

Financial Statements

STRONG FOOD/L.A. KITCHEN

December 31, 2016



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, 2016, 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.

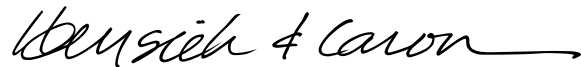
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2016, 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 2015 financial statements, and our report dated March 28, 2016, 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, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Pasadena, California
April 21, 2016

STRONG FOOD/L.A. KITCHEN
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016

WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2015

	2016	2015
Assets		
Cash and cash equivalents	\$ 98,113	\$ 1,082,489
Accounts receivable, net of allowance for doubtful accounts of \$0 in 2016	58,787	-
Grants receivable, net of allowance for doubtful accounts of \$0 in 2016 and 2015	1,708,510	930,000
Inventory	26,210	-
Prepaid expenses	66,146	24,333
Loan origination costs, net of accumulated amortization of \$17,900 in 2016 and \$8,950 in 2015	26,850	35,800
Security deposit	72,728	20,596
Property and equipment, net	2,825,628	2,900,038
Total Assets	\$ 4,882,972	\$ 4,993,256
Liabilities		
Accounts payable	\$ 60,798	\$ 583,019
Accrued salaries	161,416	114,604
Officer payable	24,785	-
Deferred rent	49,196	18,803
Line of credit	400,000	250,000
Loan payable	1,810,472	1,940,352
Total Liabilities	2,506,667	2,906,778
Net Assets		
Unrestricted	1,877,896	2,032,925
Temporarily restricted	498,409	53,553
Total Net Assets	2,376,305	2,086,478
Total Liabilities and Net Assets	\$ 4,882,972	\$ 4,993,256

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, 2016
WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2015

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Total
Support and Revenue				
Grants	\$ 2,169,383	\$ 731,179	\$ 2,900,562	\$ 2,013,999
Contributions	298,684	11,000	309,684	649,788
Special events, net of direct expenses of \$196,867 in 2015	-	-	-	1,750
Program income, net of cost of goods sold of \$327,203 in 2016 and \$16,473 in 2015	(50,251)	-	(50,251)	48,936
Interest	57	-	57	137
Net assets released from purpose restrictions	297,323	(297,323)	-	-
Total Support and Revenue	2,715,196	444,856	3,160,052	2,714,610
Expenses				
Program services	2,001,530	-	2,001,530	919,383
Management and general	706,721	-	706,721	275,404
Fundraising	161,974	-	161,974	144,412
Total Expenses	2,870,225	-	2,870,225	1,339,199
Change in Net Assets	(155,029)	444,856	289,827	1,375,411
Net Assets, Beginning of Year	2,032,925	53,553	2,086,478	711,067
Net Assets, End of Year	\$ 1,877,896	\$ 498,409	\$ 2,376,305	\$ 2,086,478

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, 2016
WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2015

	2016	2015
Cash Flows from Operating Activities		
Cash received from donors	\$ 2,307,042	\$ 2,189,425
Cash received from program recipients	218,165	65,409
Cash paid to suppliers and employees	(3,297,273)	(881,128)
Interest received	57	137
Interest paid	(118,099)	(1,953)
Net Cash (Used in) Provided by Operating Activities	(890,108)	1,371,890
Cash Flows from Investing Activities		
Purchase of property and equipment	(87,041)	(2,718,418)
Payment of security deposit	(52,132)	(20,596)
Net Cash Flows Used in Investing Activities	(139,173)	(2,739,014)
Cash Flows from Financing Activities		
Proceeds from officer payable	24,785	-
Proceeds from line of credit	150,000	250,000
Proceeds from loan payable	70,120	1,883,734
Payments on loan payable	(200,000)	-
Net Cash Provided by Financing Activities	44,905	2,133,734
Net (Decrease) Increase in Cash and Cash Equivalents	(984,376)	766,610
Cash and Cash Equivalents, Beginning	1,082,489	315,879
Cash and Cash Equivalents, Ending	\$ 98,113	\$ 1,082,489

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, 2016
WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2015
(CONTINUED)

	<u>2016</u>	<u>2015</u>
Reconciliation of the Change in Net Assets To Net Cash		
(Used in) Provided by Operating Activities		
Change in Net Assets	\$ 289,827	\$ 1,375,411
Adjustments to reconcile the change in net assets to net cash (used in) provided by operating activities		
Depreciation and amortization	170,401	32,871
(Increase) Decrease in:		
Accounts receivable	(58,787)	-
Grants receivable	(778,510)	(672,979)
Inventory	(26,210)	
Prepaid expenses	(41,813)	(19,885)
Increase in:		
Accounts payable	(522,221)	564,464
Accrued salaries	46,812	73,205
Deferred rent	30,393	18,803
Net Cash (Used in) Provided by Operating Activities	<u>\$ (890,108)</u>	<u>\$ 1,371,890</u>
Supplemental Disclosure		
Noncash investing transaction		
Additions to property and equipment	\$ 87,041	\$ 2,775,036
Less accrued interest	-	56,618
Purchase of Property and Equipment	<u>\$ 87,041</u>	<u>\$ 2,718,418</u>

