

**Crop Circle Kitchen, Inc.**

Financial Statements  
and  
Auditors' Report

December 31, 2014



## Daniel Dennis & Company LLP

*Certified Public Accountants*

### *Independent Auditors' Report*

The Board of Directors  
**Crop Circle Kitchen, Inc.**

We have audited the accompanying financial statements of Crop Circle Kitchen, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2014, 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 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 Crop Circle Kitchen, Inc. as of December 31, 2014, 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.

*Daniel Dennis + Company LLP*

*September 16, 2015*

**Crop Circle Kitchen, Inc.**  
Statement of Financial Position  
December 31, 2014

*Assets*

*Current Assets*

Cash	\$ 214,307
Accounts receivable	59,713
Accrued revenue	10,565
Pledges receivable	75,000
Prepaid expenses	<u>10,034</u>
Total current assets	<u>369,619</u>

*Fixed Assets*

Furniture, fixtures and equipment	90,111
Accumulated depreciation	(42,671)
Leasehold improvements	224,898
Accumulated amortization	<u>(191,782)</u>
Net fixed assets	<u>80,556</u>

*Other Assets*

Deposits	<u>12,280</u>
Total other assets	<u>12,280</u>
Total assets	<u><u>\$ 462,455</u></u>

*Liabilities and Net Assets*

*Current Liabilities*

Accounts payable	\$ 135,977
Accrued interest	5,834
Loans payable - current portion	191,125
Accrued payroll	5,525
Security deposits	<u>20,700</u>
Total current liabilities	<u>359,161</u>

*Long-Term Debt*

Loans payable	<u>212,172</u>
Total liabilities	<u>571,333</u>

*Net Assets*

Unrestricted	(193,587)
Temporarily restricted	<u>84,709</u>
Total net assets	<u>(108,878)</u>
Total liabilities and net assets	<u><u>\$ 462,455</u></u>

*See accompanying notes to financial statements.*

**Crop Circle Kitchen, Inc.**  
Statement of Activities  
For the Year Ended December 31, 2014

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total</i>
<i>Revenue and Other Support</i>			
Rental and storage fees	\$ 271,511	\$ -	\$ 271,511
Grants and contributions	465,963	84,709	550,672
Loan forgiveness	27,000	-	27,000
Consulting fees	30,000	-	30,000
Management fees	7,200	-	7,200
Other fees	12,692	-	12,692
Miscellaneous income	<u>16,182</u>	<u>-</u>	<u>16,182</u>
Total revenue and other support	<u>830,548</u>	<u>84,709</u>	<u>915,257</u>
<i>Expenses</i>			
Program services	528,849	-	528,849
Administration	177,015	-	177,015
Fundraising	<u>59,762</u>	<u>-</u>	<u>59,762</u>
Total expenses	<u>765,626</u>	<u>-</u>	<u>765,626</u>
Change in net assets	64,922	84,709	149,631
Net assets at beginning of period	<u>(258,509)</u>	<u>-</u>	<u>(258,509)</u>
Net assets at end of period	<u>\$ (193,587)</u>	<u>\$ 84,709</u>	<u>\$ (108,878)</u>

