

CommonWealth Kitchen, Inc.

Financial Statements
and
Independent Auditors' Report

December 31, 2016



DANIEL DENNIS & Co
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, 2016 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.

Auditors' 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 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 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, 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.

James G Bruce

September 6, 2017

CommonWealth Kitchen, Inc.
Statement of Financial Position
December 31, 2016

Assets

Current Assets

Cash	\$ 222,953
Accounts receivable - net	171,846
Pledges receivable	102,500
Grants receivable	154,132
Prepaid expenses	<u>32,506</u>
Total current assets	<u>683,937</u>

Fixed Assets

Furniture, fixtures and equipment	229,653
Accumulated depreciation	(25,573)
Leasehold improvements	35,722
Accumulated amortization	<u>(1,232)</u>
Net fixed assets	<u>238,570</u>

Other Assets

Website - net	4,148
Deposits	<u>17,280</u>
Total other assets	<u>21,428</u>
Total assets	<u><u>\$ 943,935</u></u>

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 126,430
Accrued interest	10,738
Accrued payroll	22,731
Security deposits	38,531
Deferred rent	57,600
Due to related party	161,315
Loans payable	<u>238,169</u>
Total current liabilities	<u>655,514</u>
Total liabilities	<u>655,514</u>

Net Assets

Unrestricted	155,266
Temporarily restricted	<u>133,155</u>
Total net assets	<u>288,421</u>
Total liabilities and net assets	<u><u>\$ 943,935</u></u>

See accompanying notes to financial statements.

CommonWealth Kitchen, Inc.
Statement of Activities
For the Year Ended December 31, 2016

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>
<i>Revenue and Other Support</i>			
Rental and storage fees	\$ 606,732	\$ -	\$ 606,732
Grants and contributions	835,584	140,000	975,584
Management fees	57,999	-	57,999
Other fees	189,653	-	189,653
Debt forgiveness	225,325	-	225,325
Miscellaneous income	28,822	-	28,822
Net assets released from restrictions	<u>262,095</u>	<u>(262,095)</u>	<u>-</u>
Total revenue and other support	<u>2,206,210</u>	<u>(122,095)</u>	<u>2,084,115</u>
<i>Expenses</i>			
Program services	1,318,036	-	1,318,036
Administration	374,592	-	374,592
Fundraising	<u>42,810</u>	<u>-</u>	<u>42,810</u>
Total expenses	<u>1,735,438</u>	<u>-</u>	<u>1,735,438</u>
Change in net assets	470,772	(122,095)	348,677
Net assets at beginning of year	<u>(315,506)</u>	<u>255,250</u>	<u>(60,256)</u>
Net assets at end of year	<u><u>\$ 155,266</u></u>	<u><u>\$ 133,155</u></u>	<u><u>\$ 288,421</u></u>

See accompanying notes to financial statements.

CommonWealth Kitchen, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2016

	<i>Program Services</i>	<i>Administration</i>	<i>Fund- Raising</i>	<i>Total</i>
Salaries and wages	\$ 541,567	\$ 52,950	\$ 17,650	\$ 612,167
Payroll taxes and fringe benefits	49,562	9,293	3,098	61,953
Management and consulting fees	56,467	56,467	-	112,934
Professional fees	-	45,030	-	45,030
Rent	317,100	59,681	19,894	396,675
Utilities	101,596	11,288	-	112,884
Cleaning and trash removal	29,615	876	-	30,491
Depreciation and amortization	-	32,205	-	32,205
Interest expense	-	10,214	-	10,214
Supplies	142,326	4,789	-	147,115
Office expense	18,781	3,169	1,087	23,037
Tools and equipment	9,591	-	-	9,591
Telephone and internet	5,334	1,524	762	7,620
Building security	1,682	561	-	2,243
Permits and filing fees	1,823	203	-	2,026
Repairs and maintenance	37,178	-	-	37,178
Insurance	-	17,900	-	17,900
Staff development	1,829	440	147	2,416
Bad debt expense	-	49,191	-	49,191
Loss on disposal of fixed assets	-	17,188	-	17,188
Miscellaneous expense	<u>3,585</u>	<u>1,623</u>	<u>172</u>	<u>5,380</u>
 Total	 <u>\$ 1,318,036</u>	 <u>\$ 374,592</u>	 <u>\$ 42,810</u>	 <u>\$ 1,735,438</u>

See accompanying notes to financial statements.

CommonWealth Kitchen, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2016

<i>Cash Flows From Operating Activities</i>	
Change in net assets	\$ 348,677
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	32,205
Loss on disposal of fixed assets	17,188
Bad debt expense	49,191
Debt forgiveness	(225,325)
Changes in operating assets and liabilities:	
Increase in accounts receivable	(60,650)
Increase in grants receivable	(128,652)
Decrease in pledges receivable	130,250
Increase in prepaid expenses	(19,700)
Decrease in deposits	361
Decrease in accounts payable	(108,253)
Increase in security deposits	9,376
Increase in deferred rent	57,600
Increase in due to related party	161,315
Increase in accrued payroll	14,566
Increase in accrued interest	<u>5,517</u>
Net cash provided by operating activities	<u>283,666</u>
<i>Cash Flows From Investing Activities</i>	
Payments for fixed assets	<u>(206,392)</u>
Net cash used in investing activities	<u>(206,392)</u>
<i>Cash Flows From Financing Activities</i>	
Proceeds from loans payable	84,572
Principal payments on loans payable	<u>(59,338)</u>
Net cash provided by investing activities	<u>25,234</u>
Net increase in cash	102,508
Cash at beginning of period	<u>120,445</u>
Cash at end of period	<u><u>\$ 222,953</u></u>
<i>Supplemental Disclosure</i>	
Cash paid for interest	<u><u>\$ 4,687</u></u>

See accompanying notes to financial statements.

