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Commonwealth Kitchen, Inc.

Financial Statements
and
Independent Auditors' Report

December 31, 2015



Daniel Dennis & Company LLP

Certified Public Accountants

Independent Auditors' Report

The Board of Directors
CommonWealth Kitchen, Inc.

We have audited the accompanying financial statements of CommonWealth Kitchen, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities, functional expenses and cash flows 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 from 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 CommonWealth Kitchen, Inc. 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.

Daniel Dennis + Company LLP

September 28, 2016

CommonWealth Kitchen, Inc.
Statement of Financial Position
December 31, 2015

Assets

Current Assets

Cash	\$ 120,445
Accounts receivable - net	160,387
Pledges receivable	232,750
Grants receivable	25,480
Prepaid expenses	<u>12,806</u>
Total current assets	<u>551,868</u>

Fixed Assets

Furniture, fixtures and equipment	97,300
Accumulated depreciation	(53,901)
Leasehold improvements	224,898
Accumulated amortization	<u>(224,898)</u>
Net fixed assets	<u>43,399</u>

Other Assets

Website - net	6,588
Deposits	<u>17,641</u>
Total other assets	<u>24,229</u>
Total assets	<u>\$ 619,496</u>

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 234,683
Accrued interest	18,364
Accrued payroll	8,165
Security deposits	29,155
Loans payable - current portion	<u>177,213</u>
Total current liabilities	<u>467,580</u>

Long-Term Debt

Loans payable	<u>212,172</u>
Total liabilities	<u>679,752</u>

Net Assets

Unrestricted	(315,506)
Temporarily restricted	<u>255,250</u>
Total net assets	<u>(60,256)</u>
Total liabilities and net assets	<u>\$ 619,496</u>

See accompanying notes to financial statements.

Commonwealth Kitchen, Inc.
Statement of Activities
For the Year Ended December 31, 2015

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>
<i>Revenue and Other Support</i>			
Rental and storage fees	\$ 416,697	\$ -	\$ 416,697
Grants and contributions	369,342	255,250	624,592
Inkind contributions	185,000	-	185,000
Management fees	50,965	-	50,965
Other fees	154,788	-	154,788
Miscellaneous income	64,580	-	64,580
Net assets released from restrictions	<u>84,709</u>	<u>(84,709)</u>	<u>-</u>
Total revenue and other support	<u>1,326,081</u>	<u>170,541</u>	<u>1,496,622</u>
<i>Expenses</i>			
Program services	1,101,065	-	1,101,065
Administration	282,071	-	282,071
Fundraising	<u>64,864</u>	<u>-</u>	<u>64,864</u>
Total expenses	<u>1,448,000</u>	<u>-</u>	<u>1,448,000</u>
Change in net assets	(121,919)	170,541	48,622
Net assets at beginning of year	<u>(193,587)</u>	<u>84,709</u>	<u>(108,878)</u>
Net assets at end of year	<u>\$ (315,506)</u>	<u>\$ 255,250</u>	<u>\$ (60,256)</u>

See accompanying notes to financial statements.

CommonWealth Kitchen, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2015

	<i>Program Services</i>	<i>Administration</i>	<i>Fund- Raising</i>	<i>Total</i>
Salaries and wages	\$ 400,893	\$ 49,489	\$ 16,496	\$ 466,878
Payroll taxes and fringe benefits	33,293	6,242	2,081	41,616
Management and consulting fees	40,080	40,080	-	80,160
Professional fees	-	21,869	-	21,869
Rent	325,995	61,509	20,503	408,007
Utilities	94,255	10,473	-	104,728
Cleaning and trash removal	22,414	529	-	22,943
Depreciation and amortization	-	45,078	-	45,078
Interest expense	-	19,170	-	19,170
Supplies	85,283	-	19,485	104,768
Office expense	13,181	3,103	2,347	18,631
Tools and equipment	16,997	-	-	16,997
Telephone and internet	15,280	4,366	2,183	21,829
Building security	1,789	596	-	2,385
Permits and filing fees	1,229	136	158	1,523
Repairs and maintenance	46,872	-	-	46,872
Insurance	-	8,703	-	8,703
Staff development	3,504	668	223	4,395
Bad debt expense	-	8,053	-	8,053
Miscellaneous expense	-	2,007	1,388	3,395
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 1,101,065</u>	<u>\$ 282,071</u>	<u>\$ 64,864</u>	<u>\$ 1,448,000</u>

See accompanying notes to financial statements.

