

EMMA'S TORCH LTD.

**Financial Statements Together with the
Report of Independent Public Accountants**

For the Years Ended December 31, 2022 and 2021

DECEMBER 31, 2022 AND 2021

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON THE AUDIT OF THE FINANCIAL STATEMENTS

To the Board of Directors
Emma's Torch Ltd.

Opinion

We have audited the accompanying financial statements of Emma's Torch Ltd. (the Organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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, 2022, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of Emma's Torch Ltd., and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of the Organization as of and for the year ended December 31, 2021, were audited by another auditor, who expressed an unmodified opinion on those statements dated August 26, 2022.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about our ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal controls relevant to the audit 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 Organization's internal controls. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Owings Mills, Maryland
July 31, 2023

A handwritten signature in black ink that reads "SB & Company, LLC".

EMMA'S TORCH LTD.**Statements of Financial Position
As of December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,100,602	\$ 2,100,003
Unconditional promises to give, net	1,766,740	730,000
Inventory	20,158	18,494
Prepaid expenses	12,463	11,136
Total current assets	<u>4,899,963</u>	<u>2,859,633</u>
Non-Current Assets:		
Unconditional promises to give	954,836	670,303
Investments	456,167	-
Property and equipment, net	144,429	78,663
Security deposits	28,768	18,978
Right of use asset - operating	808,250	-
Total non-current assets	<u>2,392,450</u>	<u>767,944</u>
Total Assets	<u><u>\$ 7,292,413</u></u>	<u><u>\$ 3,627,577</u></u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 79,046	\$ 21,643
Accrued expenses	102,288	23,177
Deferred revenue	30,000	28,251
Lease liability - operating	154,300	-
Total current liabilities	<u>365,634</u>	<u>73,071</u>
Non-Current Liabilities:		
Lease liability, net of current portion - operating	668,061	-
Economic Injury Disaster loan	473,561	150,000
Total non-current assets	<u>1,141,622</u>	<u>150,000</u>
Total Liabilities	<u><u>1,507,256</u></u>	<u><u>223,071</u></u>
Net Assets		
Without donor restrictions	1,373,794	1,691,703
With donor restrictions	4,411,363	1,712,803
Total Net Assets	<u><u>5,785,157</u></u>	<u><u>3,404,506</u></u>
Total Liabilities and Net Assets	<u><u>\$ 7,292,413</u></u>	<u><u>\$ 3,627,577</u></u>

The accompanying notes are an integral part of these financial statements.

EMMA'S TORCH LTD.

**Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2022 and 2021**

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:						
Contributions	\$ 1,091,091	\$ 3,219,533	\$ 4,310,624	\$ 1,637,704	\$ 1,712,803	\$ 3,350,507
Program and service revenue, net of cost of goods sold of \$316,851 and \$188,731, respectively	444,061	-	444,061	159,949	-	159,949
Government grants	-	-	-	172,039	-	172,039
In-kind contributions	244,330	-	244,330	120,261	-	120,261
Net assets released from restrictions	520,973	(520,973)	-	30,000	(30,000)	-
Total Support and Revenue	2,300,455	2,698,560	4,999,015	2,119,953	1,682,803	3,802,756
Expenses:						
Program services:						
Restaurant operations and educational support	2,404,600	-	2,404,600	978,387	-	978,387
Supporting services:						
Management and general	177,468	-	177,468	278,039	-	278,039
Fundraising	47,692	-	47,692	55,019	-	55,019
Total supporting services	225,160	-	225,160	333,058	-	333,058
Total Expenses	2,629,760	-	2,629,760	1,311,445	-	1,311,445
Change in net assets before non-operating income	(329,305)	2,698,560	2,369,255	808,508	1,682,803	2,491,311
Non-Operating Income:						
Forgiveness of Paycheck Protection Program loan	-	-	-	534,940	-	534,940
Families First Coronavirus Response Act	-	-	-	22,655	-	22,655
Other income	11,396	-	11,396	396	-	396
Total Non-Operating Income	11,396	-	11,396	557,991	-	557,991
Changes in net assets	(317,909)	2,698,560	2,380,651	1,366,499	1,682,803	3,049,302
Net assets, beginning of year	1,691,703	1,712,803	3,404,506	325,204	30,000	355,204
Net Assets, End of Year	\$ 1,373,794	\$ 4,411,363	\$ 5,785,157	\$ 1,691,703	\$ 1,712,803	\$ 3,404,506

The accompanying notes are an integral part of these financial statements.

