

Emma's Torch Ltd.

FINANCIAL STATEMENTS

December 31, 2017

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Emma's Torch Ltd.

We have reviewed the accompanying financial statements of Emma's Torch Ltd. (a non-profit organization), which comprise the statement of financial position as of December 31, 2017 and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of organization management. 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.

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.

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 December 31, 2017 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Sheehan & Company CPA, P.C.

Brightwaters, New York
January 24, 2019

Emma's Torch Ltd.

STATEMENT OF FINANCIAL POSITION

December 31, 2017

ASSETS

Current assets:

Cash	\$ 101,356
Grants receivable	10,000
Prepaid expenses	<u>5,334</u>
Total current assets	<u>116,690</u>
Total assets	<u>\$ 116,690</u>

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 1,290
Credit cards payable	<u>581</u>
Total current liabilities	<u>1,871</u>

Net assets:

Unrestricted	<u>114,819</u>
Total net assets	<u>114,819</u>
Total liabilities and net assets	<u>\$ 116,690</u>

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report and notes to financial statements

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Emma's Torch Ltd.

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

	<u>Unrestricted</u>
Revenue and support:	
Direct public support	\$ 183,219
Gifts in-kind	7,395
Program income	<u>85,133</u>
Total revenue and support	<u>275,747</u>
Expenses:	
Program services:	
Restaurant operations	129,996
Educational support	<u>10,488</u>
Total program services	<u>140,484</u>
Support services:	
General and administrative expenses	35,584
Fundraising	<u>4,387</u>
Total support services	<u>39,971</u>
Total expenses	<u>180,455</u>
Change in net assets	95,292
Net assets, beginning of year	<u>19,527</u>
Net assets, end of year	<u>\$ 114,819</u>

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Emma's Torch Ltd.

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2017

	Program Services		Support Services		<u>Total</u>
	<u>Restaurant Operations</u>	<u>Educational Support</u>	<u>General and Administrative Expenses</u>	<u>Fundraising</u>	
Expenses:					
Advertising and promotion	\$ -	\$ -	\$ 22	\$ -	\$ 22
Service and business fees	1,419	-	2,007	-	3,426
Contract services	4,502	6,288	7,593	4,387	22,770
Operations	-	-	2,772	-	2,772
Insurance	-	-	5,407	-	5,407
Payroll burden	66,722	-	7,000	-	73,722
Donations	-	-	20	-	20
Food and retail	18,003	-	263	-	18,266
Facilities and equipment	33,957	-	10,500	-	44,457
Student incentive	-	4,200	-	-	4,200
Kitchen supplies	5,393	-	-	-	5,393
Total expenses	\$ 129,996	\$ 10,488	\$ 35,584	\$ 4,387	\$ 180,455

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Emma's Torch Ltd.

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2017

Cash flows from operating activities:	
Change in net assets	\$ 95,292
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Decrease (increase) in assets:	
Grants receivable	(10,000)
Prepaid expenses	(679)
Organizational costs	850
Increase (decrease) in liabilities:	
Accounts payable	1,290
Credit cards payable	581
Net cash provided by operating activities	<u>87,334</u>
Net increase in cash	87,334
Cash, beginning of year	<u>14,021</u>
Cash, end of year	<u><u>\$ 101,356</u></u>

See independent accountant's review
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Emma's Torch Ltd.

NOTES TO FINANCIAL STATEMENTS

1. Nature of the Organization:

Emma's Torch Ltd. (the Organization) was incorporated on August 17, 2016. The Organization's mission is to alleviate unemployment and poverty affecting individuals in New York, primarily refugees, asylees and victims of human trafficking, by preparing them for skilled employment in the culinary field. The Organization provides top notch culinary training in order to help refugees find meaningful careers, provides English speaking classes and employee interview preparation training. The Organization is tax-exempt under Section 501(c)(3) of the Internal Revenue Code (the Code).