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CommonWealth Kitchen, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2015

<i>Cash Flows From Operating Activities</i>	
Change in net assets	\$ 48,622
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	45,078
Bad debt expense	8,053
Changes in operating assets and liabilities:	
Increase in accounts receivable	(108,727)
Increase in grants receivable	(25,480)
Increase in pledges receivable	(157,750)
Decrease in accrued revenue	10,565
Increase in prepaid expenses	(2,772)
Increase in deposits	(5,361)
Increase in accounts payable	98,706
Increase in security deposits	8,455
Increase in accrued payroll	2,640
Increase in accrued interest	<u>12,530</u>
Net cash used in operating activities	<u>(65,441)</u>
<i>Cash Flows From Investing Activities</i>	
Payments for fixed assets	(7,189)
Payments for other assets	<u>(7,320)</u>
Net cash used in investing activities	<u>(14,509)</u>
<i>Cash Flows From Financing Activities</i>	
Principal payments on loans payable	<u>(13,912)</u>
Net cash used in investing activities	<u>(13,912)</u>
Net decrease in cash	(93,862)
Cash at beginning of period	<u>214,307</u>
Cash at end of period	<u><u>\$120,445</u></u>
<i>Supplemental Disclosure</i>	
Cash paid for interest	<u>\$ 6,640</u>

See accompanying notes to financial statements.

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CommonWealth Kitchen, Inc.
Notes to Financial Statements
December 31, 2015

1. ***Operations***

CommonWealth Kitchen, Inc. ("CWK"), formerly Crop Circle Kitchen, Inc., was incorporated in July 2009, and was organized to secure the current and future success of Boston's only nonprofit food business incubator and shared manufacturing facility. CWK provides rental of shared commercial kitchen space combined with technical assistance for start-up and growing food producers to help build their wholesale and retail food businesses, and create local jobs.

2. ***Summary of Significant Accounting Policies***

Revenue and Expense Recognition - The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, whereby revenue is recognized when earned and expenses are recorded when incurred.

Financial Statement Format - CWK classifies its net assets, revenues and expenses into two classes of net assets - temporarily restricted and unrestricted, based on the existence or absence of donor imposed restrictions on contributions received.

Rental Fees - CWK's rental income is from short-term rental fees for kitchen and storage services from culinary entrepreneurs who are members of the CWK incubator program. Rental fees are recorded when earned.

Contributions - Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash are reported at their estimated fair value.

Contributions received without donor imposed restrictions, or with donor imposed restrictions that are satisfied in the same year as received, are recorded as revenues within the unrestricted net asset class. Contributions received with donor imposed specific purpose or time restrictions that are not satisfied within the same year are recorded as revenue within the temporarily restricted net asset class. When a restriction has been satisfied (payment has been made in accordance with the restriction or the time restriction has expired), the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Accounts, Pledges and Grants Receivable - An allowance for uncollectible accounts, pledges and grants receivable is provided based upon management's judgement of potential defaults. The determination includes such factors as prior collection history, type of contribution, and nature of fundraising activities. Allowance for uncollectible accounts receivable totaled \$5,788 at December 31, 2015. No allowance has been recorded for pledges and grants receivable, as management has determined these accounts to be fully collectible.

Commonwealth Kitchen, Inc.
Notes to Financial Statements - *Continued*
December 31, 2015

2. ***Summary of Significant Accounting Policies*** - continued

Fixed Assets/Other Assets - Assets that have a useful life of more than one year are capitalized at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the fixed assets. Leasehold improvements are capitalized at cost and are amortized over the life of the lease. CWK's website is presented on the statement of financial position net of accumulated amortization, totaling \$732 at December 31, 2015. Depreciation and amortization expense for the year ending December 31, 2015 totaled \$11,230 and \$33,848, respectively. Amortization expense is estimated to be \$1,464 per year in 2016 through 2019 and \$732 in 2020.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates and Assumptions - The preparation of financial statements in accordance 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.

Income Taxes - CWK is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Chapter 180 of the Massachusetts General Laws. Unrelated business income, of which there was none for the year ended December 31, 2015, would be subject to federal and state income taxes. Consequently, the accompanying financial statements do not reflect any provision for income taxes.

