



**WADE | HOWARD**  
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Independent Accountants' Review Report

Chef Dal Smith  
National Culinary and Baking School  
La Mesa, California

We have reviewed the accompanying financial statements of National Culinary and Baking School (a proprietorship), which comprise the balance sheet as of December 31, 2015, and the related statements of income and proprietor's capital and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to the owner's financial data and making inquiries of the owner. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

**Owner's Responsibility for the Financial Statements**

The owner 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.

**Accountant's Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

**Accountant's Conclusion**

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

*Wade, Howard & Associates, CPAs*

Wade, Howard & Associates, CPAs LLP  
El Cajon, CA  
April 27, 2016

NATIONAL CULINARY AND BAKING SCHOOL  
BALANCE SHEET  
AS OF DECEMBER 31, 2015

Assets

Current assets

Cash	\$ 74,337
Prepaid expense	4,417
Student advances, net (Note B)	1,200
Notes receivable, net (Note B)	<u>741,968</u>
Total current assets	<u>821,922</u>

Property and equipment

Culinary equipment	73,117
Bakery equipment	16,041
Catering equipment	7,551
Vehicles	14,990
Leasehold improvements	<u>179,405</u>
	291,104
Less: accumulated depreciation	<u>(280,581)</u>
	<u>10,523</u>

Total Assets	<u><u>\$ 832,445</u></u>
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Liabilities and Proprietor's Capital

Current Liabilities

Accounts payable	\$ 1,026
Deferred Revenue (Note A)	<u>69,099</u>
Total Current Liabilities	<u>70,125</u>

Proprietor's Capital	<u>762,320</u>
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Total Liabilities and Proprietor's Capital	<u><u>\$ 832,445</u></u>
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See independent accountants' review report and accompanying notes to financial statements.

NATIONAL CULINARY AND BAKING SCHOOL  
STATEMENT OF INCOME AND PROPRIETOR'S CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2015

Revenues	
Tuition, culinary	\$ 102,792
Tuition, baking	173,778
Miscellaneous	<u>319</u>
Total Revenues	<u>276,889</u>
Expenses	
Food and supplies	41,905
Advertising and promotion	15,069
Administrative	33,950
Repairs and maintenance	10,773
Rents	107,319
Utilities	27,032
Outside services	94,656
Payroll and payroll taxes	27,496
Bad debt expense	42,332
Depreciation expense	<u>13,332</u>
Total Expenses	<u>413,864</u>
Net Loss	(136,975)
Proprietor's capital, beginning of year	<u>976,388</u>
Proprietor contributions	108,995
Proprietor draws	<u>(186,088)</u>
Proprietor's capital, end of year	<u><u>\$ 762,320</u></u>

See independent accountants' review report and accompanying notes to financial statements.

NATIONAL CULINARY AND BAKING SCHOOL  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDING DECEMBER 31, 2015

Cash flows from operating activities:

Net loss:	\$ (136,975)
Adjustments to reconcile net loss to net cash from operating activities:	
Depreciation expense	13,332
Bad debt expense	42,332
Decrease in operating assets:	
Prepaid expenses	29
Student advances	4,000
Notes receivable	96,190
(Decrease) in operating liabilities:	
Accounts payable	(3,042)
Deferred revenue	<u>(37,536)</u>
Net cash flows used by operating activities	<u>(21,670)</u>

Cash flows from investing activities:

Purchase of equipment	<u>(6,149)</u>
Net cash flows used by investing activities	<u>(6,149)</u>

Cash flows from financing activities:

Proprietor contributions	108,995
Proprietor draws	<u>(186,088)</u>
Net cash flows used by financing activities	<u>(77,093)</u>

Net decrease in cash and cash equivalents (104,912)

Cash and cash equivalents at beginning of year 179,249

Cash and cash equivalents at end of year \$ 74,337

See independent accountants' review report and accompanying notes to financial statements.

NATIONAL CULINARY AND BAKING SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Basis of Accounting

National Culinary and Baking School (“the Company”), a proprietorship, is an accredited school engaged in providing culinary education to students in La Mesa, California. The Company's financial statements are presented in accordance with generally accepted accounting principles. The accompanying financial statements have been prepared solely from the accounts of National Culinary and Baking School, and the owner represents that they do not include his personal accounts or those of any other operation in which he is engaged.

Notes Receivable

Notes receivable are recorded as entered into by students and are presented in the balance sheet net of an allowance for doubtful accounts.

Property and Equipment

Depreciation of property and equipment is provided on the straight-line method over the useful lives of the assets, which range from five to ten years. Expenditures for maintenance and repairs are charged against operations. Renewals and betterments that materially extend the life of the asset are capitalized.

Revenue Recognition

Tuition income is recognized as students complete courses. Students either pay in advance or sign a note before enrolling in the school. Amounts received in advance and from notes receivable are initially accounted for as deferred revenue and are then recognized as revenue over the period the services are provided.

Income Taxes

The proprietorship itself is not a taxpaying entity for purposes of federal and state income taxes. Federal and state income taxes of the proprietor are computed on his total income from all sources; accordingly, no provision for income taxes is made in these statements.

Generally accepted accounting principles provides accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. The proprietor has considered tax positions taken on his tax returns and believes that all of the positions taken on federal and state income tax returns are more likely than not to be sustained upon examination. The proprietor's tax returns are subject to examination by federal and state taxing authorities generally for three and four years, respectively, after they are filed.

NATIONAL CULINARY AND BAKING SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Equivalents

For purposes of the statement of cash flows, the Company considers all demand deposits and cash on hand to be cash equivalents.

Use of Estimates

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

Subsequent Events

The proprietor has evaluated subsequent events through April 27, 2016, the date which the financial statements were available to be issued.

NOTE B – NOTES RECEIVABLE AND STUDENT ADVANCES

Notes receivable represent demand notes payable in six monthly installments and bear no interest for one year. The interest rate on notes increases to 12% annually for all years in excess of one year. Notes receivable are entered into by students and are held by the MD Western California Trust (a related party); the proprietor is the trustee of the Trust. The notes are due on demand if not paid according to the terms of the notes.

Notes receivable and student advances are presented in the balance sheet net of allowance for doubtful accounts. Notes and advances are written off when they are determined to be uncollectible. The allowance for doubtful accounts is estimated based on the Company's historical losses, the existing economic conditions in the industry, and the financial stability of its students. The allowance for doubtful accounts for notes amounted to \$604,000, as of December 31, 2015, which represents approximately 44.84% of the total amount of notes receivable outstanding. The allowance for doubtful accounts for student advances was \$4,000 as of December 31, 2015.

NOTE C - CONCENTRATIONS OF CREDIT RISK

The majority of students finance tuition through notes receivable to a trust, for which the owner of the Company is the trustee. Concentrations of credit risk arise with respect to these notes receivable because the Company grants unsecured credit in the form of notes receivable to its students. The notes are not collateralized. The company has provided an allowance in the accompanying financial statements and believes the allowance is sufficient to cover any future credit losses arising from non-payment of outstanding note balances.

NATIONAL CULINARY AND BAKING SCHOOL  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015

NOTE D - COMMITMENTS

During the year ended December 31, 2015, the Company was leasing its facilities under the terms of a five-year lease agreement that will expire January 31, 2020. Base monthly payments started at \$8,000 and will increase by 3% each subsequent February. Below is a schedule of future minimum rental payments required by the lease:

<u>Year</u>	<u>Amount</u>
2016	\$ 98,640
2017	101,599
2018	104,647
2019	107,786
2020	9,004
Total	<u>\$ 421,676</u>