The Organization acknowledges the struggle for restaurants in New York City to fill the "line cook" position. The Organization collaborates with some of New York's most renowned chefs, industry leaders and restaurant groups to help students find careers after graduation. The Organization also partners with some of the largest refugee resettlement and advocacy organizations in the world, who assist with identifying refugees who would be a good fit for the program.

In 2017, the curriculum was an eight-week paid apprenticeship with nearly 200 hours of culinary training. The students were taught basic culinary skills and gained work experience as "line cooks", serving brunch at Emma's Torch's pop-up location. In 2018, Emma's Torch expanded this program to be longer and more structured. The curriculum is an eight-week, paid apprenticeship with over 400 hours of culinary training. The structure is broken out by month. During the first month, students are introduced to the professional American kitchen, knife skills, communication skills and key culinary techniques. Students also begin preparing food for Emma's Torch restaurant. During the second month, the students begin working as "line cooks" for Emma's Torch restaurant and cater a wide range of events in the restaurant and beyond. During the duration of the program, weekly English classes are offered which focus on culinary vocabulary and interview preparation. Job workshops and mock interviews are also offered throughout the two months in order to simulate live situations.

2. Summary of significant accounting policies:

Basis of presentation: The financial statements of the Organization have been prepared on the accrual basis of accounting.

Financial statement presentation: The classification of a not-for-profit organization's net assets and its support, revenue and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets, permanently restricted, temporarily restricted and unrestricted, be displayed in the Statement of Financial Position and that the amounts of change in each of those classes of net assets be displayed in the Statement of Activities.

Emma's Torch Ltd.

NOTES TO FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued):

Financial statement presentation (continued):

These classes are defined as follows:

Permanently restricted: Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. At December 31, 2017, the Organization did not have any permanently restricted net assets.

Temporarily restricted net assets: Net assets resulting from contributions and other inflows of assets whose use by the Organization is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. When such stipulations end or are fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions in the Statement of Activities. At December 31, 2017, the Organization did not have any temporarily restricted net assets.

Unrestricted: The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations. At December 31, 2017, the Organization had unrestricted net assets of \$114,819.

Cash and cash equivalents: The Organization considers all cash and highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Receivables and allowance for doubtful accounts: Receivables are stated at unpaid balances, less an allowance for doubtful accounts. Receivables can consist of program fees, awarded grants and contributions. Bad debts are recognized on the allowance method based on historical experience and managements evaluation of outstanding receivables and pledges. Receivables are considered impaired if full principal payments are not received in accordance with contractual terms. The allowance for doubtful accounts was \$0 for outstanding receivables for the year ended December 31, 2017.

Emma's Torch Ltd.

NOTES TO FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued):

Contributions and promises to give: Contributions received, including unconditional promises to give, if any, are reported at their net realizable values if expected to be collected in one year and at fair value if expected to be collected in more than one year. Gifts of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit their use or if they are intended to support activities in future periods.

Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Contributed services and materials: Labor, services and materials are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased. The estimated fair value of these services contributed to the Organization for the year ended December 31, 2017 was \$7,395. Related expenses are reflected within general and administrative expenses in the Statement of Activities.

Donated facilities: The Organization receives the use of facilities at no cost to carry out its activities. The fair value of these donated facilities cannot be reasonably estimated. Accordingly, the value of these facilities is not recognized as revenue or included in expenses in the financial statements.

Deferred revenue: Revenue related to receipts collected prior to the occurrence of special events is deferred and recognized in the period in which the special event is held. The Organization recorded no deferred revenue at December 31, 2017.

Fair value of financial instruments: The fair value of substantially all reported assets and liabilities, which represent financial instruments (more of which are held for trading purposes), approximate the carrying values of such amounts.

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. Common costs incurred for the administration portion of the Organization are allocated directly to the general and administrative expenses. Accordingly, certain costs have been allocated to program services as a part of restaurant operations.

Emma's Torch Ltd.