*See accompanying notes to financial statements.*

**Crop Circle Kitchen, Inc.**  
Statement of Functional Expenses  
For the Year Ended December 31, 2014

	<i>Program Services</i>	<i>Administration</i>	<i>Fund- Raising</i>	<i>Total</i>
Salaries and wages	\$ 121,377	\$ 22,758	\$ 7,586	\$151,721
Payroll taxes and fringe benefits	22,966	4,306	1,435	28,707
Management and consulting fees	57,737	43,304	43,304	144,345
Professional fees	-	20,804	-	20,804
Rent	94,110	10,457	-	104,567
Utilities	54,599	2,874	-	57,473
Cleaning and trash removal	39,598	2,047	-	41,645
Depreciation and amortization	50,810	2,674	-	53,484
Interest expense	-	13,750	-	13,750
Supplies	51,614	2,867	2,867	57,348
Office expense	3,066	5,876	1,015	9,957
Tools and equipment	3,631	145	-	3,776
Telephone and internet	4,048	658	402	5,108
Building security	1,959	103	-	2,062
Bank and credit card fees	839	2,517	-	3,356
Repairs and maintenance	12,542	-	-	12,542
Insurance	7,094	788	-	7,882
Permits and filing fees	1,309	-	-	1,309
Staff development	450	360	90	900
Bad debt expense	-	21,967	-	21,967
Loss in investment in LLC	-	18,683	-	18,683
Miscellaneous expense	1,100	77	3,063	4,240
	<u>1,100</u>	<u>77</u>	<u>3,063</u>	<u>4,240</u>
Total	<u>\$ 528,849</u>	<u>\$177,015</u>	<u>\$59,762</u>	<u>\$765,626</u>

*See accompanying notes to financial statements.*

**Crop Circle Kitchen, Inc.**  
Statement of Cash Flows  
For the Year Ended December 31, 2014

<i>Cash Flows From Operating Activities</i>	
Change in net assets	\$ 149,631
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	53,484
Loss on investment in LLC	18,683
Loan forgiveness	(27,000)
Changes in operating assets and liabilities:	
Increase in accounts receivable	(45,473)
Increase in pledges receivable	(75,000)
Increase in accrued revenue	(10,565)
Increase in prepaid expenses	(10,034)
Decrease in deposits	1,420
Increase in accounts payable	115,583
Increase in security deposits	13,800
Increase in accrued payroll	5,525
Increase in accrued interest	<u>5,855</u>
Net cash provided by operating activities	<u>195,909</u>
<i>Cash Flows From Investing Activities</i>	
Payments for fixed assets	<u>(6,062)</u>
Net cash used in investing activities	<u>(6,062)</u>
<i>Cash Flows From Financing Activities</i>	
Proceeds from loans payable	24,000
Principal payments on loans payable	<u>(14,352)</u>
Net cash provided by investing activities	<u>9,648</u>
Net increase in cash	199,495
Cash at beginning of period	<u>14,812</u>
Cash at end of period	<u><u>\$ 214,307</u></u>
<i>Supplemental Disclosure</i>	
Cash paid for interest	<u><u>\$ 18,952</u></u>

*See accompanying notes to financial statements.*

**Crop Circle Kitchen, Inc.**  
Notes to Financial Statements  
December 31, 2014

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.

*Rental Fees*

CCK’s rental income 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.

*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.

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

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

*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 year ending December 31, 2014 totaled \$10,341 and \$43,143, respectively.

*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 year ended December 31, 2014, 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 2014 returns, and believe they are *more-likely-than-not* to be sustained if examined by federal or state tax authorities. CCK's 2011 through 2013 tax years remain subject to examination by Federal and state tax authorities.

*Credit Risk*

CCK maintains its cash in bank deposit accounts which, at times, may exceed Federal insured limits. CCK has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk on cash deposits.

*Investment in Limited Liability Corporation*

CCK accounts for its investment in a non-controlled limited liability Corporation (LLC) using the equity method of accounting. Under the equity method, the investment is carried at cost and adjusted for the LLC's share of income, losses, additional investments, and cash distributions from the LLC. CCK ceases recognition of losses for financial statement purposes once the cost of the investment is reduced to zero. Changes in the value of the investments, which are other than temporary, are recognized as necessary.

**Crop Circle Kitchen, Inc.**  
Notes to Financial Statements - *Continued*  
December 31, 2014

3. ***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, 2014 totals \$141. \$125,000

*City of Boston*

Note payable to the City of Boston dated June 9, 2010 at an interest rate of 5%. 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 \$955 at December 31, 2014. This loan provides for loan forgiveness based on the number of jobs created by CCK's operations. Loan forgiveness on this loan totaled \$27,000 for the year ended December 31, 2014. 202,172