CWK evaluates tax positions taken or expected to be taken in its tax returns to determine whether the tax positions are *more-likely-than-not* to be sustained by the applicable federal and state authority. Tax positions not deemed to meet the *more-likely-than-not* threshold, along with accrued interest and penalties thereon, would be recorded as an expense in the current year financial statements. CWK has evaluated the tax positions taken in its previously filed returns and those expected to be taken in its 2015 returns, and believe they are *more-likely-than-not* to be sustained if examined by federal or state tax authorities. CWK's 2012 through 2014 tax years remain subject to examination by Federal and state tax authorities.

Investment in Limited Liability Corporation - CWK accounts for its investment in a non-controlled limited liability Corporation (LLC) using the equity method of accounting. Under the equity method, the investment is carried at cost and adjusted for the LLC's share of income, losses, additional investments, and cash distributions from the LLC. CWK ceases recognition of losses for financial statement purposes once the cost of the investment is reduced to zero. Changes in the value of the investments, which are other than temporary, are recognized as necessary.

CommonWealth Kitchen, Inc.
Notes to Financial Statements - *Continued*
December 31, 2015

3. ***Long-Term Debt***

Boston Impact Initiative LLC

Two year loan dated October 14, 2013 at an interest rate of 4% per annum, with monthly payments of interest only through February 1, 2014, and monthly payments of principal and interest thereafter through September 1, 2015. This loan is secured by all assets of CCK. Although CWK has not made the required principal payments on this loan and the due date has passed, the lender has not held CWK in default on this loan.

\$124,597

City of Boston

Note payable to the City of Boston dated June 9, 2010 at an interest rate of 5%. The loan is secured by CCK's business assets together with a leasehold mortgage on CCK's interest in CCK's leased premises (Note 6). All principal and interest owed on this loan is due on May 31, 2020. Accrued interest payable on this loan totaled \$10,626 at December 31, 2015. This loan provides for loan forgiveness based on the number of jobs created by CCK's operations. During 2016, the City of Boston has forgiven the total balance on this loan as a result of CWK satisfying the City's job creation goals of this loan at that time. As a result, this loan will be written off to loan forgiveness income in 2016.

202,172

Cooperative Fund of New England

Line of Credit dated June 9, 2010 at 7% interest per annum. This line of credit is secured by CCK's business assets and matures on February 15, 2015.

8,616

Related Party Loans

Demand loan payable to the current CCK Executive Director, dated February 22, 2013 (Note 5). This unsecured loan bears interest at 10% per annum. Accrued interest payable at December 31, 2014 totals \$7,738.

30,000

Noninterest bearing loan payable to DBEDC to cover staff, smallware items, and other operating costs of the *Bornstein & Pearl Building Food Production Small Business Center* (Notes 4, 5 and 6). The loan is payable in four installments beginning September 30, 2015 and ending October 1, 2016. CWK has not made the required principal payments on this loan and is currently in discussion with DBEDC regarding a possible restructuring of this debt.

24,000

Total long-term debt

389,385

Less current portion

(187,213)

Net long-term debt

\$202,172

CommonWealth Kitchen, Inc.
Notes to Financial Statements - *Continued*
December 31, 2015

3. ***Long-Term Debt - Continued***

Future maturities of long-term debt for each of the next five years, excluding debt forgiveness, are as follows:

<i>Year</i>	<i>Amount</i>
2016	\$ 187,213
2017	\$ -
2018	\$ -
2019	\$ -
2020	\$ 202,172

4. ***Investment in Limited Liability Corporation***

CWK has entered into a joint venture with Dorchester Bay Economic Development Corporation (DBEDC), a Massachusetts nonprofit organization, through co-membership in DB Pearl QALICB, LLC, to create a share-use and multi-tenant commercial kitchen facility that meets the needs of a range of start-up, early stage, growing, and established food production businesses. CWK shares property management duties with a professional management agent selected by DBEDC, overseeing the day-to-day operations of the *Bornstein & Pearl Building Food Production Small Business Center* located in Dorchester, MA (Note 6). CWK has made member capital contributions totaling \$21,500 as of December 31, 2015. CWK is also the sole member in CWK Pearl LLC, which was created to operate this facility.

