	42,216	8,294
	<u>\$ 2,900,038</u>	<u>\$ 148,923</u>

**Note 5 – Line of Credit**

LAK has secured a \$500,000 line of credit agreement with California Community Foundation due January 27, 2018. The stated interest rate is 3% and is unsecured. Quarterly interest payments on the outstanding balance are due starting April 15, 2015, and on each July 1, October 1, January 1, and April 1 thereafter until the maturity date. The outstanding balance as of December 31, 2015 was \$250,000.

Interest expense incurred in connection with the line of credit for the years ended December 31, 2015 and 2014 was \$1,953 and \$0, respectively.

**Note 6 – Loan Payable**

During the year, LAK also secured a \$2,000,000 note with Nonprofit Finance Fund to fund operating needs. This note is due December 31, 2020, bears interest at 6.5% per annum and is secured by all assets of the Organization. The loan is payable with voluntary payments during the construction period, not to exceed twelve months from inception of the note. Thereafter, the loan converts to an amortized five year term loan with quarterly payments commencing on the first day of the fifth fiscal quarter following the closing date.

**STRONG FOOD/L.A. KITCHEN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**Note 5 – Loan Payable** (continued)

Future minimum loan payments will be:

For the year ending December 31,	
2016	\$ 200,000
2017	300,000
2018	500,000
2019	600,000
2020	283,734

Interest capitalized in connection with the loan for the years ended December 31, 2015 and 2014 was \$56,618 and \$0, respectively. No interest was expensed for this loan.

**Note 6 – Net Assets**

Temporarily restricted net assets consist of the following:

	<u>2015</u>	<u>2014</u>
Time restricted funds	\$ 30,898	\$ 250,000
Food preparation training	-	193,115
Grant to purchase two vans	-	130,000
Reclaim L.A.	22,655	-
	<u>\$ 53,553</u>	<u>\$ 573,115</u>

**Note 7 – Lease Commitments**

During the year LAK negotiated a twenty year lease for kitchen preparation and office space. The lease commenced on January 30, 2015, with a ten year renewal option.

Future minimum lease payments will be:

For the year ending December 31,	
2016	\$ 208,181
2017	211,337
2018	214,493
2018	217,649
2020	220,945

Rent expense for the year ended December 31, 2015 and 2014 was \$281,882 and \$1,800, respectively.

**STRONG FOOD/L.A. KITCHEN**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2015**

**Note 8 – Subsequent Events**

Subsequent events were evaluated through March 28, 2016, which is the date the financial statements were available to be issued. There were no subsequent events that would require adjustments or disclosures in these financial statements.