

Financial Report

Liberty's Kitchen, Inc.

December 31, 2018



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New Orleans, Louisiana

December 31, 2018 and 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors,
Liberty's Kitchen, Inc.,
New Orleans, Louisiana.

We have audited the accompanying financial statements of Liberty's Kitchen, Inc. ("Liberty") which comprise the statement of financial position as of December 31, 2018, 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 Liberty'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 Liberty'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 Liberty as of December 31, 2018, 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.

Other Matter

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information in Schedule 1 is presented for the purposes of additional analysis, as required by Louisiana Revised Statute 24:513(A)(3), and is not a required part of the financial statements. Such information in Schedule 1 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information in Schedule 1 has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information in Schedule 1 is fairly stated in all material respects in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Liberty's financial statements, and our report dated June 4, 2018, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein, as of and for year ended December 31, 2017 is consistent, in all material respects, with the 2017 audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report, dated June 20, 2019, on our consideration of Liberty's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Liberty's internal control over financial reporting and compliance.

Bougeois Bennett, L.L.C.

Certified Public Accountants.

New Orleans, Louisiana,
June 20, 2019.

STATEMENT OF FINANCIAL POSITION**Liberty's Kitchen, Inc.**

New Orleans, Louisiana

December 31, 2018
(with comparative totals for 2017)

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents	\$ 706,307	\$ 473,823
Accounts receivable	42,579	154,489
Grants receivable	970,958	1,063,855
Inventory	31,343	57,791
Prepays and other assets	38,659	55,813
Property and equipment, net	<u>1,353,883</u>	<u>1,573,450</u>
Total assets	<u>\$ 3,143,729</u>	<u>\$ 3,379,221</u>
Liabilities		
Accounts payable	\$ 74,219	\$ 245,177
Accrued expenses	129,768	173,093
Lines of credit	-	250,000
Notes payable, net of origination fees of \$757 and \$2,271 as of December 2018 and 2017, respectively)	<u>777,094</u>	<u>366,019</u>
Total liabilities	<u>981,081</u>	<u>1,034,289</u>
Net Assets		
Without donor restrictions	555,093	567,162
With donor restrictions	<u>1,607,555</u>	<u>1,777,770</u>
Total net assets	<u>2,162,648</u>	<u>2,344,932</u>
Total liabilities and net assets	<u>\$ 3,143,729</u>	<u>\$ 3,379,221</u>

See notes to financial statements.

STATEMENT OF ACTIVITIES**Liberty's Kitchen, Inc.**

New Orleans, Louisiana

For the year ended December 31, 2018
(with comparative totals for 2017)

	2018		2017 Totals
	Without Donor Restrictions	With Donor Restrictions	
Revenues and Support			
Private grants	\$ 224,568	\$ 958,472	\$ 1,183,040
Restaurant sales	742,430	-	742,430
Contract sales	537,127	-	537,127
Government grants	439,367	19,400	458,767
Contributions	233,681	-	233,681
Catering sales	187,345	-	187,345
Contributions in-kind	130,260	-	130,260
Special events, net	124,698	-	124,698
Other	36,043	-	36,043
Capital campaign	-	-	-
Net assets released from restrictions	1,148,087	(1,148,087)	-
Total revenues and support	3,803,606	(170,215)	3,633,391
Expenses			
Program services	3,195,244	-	3,195,244
Supporting services:			
General and administration	440,392	-	440,392
Fundraising	180,039	-	180,039
Total expenses	3,815,675	-	3,815,675
Change in Net Assets	(12,069)	(170,215)	(182,284)
Net Assets			
Beginning of year	567,162	1,777,770	2,344,932
End of year	\$ 555,093	\$ 1,607,555	\$ 2,162,648

See notes to financial statements.

