

CommonWealth Kitchen, Inc.

Financial Statements
and
Independent Auditors' Report

December 31, 2019



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, 2019 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, 2019, 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.

Emphasis of Matter – Adoption of Accounting Pronouncement

As discussed in Note 2 to the financial statements Commonwealth Kitchen, Inc. has adopted Accounting Standards Update (ASU) 2016-18, Statement of Cash Flows (Topic 230) – *Restricted Cash*. Our opinion is not modified with respect to this matter.

Daniel Dennis & Company LLP

October 26, 2020

CommonWealth Kitchen, Inc.
Statement of Financial Position
December 31, 2019

<i>Assets</i>	
<i>Current Assets</i>	
Cash	\$ 593,518
Accounts receivable - net	114,218
Pledges receivable	6,420
Grants receivable	461,116
Prepaid expenses	<u>40,121</u>
Total current assets	<u>1,215,393</u>
<i>Fixed Assets</i>	
Furniture, fixtures and equipment	696,277
Leasehold improvements	35,722
Accumulated depreciation and amortization	<u>(261,116)</u>
Net fixed assets	<u>470,883</u>
<i>Other Assets</i>	
Deposits	17,781
Other investments	<u>29,365</u>
Total other assets	<u>47,146</u>
<i>Non-Current Assets</i>	
Grants receivable	<u>50,000</u>
Total non-current assets	<u>50,000</u>
Total assets	<u><u>\$ 1,783,422</u></u>
<i>Liabilities and Net Assets</i>	
<i>Current Liabilities</i>	
Accounts payable	\$ 102,986
Due to related party	<u>17,820</u>
Total current liabilities	<u>120,806</u>
<i>Other Liabilities</i>	
Security deposits	40,931
Deferred rent	<u>57,600</u>
Total other liabilities	<u>98,531</u>
Total liabilities	<u>219,337</u>
<i>Net Assets</i>	
Without donor restrictions	630,825
With donor restrictions	<u>933,260</u>
Total net assets	<u>1,564,085</u>
Total liabilities and net assets	<u><u>\$ 1,783,422</u></u>

See accompanying notes to financial statements.

CommonWealth Kitchen, Inc.
Statement of Activities
For the Year Ended December 31, 2019

	<i>Without Donor Restrictions</i>	<i>With Donor Restrictions</i>	<i>Total</i>
<i>Revenue and Other Support</i>			
Rental and storage fees	\$ 586,097	\$ -	\$ 586,097
Grants and contributions	1,000,555	933,260	1,933,815
In-kind contributions	26,124	-	26,124
Management fees	37,350	-	37,350
Other fees	320,259	-	320,259
Miscellaneous income	21,031	-	21,031
Special event (net of direct costs of \$20,338)	17,863	-	17,863
Net assets released from restrictions	<u>481,730</u>	<u>(481,730)</u>	<u>-</u>
Total revenue and other support	<u>2,491,009</u>	<u>451,530</u>	<u>2,942,539</u>
<i>Expenses</i>			
Program services	2,173,503	-	2,173,503
Administration	315,982	-	315,982
Fundraising	<u>151,075</u>	<u>-</u>	<u>151,075</u>
Total expenses	<u>2,640,560</u>	<u>-</u>	<u>2,640,560</u>
Change in net assets	(149,551)	451,530	301,979
Net assets at beginning of year	<u>780,376</u>	<u>481,730</u>	<u>1,262,106</u>
Net assets at end of year	<u>\$ 630,825</u>	<u>\$ 933,260</u>	<u>\$ 1,564,085</u>

See accompanying notes to financial statements.

CommonWealth Kitchen, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2019

	<i>Program Services</i>	<i>Administration</i>	<i>Fund- Raising</i>	<i>Total</i>
Salaries and wages	\$ 959,645	\$ 175,591	\$ 82,247	\$ 1,217,483
Payroll taxes and fringe benefits	107,658	18,179	8,561	134,398
Management and consulting fees	57,008	27,400	54,849	139,257
Professional fees	-	36,030	-	36,030
Rent and common area maintenance	345,561	14,018	-	359,579
Utilities	88,411	2,993	-	91,404
Cleaning and trash removal	31,550	1,068	-	32,618
Depreciation and amortization	97,675	3,306	-	100,981
Interest expense	-	525	-	525
Supplies	303,978	16,310	2,659	322,947
Office expense	31,843	4,271	899	37,013
Tools and equipment	24,476	829	-	25,305
Telephone and internet	10,160	1,363	287	11,810
Building security	179	6	-	185
Permits and filing fees	2,596	88	-	2,684
Repairs and maintenance	55,571	1,881	-	57,452
Insurance	33,104	4,441	935	38,480
Staff development	7,187	964	203	8,354
Bad debt expense	-	4,602	-	4,602
Miscellaneous expense	16,901	2,117	435	19,453
Total	<u>\$ 2,173,503</u>	<u>\$ 315,982</u>	<u>\$ 151,075</u>	<u>\$ 2,640,560</u>

See accompanying notes to financial statements.

