

EMMA'S TORCH LTD.
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2018

Emma's Torch Ltd.

Table of Contents

Year Ended December 31, 2018

	<u>Page</u>
Independent Auditor's Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities.....	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-13

Independent Auditor's Report

To the Board of Directors
Emma's Torch Ltd.
Brooklyn, New York

We have audited the accompanying financial statements of Emma's Torch Ltd. (a nonprofit organization), 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.

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 Emma's Torch Ltd. as of December 31, 2018 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.

Gettry Marcus CPA, P.C.

Gettry Marcus CPA, P.C.
New York, New York
October 7, 2019

Emma's Torch Ltd.
Statement of Financial Position
December 31, 2018

Assets			
	<u>Net Assets Without Donor Restrictions</u>	<u>Net Assets With Donor Restrictions</u>	<u>Total</u>
Current assets			
Cash	\$ 98,505	\$ 1,914	\$ 100,419
Grants and pledges receivable	10,000	85,000	95,000
Prepaid expenses	<u>12,365</u>	<u>-</u>	<u>12,365</u>
Total current assets	<u>120,870</u>	<u>86,914</u>	<u>207,784</u>
Other assets			
Grants and pledges receivable - long term portion	-	20,000	20,000
Security deposits	18,828	-	18,828
Property and equipment, net	<u>66,456</u>	<u>-</u>	<u>66,456</u>
Total assets	<u><u>\$ 206,154</u></u>	<u><u>\$ 106,914</u></u>	<u><u>\$ 313,068</u></u>
Liabilities and Net Assets			
Current liabilities			
Accounts payable	\$ 28,800	\$ -	\$ 28,800
Accrued expenses and other current liabilities	<u>41,607</u>	<u>-</u>	<u>41,607</u>
Total current liabilities	<u>70,407</u>	<u>-</u>	<u>70,407</u>
Net assets			
Without donor restrictions	135,747	-	135,747
With donor restrictions	<u>-</u>	<u>106,914</u>	<u>106,914</u>
Total net assets	<u>135,747</u>	<u>106,914</u>	<u>242,661</u>
Total liabilities and net assets	<u><u>\$ 206,154</u></u>	<u><u>\$ 106,914</u></u>	<u><u>\$ 313,068</u></u>

Emma's Torch Ltd.
Statement of Activities
Year Ended December 31, 2018

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Support and revenues			
Foundation grants	\$ 218,220	\$ 102,500	\$ 320,720
Corporate and individual contributions	190,160	90,000	280,160
Program income	394,401	-	394,401
Contributed goods and services	326,614	-	326,614
	<u>1,129,395</u>	<u>192,500</u>	<u>1,321,895</u>
Net assets released from restrictions	<u>85,586</u>	<u>(85,586)</u>	<u>-</u>
Total support and revenues	<u>1,214,981</u>	<u>106,914</u>	<u>1,321,895</u>
Functional expenses			
Restaurant operations and educational support	977,169	-	977,169
Administration services	180,865	-	180,865
Fundraising services	36,019	-	36,019
Total functional expenses	<u>1,194,053</u>	<u>-</u>	<u>1,194,053</u>
Increase in net assets	20,928	106,914	127,842
Net assets - Beginning of year	<u>114,819</u>	<u>-</u>	<u>114,819</u>
Net assets - End of year	<u>\$ 135,747</u>	<u>\$ 106,914</u>	<u>\$ 242,661</u>

Emma's Torch Ltd.
Statement of Functional Expenses
Year Ended December 31, 2018

	<u>Program Services</u>	<u>Supporting Services</u>			<u>Total Functional Expenses</u>
	<u>Restaurant Operations and Educational Support</u>	<u>Administration</u>	<u>Fundraising</u>	<u>Total Supporting Services</u>	
Salaries	\$ 431,318	\$ 18,725	\$ 9,585	\$ 28,310	\$ 459,628
Payroll taxes and employee benefits	50,947	2,212	1,132	3,344	54,291
Total salaries and related expenses	482,265	20,937	10,717	31,654	513,919
Food and beverage	113,670	-	-	-	113,670
Equipment costs	104,600	-	-	-	104,600
Occupancy	53,304	35,536	-	35,536	88,840
Storage fees	5,154	-	-	-	5,154
Office expense and supplies	-	4,468	-	4,468	4,468
Consulting fees	17,946	-	17,025	17,025	34,971
Telecommunications	1,324	883	-	883	2,207
Insurance expense	4,257	3,865	-	3,865	8,122
Dues and subscriptions	-	2,798	-	2,798	2,798
Professional fees	174,998	108,533	-	108,533	283,531
Advertising expenses	-	-	3,097	3,097	3,097
Bank charges and processing fees	13,837	160	431	591	14,428
Computer software and services	1,612	-	4,749	4,749	6,361
Travel and meetings	-	884	-	884	884
Total expenses before depreciation and amortization	972,967	178,064	36,019	214,083	1,187,050
Depreciation and amortization	4,202	2,801	-	2,801	7,003
Total expenses	\$ 977,169	\$ 180,865	\$ 36,019	\$ 216,884	\$ 1,194,053

