

Financial Statements

STRONG FOOD/L.A. KITCHEN

December 31, 2017



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, 2017, 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.

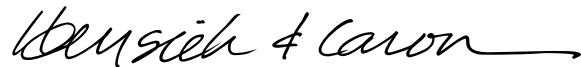
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2017, 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 2016 financial statements, and our report dated April 21, 2017, 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, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Pasadena, California
May 17, 2018

STRONG FOOD/L.A. KITCHEN
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016

	2017	2016
Assets		
Cash and cash equivalents	\$ 638,707	\$ 98,113
Accounts receivable, net of allowance for doubtful accounts of \$0 in 2017 and 2016	130,038	58,787
Grants receivable, net of allowance for doubtful accounts of \$0 in 2017 and 2016	835,000	1,708,510
Inventory	33,246	26,210
Prepaid expenses	67,162	66,146
Loan origination costs, net of accumulated amortization of \$17,900 in 2017 and \$8,950 in 2016	17,900	26,850
Security deposit	51,785	72,728
Property and equipment, net	2,878,573	2,825,628
Total Assets	\$ 4,652,411	\$ 4,882,972
 Liabilities		
Accounts payable	\$ 110,722	\$ 60,798
Accrued salaries	150,454	161,416
Officer payable	-	24,785
Rent payable	76,433	49,196
Line of credit	400,000	400,000
Loans payable	1,818,057	1,810,472
Total Liabilities	2,555,666	2,506,667
 Net Assets		
Unrestricted	1,310,550	1,877,896
Temporarily restricted	786,195	498,409
Total Net Assets	2,096,745	2,376,305
Total Liabilities and Net Assets	\$ 4,652,411	\$ 4,882,972

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, 2017
WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016

	2017			2016
	Unrestricted	Temporarily Restricted	Total	Total
Support and Revenue				
Grants	\$ 1,336,175	\$ 790,000	\$ 2,126,175	\$ 2,900,562
Contributions	1,252,102	20,520	1,272,622	309,684
Special events, net of direct expenses of \$231 in 2017	43,433	-	43,433	-
Program income	192,129	-	192,129	276,952
Interest	-	-	-	57
Net assets released from purpose restrictions	522,734	(522,734)	-	-
Total Support and Revenue	3,346,573	287,786	3,634,359	3,487,255
Expenses				
Program services	2,878,325	-	2,878,325	2,328,733
Management and general	815,357	-	815,357	706,721
Fundraising	220,237	-	220,237	161,974
Total Expenses	3,913,919	-	3,913,919	3,197,428
Change in Net Assets	(567,346)	287,786	(279,560)	289,827
Net Assets, Beginning of Year	1,877,896	498,409	2,376,305	2,086,478
Net Assets, End of Year	\$ 1,310,550	\$ 786,195	\$ 2,096,745	\$ 2,376,305

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, 2017
WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>2017</u>	<u>2016</u>
Cash Flows from Operating Activities		
Cash received from donors	\$ 3,542,288	\$ 2,307,042
Cash received from program recipients	894,561	218,165
Cash paid to suppliers and employees	(3,504,978)	(3,297,273)
Interest received	-	57
Interest paid	(126,281)	(118,099)
Net Cash Provided by (Used in) Operating Activities	<u>805,590</u>	<u>(890,108)</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(268,739)	(87,041)
Payment of security deposit	20,943	(52,132)
Net Cash Flows Used in Investing Activities	<u>(247,796)</u>	<u>(139,173)</u>
Cash Flows from Financing Activities		
Proceeds from officer payable	(24,785)	24,785
Proceeds from line of credit	-	150,000
Proceeds from loan payable	157,585	70,120
Payments on loan payable	(150,000)	(200,000)
Net Cash (Used in) Provided by Financing Activities	<u>(17,200)</u>	<u>44,905</u>
Net Increase (Decrease) in Cash and Cash Equivalents	540,594	(984,376)
Cash and Cash Equivalents, Beginning	<u>98,113</u>	<u>1,082,489</u>
Cash and Cash Equivalents, Ending	<u>\$ 638,707</u>	<u>\$ 98,113</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, 2017
WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016
(CONTINUED)

	2017	2016
Reconciliation of the Change in Net Assets To Net Cash		
(Used in) Provided by Operating Activities		
Change in Net Assets	\$ (279,560)	\$ 289,827
Adjustments to reconcile the change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	224,744	170,401
(Increase) Decrease in:		
Accounts receivable	(71,251)	(58,787)
Grants receivable	873,510	(778,510)
Inventory	(7,036)	(26,210)
Prepaid expenses	(1,016)	(41,813)
Increase in:		
Accounts payable	49,924	(522,221)
Accrued salaries	(10,962)	46,812
Rent payable	27,237	30,393
Net Cash Provided by (Used in) Operating Activities	\$ 805,590	\$ (890,108)

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, 2017
WITH SUMMARIZED INFORMATION FOR THE YEAR ENDED DECEMBER 31, 2016