*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 February 15, 2015. 22,125

*Related Party Loans*

Demand loan payable to the current CCK Executive Director (former CCK Treasurer), dated February 22, 2013 (Note 5). This unsecured loan bears interest at 10% per annum. Accrued interest payable at December 31, 2014 totals \$4,738. 30,000

Noninterest bearing loan payable to DBEDC to cover staff, smallware items, and other operating costs of the *Bornstein & Pearl Building Food Production Small Business Center* (Notes 4, 5 and 6). The loan is payable in four installments beginning September 30, 2015 and ending October 1, 2016. 24,000

Total long-term debt	403,297
Less current portion	<u>(191,125)</u>
Net long-term debt	<u>\$212,172</u>

**Crop Circle Kitchen, Inc.**  
Notes to Financial Statements - *Continued*  
December 31, 2014

3. ***Long-Term Debt - Continued***

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>
2015	\$191,125
2016	10,000
2017	-
2018	-
2019	-
Thereafter	<u>202,172</u>
Total	<u>\$403,297</u>

4. ***Investment in Limited Liability Corporation***

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. CCK shares property management duties with a professional management agent 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, 2014. CCK is also the sole member in CCK Pearl LLC, which was created to operate this facility.

The assets and liabilities of the DB Pearl QALICB, LLC as of December 31, 2014, and revenues and expenses for the year then ended are as follows:

Assets	\$14,023,172
Liabilities	<u>14,024,880</u>
Equity	<u>\$ (1,708)</u>
Revenue	\$ 85,169
Expenses	<u>495,538</u>
Net loss	<u>\$ (410,369)</u>

5. ***Related Party Transactions/Contingency***

CCK has an outstanding loan payable to the current CCK Executive Director (former CCK Treasurer) totaling \$30,000 (Note 3). The unsecured loan bears interest at 10% and is payable on demand. Accrued interest payable totaled \$4,738 at December 31, 2014, and interest expense for then year ended totaled \$3,000.

**Crop Circle Kitchen, Inc.**  
Notes to Financial Statements - *Continued*  
December 31, 2014

5. ***Related Party Transactions/Contingency -Continued***

CCK has an outstanding loan payable to DBEDC totaling \$24,000. The loan was used to cover staff, smallware items, and other operating cost for the *Bornstein & Pearl Building Food Production Small Business Center* (Notes 3 and 4). This unsecured, noninterest bearing loan is payable in four installments beginning September 30, 2105 and ending October 1, 2016.

CCK has a receivable due from CCK's former Executive Director totaling \$113,077 at December 31, 2014 for management fees paid 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 will contest all, or at least part of this receivable. An allowance for uncollectable accounts has been recorded at December 31, 2014 for the full amount of this receivable. Bad debt expense as a result of this receivable for the year ended December 31, 2014 totaled \$21,967, the balance of which was allowed for in 2013. The financial statements do not include any other adjustments that might result from the outcome of this uncertainty.

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 \$46,305 in 2015.

In connection with the operational activity of the *Bornstein & Pearl Building Food Production Small Business Center* (Note 4), CCK (through CCK Pearl LLC) has entered into a sublease agreement with DB Pearl Master Tenant LLC, a Massachusetts limited liability company, for operating space at 196 Quincy Street, Boston, MA. The term of the sublease is for ten years beginning on the date of certificate of occupancy, which occurred in late March, 2014. The sublease includes an option to extend the sublease on similar terms and conditions for a period of five years. The sublease requires fixed monthly rent, in addition to annual percentage rent starting in July 1, 2015, totaling five percent (5%) of the amount by which 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>
2015	\$ 231,793
2016	249,214
2017	256,690
2018	264,391
2019	272,322
Thereafter	<u>1,173,474</u>
Total	<u>\$2,447,884</u>

**Crop Circle Kitchen, Inc.**  
Notes to Financial Statements - *Continued*  
December 31, 2014

7. ***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.

8. ***Subsequent Events***

CCK has evaluated subsequent events through September 16, 2015, which is the date the financial statements were available to be issued. No material subsequent events have occurred since December 31, 2014 that requires recognition or additional disclosure in these financial statements.