NOTES TO FINANCIAL STATEMENTS

2. Summary of significant accounting policies (continued):

Income taxes: The Organization was incorporated in the State of New York and is exempt from federal, state and local income taxes under Section 501(c)(3) of the Code and has been classified as other than a private foundation. There was no unrelated business income for the year ended December 31, 2017. Therefore, no provision for income taxes has been made in the accompanying financial statements. As of December 31, 2017, the Organization does not believe it has uncertain tax positions that would require either recognition or disclosure in the accompanying financial statements.

Use of estimates: In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of credit risk: Financial instruments, which potentially subject the Organization to concentration of credit risk, consist primarily of cash. At times, the Organization has cash deposits at financial institutions which exceed the Federal Deposit Insurance Corporation (FDIC) insurance limits. The Organization has not experienced any losses in such accounts as of December 31, 2017.

Subsequent events: Subsequent events have been evaluated through January 24, 2019, which is the date the financial statements were available to be issued.

3. Economic dependency:

During the year ended December 31, 2017, the Organization received approximately 69% of its total revenue from contributions of which 42% was received from five donors. The remaining revenue was received through the operation of the Organization's restaurant. A reduction in the level of donor support, if it were to occur, may have an adverse effect on the Organization's activities.

Emma's Torch Ltd.

NOTES TO FINANCIAL STATEMENTS

4. Subsequent events:

Food service agreement: On November 16, 2018, the Organization entered into an agreement with the Brooklyn Public Library (BPL) to rent space to manage its concession program at the Central Library. Emma's Torch will complement BPL's already existing full-service restaurant in Carrol Gardens and is expected to be open to the public in early 2019. The term of the lease agreement entered into by the Organization commences January 1, 2019 and extends until December 31, 2021. The agreement may be renewed up to 12 months if both parties agree.

No rental payments are required under the agreement; however, utilities will be borne by BPL while the Organization will have access to equipment and storage facilities at no cost. Any equipment purchased and installed by the Organization shall remain at the location and be owned by BPL; the day-to-day costs of providing food services will be the responsibility of the Organization.

Asset purchase and lease agreement: On April 18, 2018, the Organization entered into an agreement to assume the lease at 345 Smith Street in Brooklyn, New York. The principal of Assignee executed a good guy guaranty where she has acknowledged and agreed that her obligations as a guarantor of the performance, payment and indemnification provisions of the lease will continue after the assignment of the lease to the Organization. By signing this guaranty, the principal solidified the assignment of the lease to the Organization. Rent payments began on May 1, 2018 and are scheduled to expire on February 28, 2023.

The following is a schedule of future minimum lease payments:

<u>Year Ending December 31,</u>	<u>Amount</u>
2018	\$ 66,550
2019	102,685
2020	106,266
2021	109,988
2022	113,838
Thereafter	<u>19,081</u>
Total	<u>\$518,409</u>

Emma's Torch Ltd.

NOTES TO FINANCIAL STATEMENTS

4. Subsequent events (continued):

In addition to the above lease commitment, the Organization also agreed to purchase all the assets at the location for a sum of \$60,000 plus \$14,000 related to the existing security deposit. No liabilities were assumed by the Organization. As part of the purchase agreement, the existing security deposit of \$14,000 was credited to the Organization as part of the requirement to maintain a security deposit in the amount of \$16,627.70.

5. Upcoming pronouncements:

In August 2016, the Financial Accounting Standards Board (FASB) released Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958)*. The provisions of ASU 2016-14 seek to improve the usefulness of information provided to donors, grantors, creditors and other users of a not-for-profit's financial statements and reduce complexities for preparers or users of the financial statements. The requirements of ASU 2016-14 are effective for the Organization's fiscal year ending December 31, 2019, with early application permitted. The Organization is currently evaluating the impact of this pronouncement.

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 establishes principles for reporting revenue arising from an organization's contracts with customers. The core principle of ASU 2014-09 requires an organization to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. The requirements of ASU 2014-09 are effective for the Organization's fiscal year ending December 31, 2020. The Organization is currently evaluating the impact of this pronouncement.