See notes to financial statements and independent auditor's report.

Emma's Torch Ltd.
Statement of Cash Flows
Year Ended December 31, 2018

Cash flows from operating activities	
Increase in net assets	\$ 127,842
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	7,003
Increase in operating assets:	
Grants and pledges receivable	(105,000)
Prepaid expenses	(7,031)
Security deposits	(18,828)
Increase in operating liabilities:	
Accounts payable	26,929
Accrued expenses and other current liabilities	41,607
Total adjustments	<u>(55,320)</u>
Net cash provided by operating activities	72,522
Cash flows from investing activity	
Purchase of property and equipment	<u>(73,459)</u>
Net decrease in cash	(937)
Cash - Beginning of year	<u>101,356</u>
Cash - End of year	<u><u>\$ 100,419</u></u>

Emma's Torch Ltd.
Notes to Financial Statements
December 31, 2018

Note 1 - Summary of Organization and Nature of Activities

Organization and Nature of Activities

Emma's Torch Ltd. (the "Organization"), is a nonprofit organization established in 2016 with the mission 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 culinary training in order to help these individuals find meaningful careers, as well as English speaking classes and employee interview preparation training.

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.

The Organization is supported primarily through donor contributions and grants, as well as funds earned through its restaurant operations.

Description of Program and Supporting Services

Restaurant Operations and Educational Support

The Organization's curriculum is an eight-week paid apprenticeship with nearly 400 hours of culinary training. 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 the restaurant and cater a wide range of internal and external events. 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.

The Organization operates the restaurant five days per week for dinner and the weekend for brunch. The restaurant is open to the general public and receives revenues from its daily operations, catering events, and other special events, which constitute program income on the statement of activities.

Administration

Includes the functions necessary to ensure an adequate working environment and to manage the administrative, financial and budgetary responsibilities of the Organization.

Fundraising

Provides the structure necessary to encourage and secure financial support from individuals, foundations, corporations and government agencies.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

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

The Organization reports information regarding its financial position and activities according to two classes of net assets; net assets without donor restrictions and net assets with donor restrictions.

Emma's Torch Ltd.
Notes to Financial Statements
December 31, 2018

Note 2 - Summary of Significant Accounting Policies (continued)

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Board may designate assets without restrictions for specific operational purposes from time to time.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. When a restriction expires (when a stipulated time restriction ends or a purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. Donations of property and equipment are recorded as support at their estimated fair value at the date of the donation.

Contributions and Expenditures

Unconditional contributions are recognized when pledged and recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional promises to give will be recognized when the conditions on which they depend are substantially met. Gifts of cash and other assets will be reported with donor restricted support if they are received with donor stipulations that limit the use of the donated assets.

Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities will be reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of donor restrictions on the net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between applicable classes of net assets.

Uninsured Cash Balances

The Organization maintains cash balances at a bank in the New York metropolitan area. Cash accounts at the bank are insured by the Federal Deposit Insurance Corporation subject to certain limits. At times, cash balances may be in excess of the insured limits. The Organization has not experienced any losses in these accounts and does not believe it is exposed to any significant credit risk on its cash.

Property and Equipment and Depreciation Methods

Major property and equipment additions are recorded at cost if purchased, or, if in the case of donated property, at the fair value at the date of the gift. Such donations are reported as contributions without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long these donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the respective assets, which are as follows:

Emma's Torch Ltd.
Notes to Financial Statements
December 31, 2018

Note 2 - Summary of Significant Accounting Policies (continued)

Furniture & fixtures	7 years
Machinery and equipment	5 years
Leasehold improvements	5 years

Fair Value Measurements

The Organization's financial instruments include cash, grants and pledges receivable, and accounts payable. The recorded values of cash, grants and pledges receivable and accounts payable approximate their fair values due to their short-term duration.