STATEMENT OF FUNCTIONAL EXPENSES**Liberty's Kitchen, Inc.**

New Orleans, Louisiana

For the year ended December 31, 2018

(with comparative totals for 2017)

	2018					Totals	General and		Totals	2017 Totals
	Youth Development Program	Poydras Cafeteria	School Nutrition Program	Refresh Café & Catering	Healthy Corner Store Collaborative		Administration	Fundraising		
Salaries and wages	\$ 614,236	\$254,875	\$249,947	\$141,952	\$18,792	\$1,279,802	\$125,140	\$115,591	\$1,520,533	\$1,772,321
Cost of sales	-	253,722	387,697	145,854	511	787,784	-	-	787,784	1,022,728
Occupancy	94,924	100,331	45	57,499	-	252,799	42,257	24,842	319,898	304,782
Training programs	192,976	-	-	-	1,800	194,776	-	-	194,776	150,884
Employee benefits	60,900	36,654	15,594	14,588	148	127,884	4,661	8,186	140,731	134,726
Payroll taxes	52,382	16,084	21,204	17,307	1,516	108,493	19,460	9,086	137,039	155,945
Professional fees	20,994	4,327	1,796	10,639	13,289	51,045	71,290	4,609	126,944	118,504
Operating costs	16,165	6,344	9,508	12,774	158	44,949	68,764	6,419	120,132	152,245
Food service operations	3,656	42,292	12,938	57,890	-	116,776	1,686	612	119,074	166,271
Special event expenses	121	476	-	-	-	597	-	87,178	87,775	65,005
Interest expense	2,366	434	774	5,142	-	8,716	33,646	25	42,387	23,651
Other expenses	-	2,700	-	25,364	784	28,848	-	-	28,848	4,999
Development expense	894	161	-	2,412	-	3,467	10,267	10,669	24,403	132,175
Totals	1,059,614	718,400	699,503	491,421	36,998	3,005,936	377,171	267,217	3,650,324	4,204,236
Depreciation	188,709	-	-	-	-	188,709	62,903	-	251,612	199,077
Amortization	1,196	-	-	-	-	1,196	318	-	1,514	1,514
Total expenses	1,249,519	718,400	699,503	491,421	36,998	3,195,841	440,392	267,217	3,903,450	4,404,827
Less special events netted with revenues	(121)	(476)	-	-	-	(597)	-	(87,178)	(87,775)	(65,005)
Total expenses on Statement of Activities	\$1,249,398	\$717,924	\$699,503	\$491,421	\$36,998	\$3,195,244	\$440,392	\$180,039	\$3,815,675	\$4,339,822

See notes to financial statements.

STATEMENT OF CASH FLOWS

Liberty's Kitchen, Inc.
New Orleans, Louisiana

For the year ended December 31, 2018
(with comparative totals for 2017)

	<u>2018</u>	<u>2017</u>
Cash Flows From Operating Activities		
Change in net assets	\$ (182,284)	\$ 1,027,318
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization expense	1,514	1,514
Depreciation expense	251,612	199,077
Decrease (increase) in assets:		
Accounts receivable	111,910	(57,262)
Unconditional promises to give	-	12,000
Grants receivable	92,897	(1,002,343)
Inventory	26,448	(18,202)
Prepaid expenses	(349)	1,324
Increase (decrease) in liabilities:		
Accounts payable	(170,958)	95,573
Accrued expenses	(25,822)	74,406
	<u>104,968</u>	<u>333,405</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	<u>(32,045)</u>	<u>(523,130)</u>

**Exhibit D
(Continued)**

	<u>2018</u>	<u>2017</u>
Cash Flows From Financing Activities		
Proceeds from lines of credit	472,347	615,083
Payments on line of credit	(360,869)	(423,164)
Proceeds from long-term debt	96,938	-
Payments on long-term debt	<u>(48,855)</u>	<u>(28,623)</u>
Net cash provided by financing activities	<u>159,561</u>	<u>163,296</u>
Net Increase (Decrease) in Cash and Cash Equivalents	232,484	(26,429)
Cash and Cash Equivalents		
Beginning of year	<u>473,823</u>	<u>500,252</u>
End of year	<u><u>\$ 706,307</u></u>	<u><u>\$ 473,823</u></u>
Supplemental Information		
Cash paid during the year for interest	<u><u>\$ 42,387</u></u>	<u><u>\$ 23,651</u></u>
Supplemental Disclosure of Noncash Investing and Financing Activities		
Prepaid expenses in accrued expenses	<u><u>\$ 21,333</u></u>	<u><u>\$ 38,836</u></u>
Property and equipment purchases financed through notes payable	<u><u>\$ -</u></u>	<u><u>\$ 113,420</u></u>
Line of credit paid off through new notes payable	<u><u>\$ 361,478</u></u>	<u><u>\$ -</u></u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

