

Crop Circle Kitchen, Inc.

Financial Statements
and
Auditors' Report

December 31, 2013



Daniel Dennis & Company LLP

Certified Public Accountants

Independent Auditors' Report

The Board of Directors
Crop Circle Kitchen, Inc.

We have audited the accompanying statement of financial position of Crop Circle Kitchen, Inc. as of December 31, 2013, and were engaged to audit the related statements activities, functional expenses and cash flows for the five year period 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 conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the *Basis for Disclaimer of Opinion* paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statements of activities, functional expenses and cash flow.

We conducted our audit of the statement of financial position 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 statement of financial position is 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 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 unmodified opinion on the financial position.

Basis for Disclaimer of Opinion on the Results of Operations and Cash Flows

Crop Circle Kitchen, Inc. could not provide sufficient audit evidence in regards to certain material revenue and expense accounts. Because Crop Circle Kitchen, Inc. could not provide sufficient audit evidence, the scope of our work was not sufficient to enable us to express an opinion, and we do not express an opinion on the accompanying statements of activities, functional expenses and cash flows. As a result, we were unable to determine whether any adjustments were necessary relating to the existence and carrying amount of revenue and expenses.

Disclaimer of Opinion on the Results of Operations and Cash Flows

Because of the significance of the matter described in the *Basis for Disclaimer of Opinion* paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the results of operations and cash flows for the five year period ended December 31, 2013. Accordingly, we do not express an opinion on the results of operations and cash flows for the five year period ended December 31, 2013.

Opinion on the Financial Position

In our opinion, the statement of financial position presents fairly, in all material respects, the financial position of Crop Circle Kitchen, Inc. as of December 31, 2013, in accordance with accounting principles generally accepted in the United States of America.

Daniel Dennis + Company LPA

October 6, 2014

Crop Circle Kitchen, Inc.
Statement of Financial Position
December 31, 2013

Assets

Current Assets

Cash	\$ 14,812
Accounts receivable	<u>14,240</u>
Total current assets	<u>29,052</u>

Fixed Assets

Furniture, fixtures and equipment	84,049
Accumulated depreciation	(32,981)
Leasehold improvements	224,898
Accumulated amortization	<u>(147,989)</u>
Net fixed assets	<u>127,977</u>

Other Assets

Investment in joint venture	18,683
Rent and utility deposits	<u>13,700</u>
Total other assets	<u>32,383</u>
Total assets	<u><u>\$189,412</u></u>

Liabilities and Net Assets

Current Liabilities

Accounts payable	\$ 20,394
Accrued interest	11,036
Loans payable - current portion	103,239
Security deposits	<u>6,900</u>
Total current liabilities	<u>141,569</u>

Long-Term Debt

Loans payable	<u>306,352</u>
Total liabilities	<u>447,921</u>

Net Assets

Unrestricted	-
Temporarily restricted	<u>(258,509)</u>
Total net assets	<u>(258,509)</u>
Total liabilities and net assets	<u><u>\$189,412</u></u>

See accompanying notes to financial statements.

Crop Circle Kitchen, Inc.
Statement of Activities
For the Five Year Period Ended December 31, 2013

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>
<i>Revenue and Other Support</i>			
Rental fees	\$ 899,749	\$ -	\$ 899,749
Grants and contributions	140,568	-	140,568
Loan forgiveness	103,500	-	103,500
Consulting fees	116,813	-	116,813
Inkind contributions	20,040	-	20,040
Other program revenue	16,056	-	16,056
Class fees	9,750	-	9,750
Reimbursed expenses	7,232	-	7,232
Miscellaneous income	39,103	-	39,103
Net assets released from restrictions	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue and other support	<u>1,352,811</u>	<u>-</u>	<u>1,352,811</u>
<i>Expenses</i>			
Program services	1,147,322	-	1,147,322
Administration	419,557	-	419,557
Fundraising	<u>44,441</u>	<u>-</u>	<u>44,441</u>
Total expenses	<u>1,611,320</u>	<u>-</u>	<u>1,611,320</u>
Change in net assets	(258,509)	-	(258,509)
Net assets at beginning of period	<u>-</u>	<u>-</u>	<u>-</u>
Net assets at end of period	<u>\$ (258,509)</u>	<u>\$ -</u>	<u>\$ (258,509)</u>

See accompanying notes to financial statements.