CommonWealth Kitchen, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2019

Cash Flows From Operating Activities

Change in net assets	\$ 301,979
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	100,981
Bad debt expense	4,602
Changes in operating assets and liabilities:	
Decrease in accounts receivable	718
Increase in grants receivable	(392,245)
Decrease in pledges receivable	167,112
Increase in prepaid expenses	(28,057)
Decrease in accounts payable	(114)
Decrease in security deposits	(4,900)
Increase in due to related party	3,675
Decrease in accrued payroll	<u>(33,455)</u>
Net cash provided by operating activities	<u>120,296</u>

Cash Flows From Investing Activities

Payments for fixed assets	(95,928)
Increase in investment	<u>(29,365)</u>
Net cash used in investing activities	<u>(125,293)</u>

Net decrease in cash and restricted cash	(4,997)
Cash and restricted cash at beginning of period	<u>616,296</u>
Cash and restricted cash at end of period	<u><u>\$ 611,299</u></u>

Reconciliation of Cash and Restricted Cash

Cash	\$ 593,518
Deposits	<u>17,781</u>
Total cash and restricted cash	<u><u>\$ 611,299</u></u>

Supplemental Disclosure

Cash paid for interest	<u><u>\$ 525</u></u>
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See accompanying notes to financial statements.

CommonWealth Kitchen, Inc.

Notes to Financial Statements

December 31, 2019

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 – with donor restrictions and without donor restrictions, 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 net assets without donor restrictions 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 net assets with donor restrictions class. When a restriction has been satisfied (payment has been made in accordance with the restriction or the time restriction has expired), the net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

CommonWealth Kitchen, Inc.
Notes to Financial Statements - *Continued*
December 31, 2019

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

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 \$15,000 at December 31, 2019. No allowance has been recorded for pledges and grants receivable, as management has determined these accounts to be fully collectible.

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 \$7,320 at December 31, 2019. Depreciation and amortization expense for the year ending December 31, 2019 totaled \$93,661 and \$7,320, respectively. Amortization expense is estimated to be \$4,927 for the next four years.

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, 2019, 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 2019 returns, and believe they are *more-likely-than-not* to be sustained if examined by federal or state tax authorities. CWK's 2016 through 2018 tax years remain subject to examination by Federal and state tax authorities.

CommonWealth Kitchen, Inc.
Notes to Financial Statements - *Continued*
December 31, 2019

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

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.

New Accounting Pronouncement

During 2019, CWK adopted the provisions of the Financial Accounting Standards Board's (FASB) Accounting Standard Update (ASU) 2016-18, Statement of Cash Flows (Topic 230) – *Restricted Cash*. The ASU addresses the diversity that exists in the classification and presentation of changes in restricted cash on the Statement of Cash Flows. At December 31, 2019, the Corporation has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all prior periods.

3. ***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, the *Bornstein & Pearl Building Food Production Small Business Center* located in Dorchester, MA (Note 5), that meets the needs of a range of start-up, early stage, growing, and established food production businesses. CWK has made member capital contributions totaling \$21,500 as of December 31, 2019. CWK is also the sole member in CCK Pearl LLC, which was created to operate this facility.

The assets and liabilities of the DB Pearl QALICB, LLC as of December 31, 2019, and revenues and expenses for the year then ended are as follows:

Assets	\$ 12,872,218
Liabilities	<u>13,597,646</u>
Equity	<u>\$ (725,428)</u>
Revenue	\$ 646,204
Expenses	<u>760,652</u>
Net loss	<u>\$ (114,448)</u>

No amount is recorded in the 2019 financial statements, as CWK's share of their investment is \$0.