Liberty's Kitchen, Inc.
New Orleans, Louisiana

December 31, 2018 and 2017

Note 1 - NATURE OF ACTIVITIES

Liberty's Kitchen, Inc. (a non-profit organization) ("Liberty") was established on May 2, 2008. Liberty is a social enterprise whose mission is to transform the lives of New Orleans' youth by providing a path to self-efficiency through food service based training, leadership, and employment programs.

Liberty's Youth Development Program provides opportunity youth, ages sixteen through twenty-four, with the opportunity to build a better future by increasing their ability to change their situation and engage in a supportive community where they learn life, social, and employability skills in a culinary setting. The intensive training program combines hands-on food-service training with classroom instruction, individual case management, education programs, and job placement services and/or a return to an education setting.

Liberty creates pathways for youth ages sixteen through twenty-four to create and accomplish their vision of success. Liberty began with a dream to support New Orleans youth in achieving self-sufficiency. Liberty launched its Youth Development Program (YDP) in 2009 with only two students. Since then, Liberty has served over 650 disconnected youth who have put themselves on a positive path through life skills, education, and hospitality-based workforce training.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**a. Basis of Accounting**

The financial statements of Liberty are prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

b. Basis of Presentation

Liberty reports information regarding financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions, based on donor stipulations and restrictions placed on contributions, if any. Accordingly, net assets of Liberty and changes therein are classified and reported as follows:

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Basis of Presentation (Continued)

Net Assets Without Donor Restrictions - Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions- Net assets subject to donor-imposed stipulations that will be met either by action of Liberty and/or the passage of time, or net assets subject to donor-imposed stipulations that are maintained in perpetuity by Liberty.

c. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

d. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, Liberty considers all short-term highly liquid investments with an original maturity of three months or less from the date of acquisition to be cash equivalents.

e. Accounts Receivable

Accounts receivable consists primarily of unsecured amounts due from various customers. Management closely monitors outstanding receivable and estimates an allowance for uncollectible receivables based on prior experience. Balances that are determined to be uncollectible are written off. All accounts are considered fully collectible by management. Accordingly, no provision for doubtful accounts is considered necessary.

f. Promises to Give

Unconditional promises to give are recognized when the donor makes a promise to give to Liberty that is, in substance, unconditional. Conditional promises to give are recognized when the conditions on which they depend are substantially met. As of December 31, 2018 and 2017, Liberty did not have any promises to give.

Note 2 - SUMMARY OF SIGNIFICANT ACC POLICIES (Continued)

g. Inventory

Food inventory is valued at the lower of cost or net realizable value determined by the first-in, first-out method.

h. Property and Equipment

Property and equipment are stated at cost, net of accumulated depreciation. Donations of property and equipment are recorded as contributions in-kind at their estimated fair value. Such donations are reported as unrestricted unless the donor has restricted the use of the donated asset to a specific purpose. Repairs and maintenance are charged to expense as incurred; major renewals and replacements and betterments are capitalized. Liberty follows a policy of capitalizing all expenditures of property and equipment in excess of \$500. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the related depreciable assets which range from five to seven years.

i. Debt Issuance Costs

Liberty capitalizes costs related to the loan financing and amortizes these costs over the life of the loan. Total debt issuance costs were \$7,570 as of December 31, 2018 and 2017. Accumulated amortization was \$6,813 and \$5,299 as of December 31, 2018 and 2017, respectively. Amortization expense was \$1,514 for both of the years ended December 31, 2018 and 2017.

j. Contributions and Revenue Recognition

Contributions are recorded as assets with donor restrictions or assets without donor restrictions, depending on the existence or nature of any donor restrictions.