Crop Circle Kitchen, Inc.
Statement of Functional Expenses
For the Five Year Period Ended December 31, 2013

	<i>Program Services</i>	<i>Admin- istration</i>	<i>Fund- Raising</i>	<i>Total</i>
Salaries and wages	\$ 76,400	\$ 14,325	\$ 4,775	\$ 95,500
Payroll taxes and fringe benefits	24,122	4,523	1,508	30,153
Management fees	105,466	131,832	26,366	263,664
Professional fees	76,721	76,317	-	153,038
Rent	249,551	46,855	-	296,406
Utilities	147,652	16,406	-	164,058
Cleaning and trash removal	118,607	-	-	118,607
Depreciation and amortization	180,969	-	-	180,969
Interest expense	-	62,368	-	62,368
Supplies	38,529	3,073	367	41,969
Tools and equipment	30,697	53	-	30,750
Telephone and telecommunication	12,096	2,135	-	14,231
Advertising	10,161	1,195	598	11,954
Building security	8,491	2,830	-	11,321
Bank and credit card fees	7,834	2,612	-	10,446
Dues and subscriptions	7,293	1,073	930	9,296
Insurance	7,007	1,752	-	8,759
Permits and filing fees	3,114	862	-	3,976
Travel and parking	2,457	878	176	3,511
Meals and entertainment	2,107	1,054	351	3,512
Staff development	1,256	628	209	2,093
Bad debt expense	36,444	45,555	9,111	91,110
Loss in investment in LLC	-	2,817	-	2,817
Miscellaneous expense	348	414	50	812
	<u>\$1,147,322</u>	<u>\$ 419,557</u>	<u>\$ 44,441</u>	<u>\$1,611,320</u>
Total				

See accompanying notes to financial statements.

Crop Circle Kitchen, Inc.
Statement of Cash Flow
For the Five Year Period Ended December 31, 2013

<i>Cash Flows From Operating Activities</i>	
Change in net assets	\$(258,509)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	180,969
Loss on investment in LLC	2,817
Changes in operating assets and liabilities:	
Increase in accounts receivable	(14,240)
Increase in rent and utility deposits	(13,700)
Increase in accounts payable	20,394
Increase in security deposits	6,900
Increase in accrued interest	<u>11,036</u>
Net cash used in operating activities	<u>(64,333)</u>
<i>Cash Flows From Investing Activities</i>	
Payments for fixed assets	(84,049)
Payments for leasehold improvements	(224,898)
Investment in joint venture	<u>(21,500)</u>
Net cash used in investing activities	<u>(330,447)</u>
<i>Cash Flows From Financing Activities</i>	
Proceeds from loans payable	438,116
Principal payments on loans payable	<u>(28,524)</u>
Net cash provided by investing activities	<u>409,592</u>
Net increase in cash	14,812
Cash and cash equivalents at beginning of period	<u>-</u>
Cash and cash equivalents at end of period	<u>\$ 14,812</u>
<i>Supplemental Disclosure</i>	
Cash paid for interest	<u>\$ 51,332</u>

See accompanying notes to financial statements.

Crop Circle Kitchen, Inc.
Notes to Financial Statements
December 31, 2013

1. ***Operations***

Crop Circle Kitchen, Inc. (“CCK”) 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. CCK 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 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 - CCK classifies its net assets, revenues and expenses into two classes of net assets - temporarily restricted and unrestricted, based on the existence or absence of donor imposed restrictions on contributions received. CCK has no temporarily restricted net assets as of December 31, 2013.

Rental Fees - The majority of CCK’s revenue is from short-term rental fees for kitchen and storage services from culinary entrepreneurs who are members of the CCK incubator program. Rental fees are recorded when earned.

Contributions - Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash are reported at their estimated fair value.

Contributions received without donor imposed restrictions, or with donor imposed restrictions that are satisfied in the same year as received, are recorded as revenues within the unrestricted net asset class. Contributions received with donor imposed specific purpose or time restrictions that are not satisfied within the same year are recorded as revenue within the temporarily restricted net asset class. When a restriction has been satisfied (payment has been made in accordance with the restriction or the time restriction has expired), the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Fixed 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 assets. Leasehold improvements are capitalized at cost and are amortized over the life of the lease. Depreciation and amortization expense for the five year period ending December 31, 2013 totaled \$32,981 and \$147,989, respectively.

Crop Circle Kitchen, Inc.
Notes to Financial Statements - *Continued*
December 31, 2013

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

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 - CCK 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 five year period ended December 31, 2013, would be subject to federal and state income taxes. Consequently, the accompanying financial statements do not reflect any provision for income taxes.

CCK 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. CCK has evaluated the tax positions taken in its previously filed returns and those expected to be taken in its 2013 returns, and believe they are *more-likely-than-not* to be sustained if examined by federal or state tax authorities. CCK's 2010 through 2012 tax years remain subject to examination by Federal and state tax authorities.

3. ***Investment in Joint Venture***

CCK has entered into a joint venture with Dorchester Bay Economic Development Corporation (DBEDC), a Massachusetts nonprofit organization, through co-membership in DB Pearl QALICB, LLC, to create a share-use and multi-tenant commercial kitchen facility that meets the needs of a range of start-up, early stage, growing, and established food production businesses. Beginning in 2014, CCK will share property management duties with a professional management agent to be selected by DBEDC, overseeing the day-to-day operations of the *Bornstein & Pearl Building Food Production Small Business Center* located in Dorchester, MA (Note 6). CCK has made member capital contributions totaling \$21,500 as of December 31, 2013. CCK is also the sole member in CCK Pearl LLC, which was created to operate this facility.