Tax-Exempt Status

The Organization has been notified by the Internal Revenue Service that it is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code ("Code"). The Organization is further classified as an organization that is not a private foundation under Section 509(a)(3) of the Code. The Organization follows the guidance of Accounting Standards Codification (ASC) 740, *Accounting for Income Taxes*, related to uncertain income taxes, which prescribes a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. All significant tax positions have been considered by management. It has been determined that is more likely than not that all tax positions would be sustained upon examination by taxing authorities. Accordingly, no provision for income taxes has been recorded.

Grants and Pledges Receivable

Grants and pledges receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to grants and pledges receivable. In the opinion of management, no allowance was necessary at December 31, 2018. The Organization does not charge interest on its receivables.

In-Kind Contributions

During the year ended December 31, 2018, the value of in-kind contributions meeting the requirements for recognition in the financial statements was \$326,614, which was included in support on the statement of activities. In-kind contributions for the year ended December 31, 2018 were for accounting, legal services, food and beverages, kitchen equipment and supplies, and leasehold improvements.

Functional Expenses

The financial statements report certain categories of expenses that are attributable to one or more programs or supporting functions. Those expenses include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and related costs	Time and Effort
Occupancy and related costs	Square Footage
Depreciation	Square Footage

Emma's Torch Ltd.
Notes to Financial Statements
December 31, 2018

Note 2 - Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Estimates are based on past experience and other assumptions that management believes are reasonable under the circumstances, and management evaluates these estimates on an ongoing basis. The significant estimates of the Organization include no allowance for uncollectible receivables and expense allocations.

Advertising

Advertising costs are expensed as incurred. Advertising expenses amounted to \$3,097 for the year ended December 31, 2018.

Subsequent Events

Management has evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through October 7, 2019, the date the financial statements were available to be issued.

Recently Issued Accounting Pronouncements

FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU replaces all current U.S. GAAP guidance on this topic and eliminates industry-specific guidance. The topic, which was amended several times since, contains a core principle, that is, to recognize revenues when promised goods or services are transferred to customers in an amount that reflect the consideration to which an entity is expected to be entitled for those goods or services. The ASU defines a five-step process to achieve this core principle and, in so doing, more judgement and estimates may be required within the revenue recognition process than was previously required. This process includes identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocation the transaction to each performance obligation. The ASU is effective for annual periods beginning after December 15, 2018 using either one of these methods (a) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within the ASU, or, (b) retrospective with the cumulative effect of initially applying the ASU recognized at the date of initial application and providing certain additional disclosures as defined in the ASU. The Organization has not determined what impact the adoption of this ASU will have, if any, on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 replaced all current U.S. GAAP guidance on this topic. Under ASU 2016-02:

- A lessee would account for both finance leases and operating leases by recognizing a right-of-use asset and a lease liability on the balance sheet, with an exception for leases that commence at or near the end of the underlying asset's economic life. Finance leases will recognize amortization of the right-of-use asset separately from interest on the lease liability, and operating leases will recognize the lease expense on a straight line basis. Additionally, the ASU only allows for the capitalization of only those costs, as initial direct costs, that are incurred due to the successful execution of a lease. ASU 2016-02 is effective for private companies for fiscal years beginning after December 15, 2019.

Emma's Torch Ltd.
Notes to Financial Statements
December 31, 2018

Note 2 - Summary of Significant Accounting Policies (continued)

- Although other amendments of this ASU have been issued, in July 2018, ASU 2018-11 (“ASU 2018-11”), Leases (Topic 842): Targeted Improvements, was issued providing certain amendments to the new lease standards. ASU 2018-11 allows an additional but optional transition method to adopt the ASU 2018-11 lease standard for comparative financial statement presentations. Under this new transition method, an entity initially applies the new lease standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings (deficit) in the year of adoption. Consequently, an entity’s reporting for the comparative year presented in the financial statements in which it adopts the new lease standard, will continue to be in accordance with current U.S. GAAP (Topic 840, Leases) although it will not be consistently applied to both years.

The Company is evaluating the potential impact the adoption of ASU 2016-02, as amended, could have on its financial statements.

In August 2016, the FASB issued Accounting Standards Update (“ASU”) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 improves the current net asset classification requirements and the information presented in financial statements and notes about a not-for-profit entity’s liquidity, financial performance and cash flows. ASU 2016-14 is effective for annual financial statements issued for fiscal years beginning after December 15, 2017 with early adoption permitted. The Organization has adopted the presentation of this ASU effective January 1, 2018.