Support that is restricted by a donor is reported as an increase in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), 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. Donor restricted contributions whose restrictions are met in the same reporting periods are reported as unrestricted support.

Liberty recognizes revenue on contract, restaurant, and catering food sales when sales are earned and measurable.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k. Donated Services of Volunteers

Donated services have not been reflected in the financial statements since no objective basis is available to measure the value of such services. A substantial number of volunteers donate significant amounts of their time in Liberty's program and supporting services.

l. Methods Used for Allocation of Expenses

Most of the expenses can be directly allocated to one of the programs or supporting functions. The financial statements also report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include occupancy and operating costs which are allocated based on facility square footage. Salaries and wages, employee benefits, and payroll taxes are allocated on the basis of estimates of time and effort.

m. Income Taxes

Liberty has received a letter of determination from the Internal Revenue Service advising that it qualifies as a non-profit corporation under Section 501 (c)(3) of the Internal Revenue Code, and therefore, is not subject to income tax.

Accounting standards provide detailed guidance for financial statement recognition, measurement, and disclosures of uncertain tax positions recognized in an entity's financial statements. It requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will not be sustained upon examination. Tax years ended December 31, 2015 and later remain subject to examination by the taxing authorities. As of December 31, 2018, management of Liberty believes that it has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

n. Recently Issued Accounting Standards

Presentation of Financial Statements for Not-for-Profit Entities

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, which changes the current guidance for assets classification, governing board designations, investment return, underwater endowment funds, expenses, liquidity and presentation of operating cash flows. ASU 2016-14 reduces the required number of classes of net assets from three to two: *net assets with restrictions and*

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n. Recently Issued Accounting Standards (Continued)

Presentation of Financial Statements for Not-for-Profit Entities (Continued)

net assets without restrictions. ASU 2016-14 also requires not-for-profit entities to provide enhanced disclosures about the amounts and purposes of governing board designations and appropriations. ASU 2016-14 requires not-for-profits to report investment return net of external and direct internal investment expenses. The requirement to disclose those netted expenses is eliminated. In the absence of explicit donor restrictions, ASU 2016-14 requires not-for-profit entities to use the placed-in-service approach to account for capital gifts. The current option to use the over-time approach has been eliminated. ASU 2016-14 requires expenses to be reported by nature in addition to function and include an analysis of expenses by both nature and function. The methods used by not-for-profit entities to allocate costs among program and support functions will also need to be disclosed. ASU 2016-14 requires not-for-profit entities to provide both qualitative and quantitative information on management of liquid available resources and the ability to cover short-term cash needs within one year of the balance sheet date. Finally, current standards allow not-for-profit entities to decide whether to present operating cash flows using either the direct method or the indirect method. ASU 2016-14 eliminates the requirement to present or disclose the indirect method of reconciliation if the entity decides to use the direct method. ASU 2016-14 is effective for annual reporting periods beginning after December 15, 2017. Liberty has adopted the provisions of ASU 2016-14 and has retrospectively applied this standard to the financial statements as of and for the year ended December 31, 2017.

Statement of Cash Flows

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230)*. ASU No. 2016-18 requires that a statement of cash flows explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in ASU No. 2016-18 do not provide a definition of restricted cash or restricted cash equivalents. ASU No. 2016-18 is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. Liberty is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

n. Recently Issued Accounting Standards (Continued)

Statement of Cash Flows (Continued)

Leases

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. ASU No. 2016-02 requires that a lease liability and related right-of-use-asset representing the lessee's right to use or control the asset be recorded on the statement of financial position upon the commencement of all leases except for short-term leases. Leases will be classified as either finance leases or operating leases, which are substantially similar to the classification criteria for distinguishing between capital leases and operating in existing lease accounting guidance. As a result, the effect of leases in the statement of activities and the statement of cash flows will be substantially unchanged from the existing lease accounting guidance. The ASU No. 2016-02 is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. Liberty is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

Revenue from Contracts with Customers

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which provides a single comprehensive model for entities to use in accounting for revenue from contracts with customers and supersedes most current revenue recognition models. Subsequent to the issuance of ASU 2014-09, FASB issued several additional Accounting Standards Updates (ASUs) which amended and clarified the guidance and deferred the effective date. The new revenue standard is now effective for annual reporting periods beginning after December 15, 2018, with certain early adoption provisions available. Liberty is currently evaluating the full effect that the adoption of this standard will have on the financial statements.

o. Reclassifications

Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 financial statement presentation.