EMMA'S TORCH LTD.

**Statement of Functional Expenses
For the Year Ended December 31, 2022, with Comparative Totals for 2021**

	2022				2021 Totals
	Program Services	Supporting Services		Total	
	Restaurant Operations and Educational Support	Management & General	Fundraising and Development		
Personnel costs:					
Salaries and wages	\$ 1,366,410	\$ 9,366	\$ 28,328	\$ 1,404,104	\$ 716,342
Payroll taxes and benefits	199,620	3,165	3,610	206,395	109,037
Total personnel costs	<u>1,566,030</u>	<u>12,531</u>	<u>31,938</u>	<u>1,610,499</u>	<u>825,379</u>
Occupancy	261,546	115	347	262,008	168,595
Legal fees	135,477	29,048	-	164,525	105,895
Maintenance and repairs	118,046	11	32	118,089	49,036
Professional fees	64,122	36,153	10,662	110,937	559
Accounting fees	15,333	81,722	-	97,055	34,132
Insurance	47,668	3,449	994	52,111	17,647
Contracted catering services	41,574	-	-	41,574	4,659
Depreciation	40,144	275	833	41,252	26,306
Office expense and miscellaneous	40,695	717	653	42,065	20,019
Digital subscriptions	20,639	87	1,894	22,620	29,605
Postage and delivery	13,333	7	22	13,362	9,173
Travel and meetings	13,093	53	161	13,307	4,482
Interest expense	-	13,249	-	13,249	-
Uniforms and student equipment	10,407	2	6	10,415	9,065
Advertising and promotion	7,083	43	131	7,257	3,030
Bad dept expense	5,000	-	-	5,000	-
Telephone and data	4,410	6	19	4,435	3,863
Total expenses	<u>\$ 2,404,600</u>	<u>\$ 177,468</u>	<u>\$ 47,692</u>	<u>\$ 2,629,760</u>	<u>\$ 1,311,445</u>

The accompanying notes are an integral part of this financial statement.

EMMA'S TORCH LTD.

**Statement of Functional Expenses
For the Year Ended December 31, 2021**

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>
	<u>Restaurant Operations and Educational Support</u>	<u>Management & General</u>	<u>Fundraising and Development</u>	
Personnel costs:				
Salaries and wages	\$ 636,406	\$ 35,636	\$ 44,300	\$ 716,342
Payroll taxes and benefits	67,727	36,168	5,142	109,037
Total personnel costs	<u>704,133</u>	<u>71,804</u>	<u>49,442</u>	<u>825,379</u>
Occupancy	163,906	4,689	-	168,595
Legal fees	-	105,895	-	105,895
Maintenance and repairs	46,453	2,583	-	49,036
Professional fees	-	559	-	559
Accounting fees	-	34,132	-	34,132
Insurance	-	17,647	-	17,647
Contracted catering services	4,659	-	-	4,659
Depreciation	-	26,306	-	26,306
Office expense and miscellaneous	17,348	2,420	251	20,019
Digital subscriptions	19,446	4,833	5,326	29,605
Postage and delivery	5,665	3,508	-	9,173
Travel and meetings	3,731	751	-	4,482
Uniforms and student equipment	9,065	-	-	9,065
Advertising and promotion	861	2,169	-	3,030
Telephone and data	3,120	743	-	3,863
Total expenses	<u>\$ 978,387</u>	<u>\$ 278,039</u>	<u>\$ 55,019</u>	<u>\$ 1,311,445</u>

The accompanying notes are an integral part of this financial statement.