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, 2016
WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2015

	2016				2015
	Program Services	Management & General	Fundraising	Total	Total
Salaries	\$ 1,038,982	\$ 322,339	\$ 68,358	\$ 1,429,679	\$ 585,645
Rent	355,019	119,399	400	474,818	281,882
Professional fees	25,520	72,826	75,275	173,621	141,373
Depreciation amortization	146,046	23,707	648	170,401	32,872
Employee benefits	99,731	60,994	5,166	165,891	81,867
Supplies	116,840	965	612	118,417	116,592
Interest	88,892	29,207	-	118,099	1,953
Payroll taxes	76,523	23,158	5,444	105,125	44,090
Office expense	12,362	17,369	86	29,817	6,846
Insurance	1,960	18,670	-	20,630	19,978
Transportation	19,507	-	-	19,507	-
Marketing and advertising	6,744	1,259	3,684	11,687	3,990
Utilities	8,938	1,574	605	11,117	2,640
Taxes and licenses	-	5,467	-	5,467	819
Postage and printing	2,082	2,318	113	4,513	3,267
Travel	900	1,562	1,138	3,600	5,912
Maintenance	161	3,118	275	3,554	4,288
Bank charges and processing fees	150	2,258	30	2,438	3,816
Training and education	1,173	531	140	1,844	1,369
Total	\$ 2,001,530	\$ 706,721	\$ 161,974	\$ 2,870,225	\$ 1,339,199

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

STRONG FOOD/L.A. KITCHEN
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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 product 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.

Inventories

Inventories consist primarily of food, beverages and packaging, and are valued at cost using the first-in, first-out (FIFO) method.

STRONG FOOD/L.A. KITCHEN
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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.

Comparative Financial Information

The financial statements include certain prior-year summarized comparative information in total but not by net asset class or by functional expense. Such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2015. Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

STRONG FOOD/L.A. KITCHEN
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

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, 2016, LAK had no uninsured cash balances.

Note 3 – Loan Origination Costs

Loan origination costs consist of the following:

	<u>2016</u>	<u>2015</u>
Loan origination costs	\$ 44,750	\$ 44,750
Less accumulated amortization	17,900	8,950
	<u>\$ 26,850</u>	<u>\$ 35,800</u>

Note 4 – Property and Equipment

Property and equipment consists of the following:

	<u>2016</u>	<u>2015</u>
Intangible assets		
Website	\$ 31,589	\$ 27,589
Branding	15,000	15,000
Furniture and fixtures	81,687	67,203
Machinery and equipment	478,488	61,784
Leasehold improvements	2,251,610	13,185
Vehicles	114,303	113,514
Capitalized interest	56,618	56,618
Construction in progress	-	2,587,361
	<u>3,029,295</u>	<u>2,942,254</u>
Less accumulated depreciation and amortization	203,667	42,216
	<u>\$ 2,825,628</u>	<u>\$ 2,900,038</u>

Note 5 – Line of Credit

LAK has a \$500,000 line of credit agreement with California Community Foundation due January 27, 2018. The stated interest rate is 3% per annum and is unsecured. Quarterly interest payments on the outstanding balance are due on July 1, October 1, January 1, and April 1 each year, and thereafter until the maturity date. The outstanding balance as of December 31, 2016 and 2015 was \$400,000 and \$250,000, respectively.

Interest expense incurred in connection with the line of credit for the years ended December 31, 2016 and 2015 was \$11,588 and \$1,953, respectively.

STRONG FOOD/L.A. KITCHEN
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 6 – Loan Payable

LAK has a 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 over five years with quarterly payments of principle and interest.

Future minimum loan payments will be:

For the year ending December 31,	
2017	\$ 300,000
2018	500,000
2019	600,000
2020	410,472

Interest capitalized in connection with the loan for the years ended December 31, 2016 and 2015 was \$0 and \$56,618, respectively. Interest expense incurred in connection with the loan payable for the years ended December 31, 2016 and 2015 was \$106,511 and \$0, respectively.

Note 6 – Net Assets

Temporarily restricted net assets consist of the following:

	<u>2016</u>	<u>2015</u>
Time restricted funds	\$ 475,000	\$ 30,898
Grant to create grocery guides	23,409	-
Reclaim L.A.	-	22,655
	<u>\$ 498,409</u>	<u>\$ 53,553</u>

Note 7 – Lease Commitments

LAK has 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 for the next five years will be:

For the year ending December 31,	
2017	\$ 211,337
2018	214,493
2019	217,649
2020	220,945
2021	224,201

Rent expense for the year ended December 31, 2016 and 2015 was \$437,706 and \$281,882, respectively.

STRONG FOOD/L.A. KITCHEN
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2016

Note 8 – Subsequent Events

Subsequent events were evaluated through April 21, 2017, 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.