The assets and liabilities of the DB Pearl QALICB, LLC as of December 31, 2015, and revenues and expenses for the year then ended are as follows:

Assets	\$13,813,642
Liabilities	<u>13,985,305</u>
Equity	<u>\$ (171,663)</u>
Revenue	\$ 646,204
Expenses	<u>816,159</u>
Net loss	<u>\$ (169,955)</u>

5. ***Related Party Transactions***

CWK has an outstanding loan payable to the current CWK Executive Director totaling \$30,000 (Note 3). The unsecured loan bears interest at 10% and is payable on demand. Accrued interest payable totaled \$7,738 at December 31, 2015, and interest expense for then year ended totaled \$3,000.

Commonwealth Kitchen, Inc.
Notes to Financial Statements - *Continued*
December 31, 2015

5. ***Related Party Transactions - Continued***

CWK has an outstanding loan payable to DBEDC totaling \$24,000. The loan was used to cover staff, smallware items, and other operating cost for the *Bornstein & Pearl Building Food Production Small Business Center* (Notes 3 and 4). This unsecured, noninterest bearing loan is payable in four installments beginning September 30, 2015 and ending October 1, 2016. CWK has not made the required principal payments on this loan and is currently in discussion with DBEDC regarding a possible restructuring of this debt.

6. ***Lease Commitments***

CWK has entered into a lease agreement with Brewery Main Block LLC for operating space at 31 Germania Street in Jamaica Plain, MA, which expires on October 31, 2016. The lease requires monthly base rent, in addition to monthly percentage rent totaling 15% of all gross monthly income, as defined in the lease agreement, that CCK accrues in excess of \$12,000. Future base rental payments under this lease are \$46,305 in 2016.

In connection with the operational activity of the *Bornstein & Pearl Building Food Production Small Business Center* (Note 4), CCK (through CCK Pearl LLC) has entered into a sublease agreement with DB Pearl Master Tenant LLC, a Massachusetts limited liability company, for operating space at 196 Quincy Street, Boston, MA. The term of the sublease is for ten years beginning on the date of certificate of occupancy, which occurred in late March, 2014. The sublease includes an option to extend the sublease on similar terms and conditions for a period of five years. The sublease requires fixed monthly rent, in addition to annual percentage rent starting in July 1, 2015, totaling five percent (5%) of the amount by which CWK's gross income exceeds certain breakpoints, as defined in the sublease agreement. The sublease also requires payment of CWK's proportionate share of operating costs and real estate taxes with respect to the building and the property on which it is located. Future minimum lease payments under this lease are as follows:

<i>Year</i>	<i>Amount</i>
2016	\$ 191,614
2017	256,690
2018	264,391
2019	272,322
2020	338,092
Thereafter	<u>892,982</u>
Total	<u>\$2,216,091</u>

7. ***Credit Risk***

CWK maintains its cash in bank deposit accounts which, at times, may exceed Federal insured limits. CWK has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash deposits.

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CommonWealth Kitchen, Inc.
Notes to Financial Statements - *Continued*
December 31, 2015

8. ***Guaranty***

CWK has made a certain guaranty regarding a \$2.56 million loan made by Boston Community Loan Fund, Inc. (BCLF), a Massachusetts nonprofit organization, to DB Pearl Master Tenant LLC (the Borrower) for the purpose of renovating the *Bornstein & Pearl Building Food Production Small Business Center* (Note 4), inclusive of the following "Guaranteed Liabilities":

- a. the full and prompt payment to BCLF when the loan is due, and
- b. the prompt, full and faithful performance and discharge by the Borrower of each and every of the terms, conditions, agreements, representations and warranties on the part of the Borrower contained in any agreement.

CWK further agrees to pay all reasonable expenses, legal and otherwise paid or incurred by BCLF in endeavoring to collect the Guaranteed Liabilities or in enforcing this Guaranty. The Guaranteed Liabilities and reasonable expenses shall not exceed the sum of \$50,000 in the aggregate and all distributions received by CWK from DP Pearl QALICB, LLC.

9. ***Subsequent Events***

CWK has evaluated subsequent events through September 28, 2016, which is the date the financial statements were available to be issued. Except for the City of Boston's debt forgiveness in 2016 as described in Note 3, no other material subsequent events have occurred since December 31, 2015 that requires recognition or additional disclosure in these financial statements.