Note 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p. Subsequent Events

Management evaluates events occurring subsequent to the date of financial statements in determining the accounting for and disclosure of transactions and events that effect the financial statements. Subsequent events have been evaluated through June 20, 2019, which is the date the financial statements were available to be issued.

Note 3 - CONCENTRATION OF CREDIT RISK

Liberty maintains cash accounts at several financial institutions located in southeast Louisiana. The Federal Deposit Insurance Corporation insures accounts at each institution up to \$250,000 as of December 31, 2018. As of December 31, 2018, approximately \$457,000 was uninsured.

Note 4 - GRANTS RECEIVABLE

The balance of grants receivable, which are all deemed collectible by management, totaled \$970,958 and \$1,063,855 as of December 31, 2018 and 2017, respectively. Liberty has discounted the value of future grants receivables by using an effective interest rate of 5%.

The details of grants receivable as of December 31, 2018 and 2017 are as follows:

	2018	2017
Conrad N. Hilton Foundation	\$350,000	\$ 750,000
W.K. Kellogg Foundation	333,000	-
Department of Children and Family Services	130,125	-
Methodist Health System Foundation	111,983	218,043
Zemurray Foundation	30,000	60,000
Edward Wisner	20,000	-
Institute of Mental Hygiene	12,500	-
National Institute of Food and Agriculture	-	33,890
Joe W. and Dorothy Dorsett Brown Foundation	-	20,000
Baptist Community Ministries	-	5,350
	987,608	1,087,283
Less discount	(16,650)	(23,428)
Totals	\$970,958	\$1,063,855

Note 4 - GRANTS RECEIVABLE (Continued)

	2018	2017
Amounts due in:		
Less than one year	\$654,608	\$ 595,300
One to five years	333,000	491,983
Totals	\$987,608	\$1,087,283

Note 5 - PROPERTY AND EQUIPMENT

Property and equipment as of December 31, 2018 and 2017 consists of the following:

	2018	2017
Leasehold improvements	\$1,707,090	\$1,707,090
Furniture and fixtures	131,159	131,159
Machinery and equipment	414,996	382,951
Capital improvements	49,732	49,732
Less accumulated depreciation	(949,094)	(697,482)
	\$1,353,883	\$1,573,450

Depreciation expense was \$251,612 and \$199,077 for the years ended December 31, 2018 and 2017, respectively.

Note 6 - LINE OF CREDIT

Liberty entered into an unsecured line of credit with a local financial institution on March 29, 2018 that provided borrowings up to \$300,000. The line of credit bears interest at a rate equal to 1-month LIBOR plus 3.75% (6.21% and 5.25% as of December 31, 2018 and 2017, respectively). The note requires monthly interest only payments and matured on March 28, 2019. This line of credit was renewed on a month-to-month basis on March 29, 2019. There was no balance on the line of credit as of December 31, 2018. The outstanding balances of the line as of December 31, 2017 was \$150,000.

Note 6 - LINE OF CREDIT (Continued)

On November 22, 2017, Liberty entered into a line of credit with a local financial institution that provided borrowings up to \$100,000. The line of credit bears interest at a rate equal to Wall Street Journal prime rate plus 2.62% (8.12% and 7.12% as of December 31, 2018 and 2017, respectively). The note requires monthly interest only payments and matured on November 21, 2018. The line of credit was renewed on a month-to-month basis on November 22, 2018. The line of credit is secured by all furniture, fixtures, and receivables. There was no balance on the line of credit as of December 31, 2018. The outstanding balances of the line as of December 31, 2017 was \$100,000.