CommonWealth Kitchen, Inc.
Notes to Financial Statements - *Continued*
December 31, 2019

4. ***Lease Commitments***

In connection with the operational activity of the *Bornstein & Pearl Building Food Production Small Business Center* (Note 4), CWK (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. Total amounts expensed under this lease were \$209,208 for rent, \$150,371 for common area expenses, and \$91,404 for utilities for the year ended December 31, 2019.

Future minimum lease payments under this lease are as follows:

<i>Year</i>	<i>Amount</i>
2020	\$ 338,092
2021	288,907
2022	297,574
2023	<u>306,501</u>
Total	<u>\$ 1,231,074</u>

5. ***Related Party Transactions***

CWK leases its facility from DB Pearl Master Tenant LLC, 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 \$37,350 of fee income for the year ending December 31, 2019. DBEDC invoices CWK on a monthly basis for rent, common area expenses, and utilities, totaling \$450,983 for the year then ended. At December 31, 2019, the net amount owed to DBEC totaled \$17,820. CWK also has deferred rent payable on this lease totaling \$57,600 that is due in 2020.

6. ***Conditional Promise to Give***

During 2017, CWK received a conditional promise of \$500,000, due in \$50,000 annual increments over ten years, of which \$50,000 was received in 2019. The future payments are contingent upon the discretion of the granting organization. Since the future payments represent conditional promises to give, they are not recorded as contribution revenue until donor conditions are met.

CommonWealth Kitchen, Inc.
Notes to Financial Statements - *Continued*
December 31, 2019

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 DB Pearl QALICB, LLC.

8. ***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.

9. ***Net Assets with Donor Restrictions***

Net assets with donor restrictions at December 31, 2019 consisted of both pledges receivable and contributions received that have not yet been expended in accordance with donor restrictions.

Net assets with donor restrictions at December 31, 2019 are available for the following uses:

Restricted for:	
Purpose:	
Cultivating Small Businesses	\$ 138,500
Merck Manufacturing	65,000
Administrative and Overhead Costs	130,000
Health Food Procurement for NE Institutions	349,760
Time restrictions - pledges receivable for operations	<u>250,000</u>
Total	<u>\$ 933,260</u>

CommonWealth Kitchen, Inc.
Notes to Financial Statements - *Continued*
December 31, 2019

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. ***Board Designated Net Assets***

CWK's Board of Directors established a board-designated reserve fund to be used only after consulting with the board of directors. It is anticipated the reserve will be funded annually based on the current year's net income. The board has designated \$25,000 for this reserve as December 31, 2019.

12. ***Liquidity and Availability***

The following reflects CWK's financial assets as of December 31, 2019, reduced by amounts not available for general use within one year of the balance sheet date because of donor-imposed restrictions:

Financial assets at year end:	
Cash	\$ 593,518
Accounts receivable - net	114,218
Pledges receivable	6,420
Grants receivable	<u>461,116</u>
Total financial assets	1,175,272
Less amounts not available to be used within one year:	
Net assets with donor restrictions	<u>451,530</u>
Financial assets available to meet general expenditures over the next twelve months	<u><u>\$ 723,742</u></u>

13. ***Pledge Receivable***

Unconditional promises to give are recorded as receivables and revenue when received. CWK distinguishes between contributions received for both net asset category in accordance with donor-imposed restrictions. Pledges are recorded after being discounted to the anticipated net present value of the future cash flows. Pledges receivable consist of the following at December 31, 2019:

Unconditional promises to be collected in:	
One year or less	<u><u>\$ 6,420</u></u>

CommonWealth Kitchen, Inc.
Notes to Financial Statements - *Continued*
December 31, 2019

14. ***Contingency***

CWK is currently awaiting approval of the 6th amendment to the original rent agreement with Dorchester Bay Economic Development Corporation. Management believes this amendment will eventually be executed with similar terms as the current agreement. While the outcome cannot be determined at this time, management is of the opinion that the liability, if any, from the final resolution of this matter will not have a material effect on CWK's financial statements.

15. ***Subsequent Events***

On March 11, 2020, the World Health Organization has characterized the outbreak of a novel strain of coronavirus (COVID-19) as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. The extent of the impact of COVID-19 on CWK's operational and financial performance will depend on specific developments, including the duration and spread of the outbreak, impact on its customers, employees, and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact CWK's financial condition or results of operations is unknown.

CWK has evaluated subsequent events through October 26, 2020, which is the date the financial statements were available to be issued. No subsequent events have occurred since December 31, 2019 that requires recognition or additional disclosure in these financial statements.