

SPECIAL KNEADS AND TREATS, INC.
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018
AND
INDEPENDENT AUDITORS' REPORT

SPECIAL KNEADS AND TREATS, INC.
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INDEPENDENT AUDITORS' REPORT

To The Board of Directors
Special Kneads and Treats, Inc.

We have audited the accompanying financial statements of Special Kneads and Treats, Inc. 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.

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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risk 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 the Special Kneads and Treats, Inc., 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.

Reed, Quinn & McClure, LLC

Lawrenceville, Georgia
October 10, 2019

SPECIAL KNEADS AND TREATS, INC.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2018

ASSETS	
Cash and cash equivalents	\$ 45,010
Accounts receivable	609
Inventory	<u>5,858</u>
Total current assets	51,477
Property, plant and equipment, net	696,809
Loan cost, net of amortization cost	<u>2,209</u>
Total assets	<u><u>\$ 750,495</u></u>
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable	\$ 81,119
Mortgage payable - current portion	<u>15,692</u>
Total current liabilities	96,811
Mortgage payable - due after one year	<u>237,911</u>
Total liabilities	<u>\$ 334,722</u>
Net Assets	
Without restrictions	<u>415,773</u>
Total liabilities and net assets	<u><u>\$ 750,495</u></u>

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

SPECIAL KNEADS AND TREATS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

CHANGE IN NET ASSETS WITHOUT RESTRICTIONS

<u>REVENUES AND SUPPORT</u>	
Food Sales	\$ 206,572
Contributions	151,955
Miscellaneous	10,552
In-Kind contributions	<u>2,134</u>
Total revenues and support	<u>371,213</u>
 <u>EXPENSES</u>	
Program Expenses	
Cakes for Kiddos	65,642
Community assistance	41,706
Employment education	<u>117,089</u>
Total program expense	224,437
Support services	<u>125,060</u>
Total expenses	<u>349,497</u>
INCREASE (DECREASE) IN NET ASSETS	21,716
NET ASSETS - BEGINNING OF YEAR	<u>394,057</u>
NET ASSETS - END OF YEAR	<u>\$ 415,773</u>

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

SPECIAL KNEADS AND TREATS, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services			Total Programs	Support Services	Total
	Cakes for Kiddos	Community Assistance	Employment Education			
Salaries and related payroll tax	\$ 45,098	\$ 23,593	\$ 96,454	\$ 165,145	\$ 66,105	\$ 231,250
Advertising	223	223	293	738	441	1,179
Automobile	686	343	686	1,715	1,144	2,859
Bank service charges	99	50	99	248	8,686	8,934
Computer expenses	436	218	436	1,090	727	1,818
Depreciation and amortization	1,980	990	1,980	4,950	19,798	24,747
Donated baked goods	-	7,645	-	7,645	-	7,645
Equipment	164	82	164	410	411	821
Entertainment	-	85	-	85	-	85
Insurance	4,139	2,069	4,139	10,347	6,898	17,245
Interest	2,510	1,255	2,510	6,276	4,184	10,460
Janitorial	1,081	540	1,081	2,702	1,802	4,504
Linens	-	-	21	21	-	21
Miscellaneous	627	313	627	1,567	534	2,101
Office supplies	144	72	144	360	240	600
Postage and printing	289	145	289	723	482	1,206
Printing and copying	20	10	20	50	34	84
Professional services	966	483	966	2,416	1,611	4,027
Repairs and maintenance	152	76	152	380	254	634
Restaurant supplies	1,722	861	1,722	4,304	2,869	7,173
Spoilage	612	306	612	1,529	1,019	2,548
Telephone	486	242	486	1,214	809	2,023
Utilities	4,208	2,104	4,208	10,520	7,013	17,533
Total	<u>\$ 65,642</u>	<u>\$ 41,706</u>	<u>\$ 117,089</u>	<u>\$ 224,437</u>	<u>\$ 125,060</u>	<u>\$ 349,497</u>

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

SPECIAL KNEADS AND TREATS, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase (decrease) in net assets	\$ 21,716
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities	
Depreciation and ammortization	24,746
Change in operating assets and liabilities:	
Accounts receivable	531
Inventory	(5,858)
Accounts payable	21,994
Gift card liability	(7,027)
Net cash provided (used) by operating activities	<u>56,102</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Principle payments on debt	<u>(14,859)</u>
INCREASE (DECREASE) IN CASH	41,243
Cash - beginning of the year	<u>3,767</u>
Cash - end of year	<u><u>\$ 45,010</u></u>
SUPPLEMENTAL INFORMATION	
Interest paid on mortgage payable	<u>\$ 10,038</u>
Non Cash Activity	
In-kind contributions	<u><u>\$ 2,134</u></u>

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

SPECIAL KNEADS AND TREATS, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

1. NATURE OF ACTIVITIES

Special Kneads and Treats, Inc. (“Organization”) is a domestic nonprofit organization incorporated in the State of Georgia in 2012. The Organization’s core mission is to provide a free birthday cake to any child in the local community whose family cannot afford one. They work with the Department of Family and Children Services (DFCS), foster care, children’s shelters, Partnership Against Domestic Violence, Pregnancy Resource Centers, battered women’s shelters, homeless shelters and local food cooperative ministries as well as many other local support groups to get free cakes into the hands of those in need.