Note 7 - NOTES PAYABLE

On November 21, 2018, Liberty executed a promissory note in the amount of \$500,000 with a private foundation to consolidate debt and to provide working capital. The agreement provides for payments of interest only quarterly at 2% of \$2,500 per quarter with a balloon payment of \$500,000 due November 21, 2023. The note was unsecured. The outstanding balance of the note as of December 31, 2018 was \$500,000.

On May 24, 2017, Liberty executed a promissory note for \$311,762 with a local financial institution to refinance the remaining balance of the Capital Impact Partners note. The agreement provides for payments of principal plus interest at 4.8% of \$3,287 per month with a balloon payment of approximately \$120,000 due on May 24, 2024. The loan is secured with property and equipment maintained at the leased building. The outstanding balances of the note as of December 31, 2018 and 2017, was \$271,601 and \$297,182, respectively.

On March 3, 2017, Liberty executed a promissory note for \$30,000 with a local financial institution to purchase a delivery van #1. The agreement provided for payments of principal plus interest at 4.75% of \$564 per month and was scheduled to mature on March 3, 2022. The loan was secured with the delivery van. On December 21, 2018, the note was paid in full with proceeds from the November 21, 2018 note payable. The outstanding balance of the note as of December 31, 2017 was \$25,952.

On April 19, 2017, Liberty executed a promissory note for \$30,000 with a local financial institution to purchase a delivery van #2. The agreement provided for payments of principal plus interest at 4.75% of \$564 per month and was scheduled to mature on April 19, 2022. The loan was secured with the delivery van. On December 21, 2018, the note was paid in full with proceeds from the November 21, 2018 note payable. The outstanding balance of the note as of December 31, 2017 was \$26,406.

Note 7 - NOTES PAYABLE (Continued)

On February 14, 2017, Liberty executed a promissory note in the amount of \$25,000 to the sublessor for the build-out of café space associated with the sublease at its Poydras St. location. The note requires quarterly principal payments of \$2,083; no interest rate is applied, and matures on February 25, 2020. The \$25,000 represents Liberty's portion of the build-out, with the remaining build-out costs of \$80,000 being provided by the sublessor. The outstanding balances of the note as of December 31, 2018 and 2017, was \$6,250 and \$18,750, respectively.

On January 27, 2014, Liberty executed a promissory note for borrowings up to \$350,000 with Capital Impact Partners relating to the leasehold improvements at the new building location. The agreement provides for payments of principal plus interest at 6.00% of \$3,899 per month with a balloon payment of approximately \$200,000 due on August 1, 2019. The loan was secured with property and equipment maintained at the leased building. On May 24, 2017, the note was refinanced with another note payable at a local financial institution.

Future maturities of the notes payable are as follows:

<u>Year Ending December 31,</u>	<u>Amounts</u>
2019	\$ 32,905
2020	30,675
2021	29,973
2022	31,422
2023	532,941
Thereafter	<u>119,935</u>
	<u>\$777,851</u>

Total interest expense incurred on the notes payable and lines of credit for the years ended December 31, 2018 and 2017 totaled \$33,128 and \$23,079, respectively. Other interest expense totaled \$9,259 and \$572 for the years ended December 31, 2018 and 2017, respectively.

Note 8 - IN-KIND DONATIONS

Liberty records the value of in-kind donations when the services received (a) create or enhance nonfinancial assets; or (b) require specialized skills which would typically need to be purchased if not provided by donation.