Note 3 - Grants and Pledges Receivable

Grants and pledges receivable consists of unconditional promises to give that are expected to be collected in the future. Grants and pledges receivable were for the following as of December 31, 2018:

Educational garden project	\$ 50,000
Underwriting of curriculum for culinary apprentice program	40,000
Brooklyn Public Library initiative	25,000
	<u>\$ 115,000</u>
Amounts due in:	
Less than one year	\$ 95,000
One to five years	20,000
	<u>\$ 115,000</u>

Emma's Torch Ltd.
Notes to Financial Statements
December 31, 2018

Note 4 - Property and Equipment

Property and equipment consisted of the following at December 31, 2018:

Furniture and fixtures	\$	12,000
Machinery and equipment		49,453
Leasehold improvements		12,006
		73,459
Less: accumulated depreciation		7,003
		\$ 66,456

Depreciation expense for the year ended December 31, 2018 amounted to \$7,003.

Note 5 – Net Assets - With Donor Restrictions

Donor restricted net assets were for the following as of December 31, 2018:

Subject to expenditure for specified purpose:

Development of educational garden	\$	10,000
		10,000

Subject to the passage of time:

Educational garden sponorship for 2019		30,000
Culinary apprenticeship at Brooklyn Public Library for 2019		25,000
Curriculum for culinary apprenticeship for 2019		21,914
Curriculum for culinary apprenticeship for 2020		20,000
		96,914

Total assets with donor restrictions	\$	106,914
		106,914

Releases from donor restricted net assets for the year ended December 31, 2018 were for the following:

Releases from restrictions:

Subject to expenditure for specified purposes:		
Rental, occupancy and equipment costs	\$	55,000
Culinary student salaries		5,000
Facility renovations and purchase of equipment		7,500
Curriculum for culinary apprenticeship for 2018		18,086
		85,586
		\$ 85,586

Emma's Torch Ltd.
Notes to Financial Statements
December 31, 2018

Note 6 - Commitments

During the year ended December 31, 2018, the Organization assumed a lease for restaurant space under a purchase agreement. The non-cancelable lease was assumed beginning April 15, 2018 and expires in February 2023. The total minimum annual lease payments, exclusive of escalations for taxes and other operating expenses are as follows:

<u>Years Ending December 31,</u>	
2019	\$ 102,685
2020	106,266
2021	109,988
2022	113,838
2023	<u>19,081</u>
	<u>\$ 451,858</u>

Rent and occupancy costs amounted to \$88,840 for the year ended December 31, 2018.

During the year ended December 31, 2018, the Organization also entered into an agreement with the Brooklyn Public Library ("BPL") to provide food services at its Central Library for BPL staff, patrons, and other members of the public. No rental payments are required under the agreement and utilities, storage, equipment and other maintenance costs will be paid by BPL. All costs to operate the café, including food, beverages, utensils and supplies, are the responsibility of the Organization. The Organization is entitled to all proceeds from the operations of the café, but must segregate any profits in a segregated account to act as a reserve fund for the café. The term of the lease agreement was effective January 1, 2019 and expires in December 2021. The agreement has a twelve-month renewal option at the discretion of both parties.

Note 7 - Risks and Uncertainties

The Organization is dependent upon contributions from the public for its revenue. The ability of the Organization to continue to elicit this level of contribution is dependent upon current and future economic conditions as well as income tax efficiencies.

Note 8 - Liquidity

As part of its liquidity management, the Organization established a goal to maintain financial assets on hand to meet 90 days of normal operating expenses. Such goal is initially inherently without certainty as the organization is still in its initial stages. The Organization's goal is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization does not have a line of credit available to assist with liquidity management.

Emma's Torch Ltd.
Notes to Financial Statements
December 31, 2018

Note 8 - Liquidity (continued)

The Organization's financial assets available within one year of the balance sheet date to fund expenses without limitations are:

Cash	\$ 100,419
Grants and pledges receivable	<u>95,000</u>
	195,419
Less: those unavailable for general expenditures within one year due to purpose restrictions	<u>(86,914)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 108,505</u></u>

In addition to financial assets available to meet general expenditures over the year, the Organization operates with a balanced budget and anticipates covering its general expenditures through its restaurant operations and by utilizing donor-restricted resources from current and prior years. The statement of cash flows identifies the sources and uses of the Organization's cash and shows positive cash generated by operations of \$72,522 for the year ended December 31, 2018.