CommonWealth Kitchen, Inc.
Notes to Financial Statements
December 31, 2016

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 to 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, 2016. 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, 2016

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 amortized over the life of the lease. CWK's website is presented on the statement of financial position net of accumulated amortization, totaling \$3,172 at December 31, 2016. Depreciation and amortization expense for the year ending December 31, 2016 totaled \$28,533 and \$3,672, respectively. Amortization expense is estimated to be \$7,367 in 2017, \$6,635 in 2018, and \$4,927 per year in 2019 through 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, 2016, 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 2016 returns, and believe they are *more-likely-than-not* to be sustained if examined by federal or state tax authorities. CWK's 2013 through 2015 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, 2016

3. ***Loans Payable***

Boston Impact Initiative LLC

Two year loan dated October 14, 2013 at an interest rate of 4% per annum. This loan was amended in December 2016 whereas \$10,000 of the loan principal was forgiven and CWK will make monthly principal payments beginning in December 2016 through October 1, 2017. If all payments are timely made, interest on this loan will be forgiven. If any loan payments are in default, the interest rate on this loan will increase to 6% per annum. This loan is secured by all assets of CWK. \$ 99,597

City of Boston

Note payable to the City of Boston dated February 15, 2016. The loan is noninterest bearing and provides for loan forgiveness based on the number of jobs created by CWK's operations. During 2017, 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 2017. 84,572

Related Party Loans

Demand loan payable to the current CWK Executive Director, dated February 22, 2013 (Note 5). This unsecured loan bears interest at 10% per annum. Accrued interest payable at December 31, 2016 totals \$10,738. 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 loans payable \$238,169

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 5). CWK has made member capital contributions totaling \$21,500 as of December 31, 2016. CWK is also the sole member in CWK Pearl LLC, which was created to operate this facility.

CommonWealth Kitchen, Inc.
Notes to Financial Statements - *Continued*
December 31, 2016

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

The assets and liabilities of the DB Pearl QALICB, LLC as of December 31, 2016, and revenues and expenses for the year then ended are as follows:

Assets	\$13,092,480
Liabilities	<u>13,433,577</u>
Equity	<u>\$ (341,097)</u>
Revenue	\$ 646,204
Expenses	<u>815,638</u>
Net loss	<u>\$ (169,434)</u>

5. ***Lease Commitments***

In connection with the operational activity of the *Bornstein & Pearl Building Food Production Small Business Center* (Note 4), CWK (through CWK Pearl LLC) has entered into a sublease agreement with DB Pearl Master Tenant LLC (DB Pearl), 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. Total amounts expensed under this lease were \$249,215 for rent, \$112,808 for common area expenses, and \$90,385 for utilities for the year ended December 31, 2016.

Future minimum lease payments under this lease are as follows:

<i>Year</i>	<i>Amount</i>
2017	256,690
2018	264,391
2019	272,322
2020	338,092
2021	288,907
Thereafter	<u>604,075</u>
Total	<u>\$2,024,477</u>

CommonWealth Kitchen, Inc.
Notes to Financial Statements - *Continued*
December 31, 2016

6. ***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 \$10,738 at December 31, 2016, and interest expense for the year ended totaled \$3,000. CWK also has an outstanding payable balance to the Executive Director for services provided as a contractor in prior years. The balance at December 31, 2016 is \$50,000 and is included in accounts payable on the statement of financial position.

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 5). 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.

CWK leases its facility from DB Pearl, a Massachusetts limited liability company with DBEDC as its sole member. CWK provides management and cleaning services for the facility as a part of the lease, totaling \$58,108 of fee income for the year ending December 31, 2016. DBEDC invoices CWK on a monthly basis for rent, common area expenses, and utilities, totaling \$452,408 for the year then ended. At December 31, 2016 the net amount owed to DBEC totaled \$161,315. CWK also has deferred rent payable on this lease totaling \$57,600.

During the year ended December 31, 2016, CWK paid DB Pearl \$35,722 for its share of a cold storage room buildout, recorded as leasehold improvements on the statement of financial position.

7. ***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.

CommonWealth Kitchen, Inc.
Notes to Financial Statements - *Continued*
December 31, 2016

8. ***Temporarily Restricted Net Assets***

Temporarily restricted net assets at December 31, 2016 consisted of both pledges receivable at year end, and contributions received that have not yet been expended in accordance with donor restrictions at year-end.

9. ***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.

10. ***Contingencies***

CWK contracts with governmental agencies and third party payers. The contracts are subject to audit by the respective funding source and could result in the recapture of revenue previously reported by CWK. Management does not believe that any such disallowance, if found, would be material to CWK's financial statements. Accordingly, no provision for any liability that may result has been made in the financial statements.

11. ***Subsequent Events***

CWK has evaluated subsequent events through September 6, 2017, which is the date the financial statements were available to be issued. Except for the City of Boston's debt forgiveness in 2017 as described in Note 3, no other material subsequent events have occurred since December 31, 2016 that requires recognition or additional disclosure in these financial statements.