4. ***In-kind Contributions***

During the five year period ended December 31, 2013, CCK received donated rental space from the landlord of its leased facility (Note 6). The value of these inkind contributions was \$20,040.

Crop Circle Kitchen, Inc.
Notes to Financial Statements - *Continued*
December 31, 2013

5. ***Long-Term Debt***

Boston Impact Initiative LLC

Two year loan dated October 14, 2013 at an interest rate of 4% per annum, with monthly payments of interest only through February 1, 2014, and monthly payments of principal and interest thereafter through September 1, 2015. This loan is secured by all assets of CCK. Accrued interest payable at December 31, 2013 totals \$927. \$125,000

City of Boston

Note payable to the City of Boston dated June 9, 2010. The loan is secured by CCK's business assets together with a leasehold mortgage on CCK's interest in CCK's leased premises (Note 6). All principal and interest owed on this loan is due on May 31, 2020. Accrued interest payable on this loan totaled \$7,513 at December 31, 2013. This loan provides for loan forgiveness based on the number of jobs created by CCK's operations. Loan forgiveness on this loan totaled \$103,500 for the five year period ended December 31, 2013. 218,115

Cooperative Fund of New England

Line of Credit dated June 9, 2010 at 7% interest per annum. This line of credit is secured by CCK's business assets and matures on June 15, 2016. 36,476

Related Party Loan

Demand loan payable to the current CCK Executive Director (former CCK Treasurer), dated February 22, 2013 (Note 7). This unsecured loan bears interest at 10% per annum. Accrued interest payable at December 31, 2013 totals \$2,596. 30,000

Total long-term debt	409,591
Less current portion	<u>(103,239)</u>
Net long-term debt	<u><u>\$306,352</u></u>

Future maturities of long-term debt for each of the next five years and thereafter, excluding debt forgiveness, if any, are as follows:

<i>Year</i>	<i>Amount</i>
2014	\$103,239
2015	88,237
2016	-
2017	-
2018	-
Thereafter	<u>218,115</u>
Total	<u><u>\$409,591</u></u>

Crop Circle Kitchen, Inc.
Notes to Financial Statements - *Continued*
December 31, 2013

6. ***Lease Commitments***

CCK has entered into a lease agreement with Brewery Main Block LLC for operating space at 31 Germania Street in Jamaica Plain, MA, which expires on October 31, 2015. The lease requires monthly base rent, in addition to monthly percentage rent totaling 15% of all gross monthly income, as defined in the lease agreement, that CCK accrues in excess of \$12,000. Future base rental payments under this lease are \$53,361 in 2014 and \$46,305 in 2015.

In connection with the operational activity of the *Bornstein & Pearl Building Food Production Small Business Center* (Note 4), CCK 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 CCK's gross income exceeds certain breakpoints, as defined in the sublease agreement. The sublease also requires payment of CCK's proportionate share of operating costs and real estate taxes with respect to the building and the property on which it is located. Future minimum lease payments under this lease are as follows:

<i>Year</i>	<i>Amount</i>
2014	\$ 110,768
2015	241,955
2016	249,214
2017	256,690
2018	264,391
Thereafter	<u>1,445,796</u>
Total	<u>\$2,568,814</u>

7. ***Related Party Transactions/Contingency***

CCK has an outstanding loan payable to the current CCK Executive Director (former CCK Treasurer) totaling \$30,000 (Note 5). The unsecured loan bears interest at 10% and is payable on demand. Accrued interest payable at December 31, 2013, and interest expense for the five year period then ended, totals \$2,596.

CCK has a receivable due from CCK's former Executive Director totaling \$91,110 at December 31, 2013 for management fees paid over the five year period ended December 31, 2013 in excess of agreed upon annual amounts. CCK management is vigorously pursuing the collection of this receivable, but it is expected that the former Executive Director contests all, or at least part of this receivable. An allowance for uncollectable accounts has been recorded at December 31, 2013 for the full amount of this receivable, offset by bad debt expense in the statement of activities. The financial statements do not include any other adjustments that might result from the outcome of this uncertainty.

Crop Circle Kitchen, Inc.
Notes to Financial Statements - *Continued*
December 31, 2013

8. ***Guaranty***

CCK 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.

CCK 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 CCK from DP Pearl QALICB, LLC.

9. ***Subsequent Events***

CCK has evaluated subsequent events through October 6, 2014, which is the date the financial statements were available to be issued. No material subsequent events have occurred since December 31, 2013 that requires recognition or additional disclosure in these financial statements.