A major program of the Organization is connecting individuals with disabilities to a rewarding profession while providing valuable work experience and training. The focus on special needs adults receiving self-confidence, a sense of value and the opportunity to enjoy success and socialization is at the heart of Special Kneads and Treats, Inc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

Special Kneads and Treats, Inc. adopted the Financial Accounting Standards Update (ASU) No. 2016-14 – *Not for Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit-Entities*. Accordingly, net assets are reported as net assets without donor restrictions and net assets with donor restrictions.

Fair Value of Financial Instruments

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, FASB ASC 820 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels used to measure fair value are as follows:

- Level 1 Quoted prices in an active market for identical assets or liabilities;
- Level 2 Observable inputs other than quoted market prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data;
- Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities; this includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Cash and cash equivalents, accounts receivable and accounts payable are stated at cost, which approximates fair value due to their short-term maturity.

SPECIAL KNEADS AND TREATS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Estimates

Financial statements prepared in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates

Income Taxes

Special Kneads and Treats, Inc. is a qualified tax-exempt organization under Internal Revenue Code Section 501(c)(3). The IRS has determined that Special Kneads and Treats, Inc. is not a private foundation. Accordingly, no provision for income taxes is necessary.

Contributions

Contributions of cash and other assets are recorded as without donor restriction or with donor restriction depending on the existence and/or nature of any donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with restrictions are reclassified to net assets without restrictions and reported in the statement of activities as net assets released from restriction.

Donated Services and Non-Monetary Assets

Contributions of nonmonetary assets are recorded at fair value at the date of receipt, contributions of services that can be a) measured by the creation or enhancement of a nonfinancial asset or b) require specialized skills and are provided by individuals possessing those skills and would typically need to be purchased if not contributed. No amounts have been reflected in the financial statements for contributed services.

Functional allocation of expenses

The costs of providing the various programs and supporting services 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, as reflected on the statements of functional expenses. The expenses that are allocated include salaries and employee benefits which is allocated on the basis of time and effort. Occupancy costs, depreciation and similar costs have been allocated using the percentage of employee time and effort.

Cash and Cash Equivalents

For purposes of reporting on the statement of cash flows, cash and cash equivalents include cash, certificates of deposit and investments with an initial maturity of three months or less.

Property and Equipment

Special Kneads and Treats, Inc. capitalizes all property and equipment with a cost of \$1,000 if purchased and fair value of \$1,000 at date of donation if received by contribution. Depreciation is computed using the straight-line method over the estimated useful life of the asset. Repairs and maintenance are expensed as incurred, and any betterments that extend the useful life of an asset are capitalized.

SPECIAL KNEADS AND TREATS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Subsequent Events

In preparing these financial statements, Special Kneads and Treats, Inc. has evaluated events and transactions for potential recognition or disclosure through October 10, 2019, the date the financial statements were available to be issued.

Inventory

Inventories are stated at the lower of cost or market, on a first in, first out basis (FIFO)

3. CONCENTRATIONS OF CREDIT RISK

Special Kneads and Treats, Inc. maintains its cash balances in high credit quality institutions. These balances are insured by the FDIC up to \$250,000, per financial institution. At December 31, 2018, Special Kneads and Treats, Inc. did not have balances in excess of the FDIC insured limits.

4. PROPERTY, PLANT AND EQUIPMENT

At December 31, 2018, property, plant and equipment consist of the following:

Furniture and equipment	\$ 53,395
Building	214,000
Building improvements	333,017
Land	161,000
Vehicles	<u>5,000</u>
Total property and equipment	766,412
Less: accumulated depreciation	<u>(69,603)</u>
Net property and equipment	<u>\$ 696,809</u>

5. MORTGAGE PAYABLE

Special Kneads and Treats, Inc. purchased its building in 2016 and obtained a mortgage. The mortgage requires monthly payments of \$2,095 which includes principal and annual interest of 3.84%. The loan matures in October 2023 with a balloon payment of approximately \$172,975 plus any accrued interest. The note also requires a prepayment fee of approximately 2% of the principle payments in the year prepayment is made. The mortgage note is secured by the building and improvements. At December 31, 2018, the balance on the note was \$253,603.

SPECIAL KNEADS AND TREATS, INC.
NOTES TO FINANCIAL STATEMENTS (Continued)
DECEMBER 31, 2018

5. MORTGAGE PAYABLE – continued

At December 31, 2018, future minimum payments on the mortgage are as follows:

2019		\$	15,692
2020			16,306
2021			16,943
2022			17,605
2023			187,057
		\$	253,603

6 INFORMATION REGARDING LIQUIDITY AND AVAILABILITY OF RESOURCES

Special Kneads and Treats, Inc. is supported by contribution with and without restrictions and the sale of baked treats. As part of their liquidity management, they have a policy to structure financial assets to be available as general expenditures and other obligations come due.

The following table reflects the financial assets as of December 31, 2018.

Cash and cash equivalents		\$	51,477
Accounts receivable			609
			52,086
Financial assets available to meet cash needs for general expenditures within one year		\$	52,806