Note 8 - IN-KIND DONATIONS (Continued)

The fair value of in-kind support and the corresponding assets or expenses for the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
Rent	\$100,260	\$ 82,031
Special event accommodations	20,000	14,180
Advertising services	10,000	107,400
Food and beverages	-	6,093
Totals	\$130,260	\$209,704

Note 9 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of December 31, 2018 and 2017 are restricted for the following purposes or periods:

	2018	2017
Subject to expenditure for specified purpose:		
Programs:		
Youth development program	\$1,554,220	\$1,553,426
Healthy corner store collaborative	23,335	13,060
Total program	1,577,555	1,566,486
Subject to the passage of time:		
For periods after December 31, 2018	30,000	211,284
Total restricted net assets	\$1,607,555	\$1,777,770

Note 10 - OPERATING LEASES

Liberty leases facility space and equipment under operating lease agreements with expiration dates of November 14, 2021 and July 15, 2024, respectively. During the years ended December 31, 2018 and 2017, Liberty incurred rent expense of \$267,386 and \$246,552, respectively, under these agreements. The minimum future payments for the facility space lease and equipment lease required for the succeeding years are as follows:

Note 10 - OPERATING LEASES (Continued)

<u>Year Ending December 31,</u>	<u>Facility Base Rent</u>	<u>Equipment</u>
2019	\$ 131,878	\$ 2,040
2020	137,662	2,040
2021	137,662	1,870
2022	137,662	-
2023	137,662	-
Thereafter	<u>74,567</u>	<u>-</u>
	<u>\$ 757,093</u>	<u>\$ 5,950</u>

On February 14, 2017, Liberty entered into an operating sublease agreement for café space and equipment. The sublease commenced on April 17, 2017 and expires on April 17, 2020. The sublease continues for consecutive 1 year terms from year to year thereafter until termination. The sublease requires no monthly rent payments, and Liberty will recognize in-kind revenue for the market value of the sublease. As of the years ended December 31, 2018 and 2017, Liberty recognized \$100,260 and \$82,031, respectively, in-kind revenue associated with the sublease.

On April 3, 2017, Liberty entered in an agreement to sublease its kitchen space and equipment at its N. Broad location with a local restaurant. The term was five months ending August 31, 2017, with the agreement continuing month to month until termination on December 31, 2017. For the year ended December 31, 2017, rental income associated with this lease was \$18,000.

Note 11 - AVAILABILITY OF FINANCIAL ASSETS

As part of Liberty liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. To help manage unanticipated liquidity needs, Liberty has lines of credit in the amount of \$450,000.

Liberty receives grants and contributions with donor time and purpose restrictions. In addition, Liberty generates revenue and receives support without donor restrictions.

Contributions without donor restrictions, café revenue, fundraising events, facility rentals, and miscellaneous income are considered to be available to meet cash needs for general expenditures. General expenditures include program services, general and administrative, and fundraising expenses. Annual operations are defined as activities occurring during, and included in the budget for, the upcoming fiscal year.

Note 11 - AVAILABILITY OF FINANCIAL ASSETS (Continued)

The following table represents financial assets available for general expenditures within one year as of December 31, 2018:

Financial assets as of December 31, 2018:	
Cash and cash equivalents	\$ 706,307
Accounts receivable	42,579
Grants receivable, net	<u>970,958</u>
Total financial assets, as of December 31, 2018	1,719,844
Less amounts unavailable for general expenditures within one year, due to contractual or donor imposed restrictions:	
Purpose or time restricted net assets	<u>(1,607,555)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 112,289</u>

Note 12 - RISK MANAGEMENT

Liberty is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; and employee injuries. Commercial insurance coverage is purchased for claims arising from such matters. There were no settlement claims that exceeded this commercial coverage during the years ended December 31, 2018 and 2017.

Note 13 - BOARD OF DIRECTORS' COMPENSATION

The Board of Directors is a voluntary board. Accordingly, no compensation was paid to any Board member for the years ended December 31, 2018 and 2017.

SUPPLEMENTAL INFORMATION

**SCHEDULE OF COMPENSATION, BENEFITS, AND OTHER
PAYMENTS TO AGENCY HEAD OR CHIEF EXECUTIVE OFFICER**

Liberty's Kitchen, Inc.
New Orleans, Louisiana

For the year ended December 31, 2018

Agency Head Name: Dennis Bagneris, Executive Director

Purpose

Salary	\$ 0
Benefits - insurance	0
Benefits - retirement	0
Benefits - other	0
Car allowance	0
Vehicle provided by government	0
Per diem	0
Reimbursements	0
Travel	0
Registration fees	0
Conference travel	0
Continuing professional education fees	0
Housing	0
Unvouchered expenses	0
Special meals	0
	<hr/>
	<u>\$ 0 *</u>

* None of the Executive Director's salary, benefits, and other compensation is paid through public funding received from the State of Louisiana.