	2017				2016
	Program Services	Management & General	Fundraising	Total	Total
Salaries	\$ 790,170	\$ 405,413	\$ 75,191	\$ 1,270,774	\$ 1,429,679
Food costs	773,683	-	-	773,683	327,203
Rent	538,487	179,016	-	717,503	474,818
Professional fees	126,646	20,203	117,306	264,155	173,621
Depreciation amortization	209,818	14,926	-	224,744	170,401
Employee benefits	147,272	67,277	8,866	223,415	165,891
Interest	94,711	31,570	-	126,281	118,099
Supplies	108,897	92	34	109,023	118,417
Payroll taxes	56,263	25,883	5,723	87,869	105,125
Insurance	652	25,821	-	26,473	20,630
Office expense	9,290	10,275	2,109	21,674	29,817
Taxes and licenses	3,478	8,568	-	12,046	5,467
Utilities	7,159	3,839	603	11,601	11,117
Bank charges and processing fees	1,084	4,422	3,822	9,328	2,438
Maintenance	-	9,177	-	9,177	3,554
Marketing and advertising	2,866	1,965	4,261	9,092	11,687
Postage and printing	2,392	1,688	1,990	6,070	4,513
Training and education	2,392	2,634	65	5,091	1,844
Travel	2,908	247	267	3,422	3,600
Transportation	157	2,341	-	2,498	19,507
Total	\$ 2,878,325	\$ 815,357	\$ 220,237	\$ 3,913,919	\$ 3,197,428

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

STRONG FOOD/L.A. KITCHEN
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

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, 2017

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, 2016. 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, 2017

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, 2017, LAK's uninsured cash balance was \$477,953.

Note 3 – Loan Origination Costs

Loan origination costs consist of the following:

	<u>2017</u>	<u>2016</u>
Loan origination costs	\$ 44,750	\$ 44,750
Less accumulated amortization	26,850	17,900
	<u>\$ 17,900</u>	<u>\$ 26,850</u>

Note 4 – Property and Equipment

Property and equipment consists of the following:

	<u>2017</u>	<u>2016</u>
Intangible assets		
Website	\$ 31,589	\$ 31,589
Branding	15,000	15,000
Furniture and fixtures	86,104	81,687
Machinery and equipment	641,669	478,488
Leasehold improvements	2,268,054	2,251,610
Vehicles	199,001	114,303
Capitalized interest	56,618	56,618
	<u>3,298,035</u>	<u>3,029,295</u>
Less accumulated depreciation and amortization	419,462	203,667
	<u>\$ 2,878,573</u>	<u>\$ 2,825,628</u>

Note 5 – Line of Credit

LAK has a \$500,000 line of credit agreement with California Community Foundation due January 27, 2020. The stated interest rate is 3% per annum, and the line is unsecured. Quarterly interest payments on the outstanding balance are due on July 1, October 1, January 1, and April 1 each year until the maturity date. The outstanding balance as of December 31, 2017 and 2016, was \$400,000, respectively.

Interest expense incurred in connection with the line of credit for the years ended December 31, 2017 and 2016, was \$12,267 and \$11,588, respectively.

STRONG FOOD/L.A. KITCHEN
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

Note 6 – Loans Payable

LAK has a loan with Nonprofit Finance Fund to fund operating needs. This loan 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. The outstanding balance as of December 31, 2017 and 2016, was \$1,660,472 and \$1,810,472, respectively.

During the year, LAK converted charges for prior year shared building costs to a term loan. The loan is due December 31, 2019 bears interest at 6.5% per annum, with monthly interest and principal payments of \$6,983 beginning January 1, 2018. The loan is unsecured.

Future minimum loan payments will be:

For the year ending December 31,	
2018	726,693
2019	680,892
2020	410,472

Interest expense incurred in connection with the loan payable for the years ended December 31, 2017 and 2016 was \$114,014 and \$106,511, respectively.

Note 7 – Net Assets

Temporarily restricted net assets consist of the following:

	2017	2016
Senior super sites	\$ 554,167	\$ 475,000
Time restricted funds	179,166	-
Kids entrepreneurship garden project	50,000	-
Grant to create grocery guides	2,862	23,409
	\$ 786,195	\$ 498,409

Note 8 – Lease Commitments

LAK has a twenty-year lease for food preparation and office space. The lease commenced on January 30, 2015, with a ten year renewal option. The lease commitments include shared building expenses including building, personnel and other operating expenses.

Future minimum lease payments for the next five years will be:

	Rent	Shared Costs	Total
For the year ending December 31,			
2018	\$ 214,493	\$ 207,962	\$ 422,455
2019	201,649	211,082	412,731
2020	220,945	214,248	435,193
2021	224,201	217,462	441,663
2022	227,497	220,724	448,221

STRONG FOOD/L.A. KITCHEN
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

Note 8 – Lease Commitments (continued)

Rent expense for the year ended December 31, 2017 and 2016 was \$717,503 (including shared building expenses for 2016 and 2017 of \$157,585 and \$90,407, respectively, which were billed in 2017) and \$437,706, respectively.

Note 9 – Subsequent Events

Subsequent events were evaluated through May 17, 2018, 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.