SPECIAL REPORTS BY CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors,
Liberty's Kitchen, Inc.,
New Orleans, Louisiana.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Liberty's Kitchen, Inc. ("Liberty"), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Liberty's basic financial statements, and have issued our report thereon dated June 20, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Liberty's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Liberty's internal control. Accordingly, we do not express an opinion on the effectiveness of Liberty's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Liberty's financial statements will not be prevented, or detected, and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be a material weakness or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Liberty's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Liberty's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bourgeois Bennett, L.L.C.

Certified Public Accountants.

New Orleans, Louisiana,
June 20, 2019.

SCHEDULE OF FINDINGS AND RESPONSES

Liberty's Kitchen, Inc.
New Orleans, Louisiana

For the year ended December 31, 2018

Section I - Summary of Auditor's Results

a) Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ___ Yes X No
- Significant deficiency(ies) identified that are not considered to be a material weakness? ___ Yes X None reported

Noncompliance material to financial statements noted? ___ Yes X No

b) Federal Awards

Liberty did not receive federal awards in excess of \$750,000 during the year ended December 31, 2018 and, therefore, is exempt from the audit requirements under Title 2 U.S. Code of Federal regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Section II - Internal Control Over Financial Reporting and Compliance and Other Matters Material to the Basic Financial Statements

Internal Control Over Financial Reporting

There were no findings noted during the audit for the year ended December 31, 2018 related to internal control over financial reporting.

**Section II - Internal Control Over Financial Reporting and Compliance and Other Matters
Material to the Basic Financial Statements (Continued)**

Compliance and Other Matters

No compliance findings material to the financial statements were reported during the audit for the year ended December 31, 2018.

Section III - Internal Control and Compliance Material to Federal Awards

Internal Control/Compliance

Liberty did not receive federal awards in excess of \$750,000 during the year ended December 31, 2018 and, therefore, is exempt from the audit requirements under Title 2 U.S. Code of Federal regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

REPORTS BY MANAGEMENT

SCHEDULE OF PRIOR YEAR FINDINGS AND RESPONSES

Liberty's Kitchen, Inc.
New Orleans, Louisiana

For the year ended December 31, 2018

Section I - Internal Control Over Financial Reporting and Compliance and Other Matters Material to the Basic Financial Statements

Internal Control Over Financial Reporting

No internal control over financial reporting findings, material to the financial statements, were reported during the audit for the year ended December 31, 2017.

Compliance and Other Matters

No compliance findings, material to the financial statements, were reported during the audit for the year ended December 31, 2017.

Section II - Internal Control and Compliance Material to Federal Awards

Liberty did not expend more than \$750,000 in Federal awards during the year ended December 31, 2017 and, therefore, was exempt from the audit requirements under Title 2 U.S. *Code of Federal regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Section III - Management Letter

A management letter was not issued in connection with the audit for the year ended December 31, 2017.

MANAGEMENT'S CORRECTIVE ACTION PLAN
ON CURRENT YEAR FINDINGS

Liberty's Kitchen, Inc.
New Orleans, Louisiana

For the year ended December 31, 2018

**Section I - Internal Control Over Financial Reporting and Compliance and Other Matters
Material to the Basic Financial Statements**

Internal Control Over Financial Reporting

There were no findings noted during the audit for the year ended December 31, 2018 related to internal control over financial reporting.

Compliance and Other Matters

There were no findings noted during the audit for the year ended December 31, 2018 related to compliance and other matters.

Section II - Internal Control and Compliance Material to Federal Awards

Liberty did not receive federal awards in excess of \$750,000 during the year ended December 31, 2018 and, therefore, is exempt from the audit requirements under Title 2 U.S. Code of Federal regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Section III - Management Letter

A management letter was not issued in connection with the audit of the financial statements for the year ended December 31, 2018.