EMMA'S TORCH LTD.**Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 2,380,651	\$ 3,049,302
Adjustments to reconcile changes in net assets to net cash from operating activities:		
Depreciation	41,252	26,306
Forgiveness of Paycheck Protection Program loan	-	(534,940)
Effects of changes in non-cash operating assets and liabilities:		
Unconditional promises to give, net	(1,321,273)	(1,315,303)
Inventory	(1,664)	28,991
Prepaid expenses	(1,327)	9,182
Security deposits	(9,790)	(150)
Accounts payable	57,403	3,188
Accrued expenses	79,111	3,015
Accrued interest	8,961	-
Deferred rent	14,111	-
Deferred revenue	1,749	335
Net cash from Operating Activities	<u>1,249,184</u>	<u>1,269,926</u>
Cash Flows from Investing Activities:		
Purchase of investments	(464,600)	-
Proceeds from sales of investments	8,433	-
Purchase of property and equipment	(107,018)	(45,000)
Net cash from Investing Activities	<u>(563,185)</u>	<u>(45,000)</u>
Cash Flows from Financing Activities:		
Proceeds from Paycheck Protection Program loan	-	309,879
Proceeds from Economic Injury Disaster loan	314,600	-
Net cash from Financing Activities:	<u>314,600</u>	<u>309,879</u>
Net change in cash and cash equivalents	1,000,599	1,534,805
Cash and cash equivalents, beginning of year	2,100,003	565,198
Cash and Cash Equivalents, End of Year	<u>\$ 3,100,602</u>	<u>\$ 2,100,003</u>

The accompanying notes are an integral part of these financial statements.

EMMA'S TORCH LTD.

Notes to the Financial Statements December 31, 2022 and 2021

1. NATURE OF ACTIVITIES

Emma's Torch Ltd. (the Organization) is a non-profit organization established in 2016 with the mission to alleviate unemployment and poverty affecting individuals (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. Ancillary programs such as English speaking classes and employee interview preparation training are also offered.

The Organization acknowledges the struggle for restaurants to fill the "line cook" position. The Organization collaborates with 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires the Organization's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of support and revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with initial maturities of three months or less to be cash equivalents. Cash equivalents consisted of money market funds as of December 31, 2022 and 2021.

EMMA'S TORCH LTD.

Notes to the Financial Statements December 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Unconditional Promises to Give, Net

Unconditional promises to give are valued at management's estimate of the amount that will ultimately be collected and discounted for amounts due in greater than one year. Amounts expected to be collected in greater than one year are discounted using a risk-free rate of interest which was 4.73% and 4.00% as of December 31, 2022 and 2021, respectively. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to the allowance for doubtful accounts 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 allowance. There was no allowance for doubtful accounts as of December 31, 2022 and 2021, as management believes all amounts are fully collectible.

Inventory

Inventory consists of food and beverages which are valued at the lower of cost or net realizable value.

Fair Value of Financial Instruments

Accounting principles generally accepted in the United States of America establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under accounting principles generally accepted in the United States of America are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the entity has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

EMMA'S TORCH LTD.

Notes to the Financial Statements December 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Value of Financial Instruments (continued)

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

As of December 31, 2022, investments consisted of U.S. treasury notes. U.S. treasury notes are valued at the fair value of the investments based on the price per the active market on which the securities are traded and are rendered Level 1.

Property and Equipment

Property and equipment are stated at cost in the financial statements. Acquisitions greater than \$5,000 are capitalized and then depreciated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are 5 years for equipment, leasehold improvements, and management software, and 7 years for furniture and fixtures.

Right of Use Asset and Lease Liability - Operating

The Organization records a right of use asset related to the office facilities where the Organization conducts its operations. The Organization's 8-year lease was recorded at \$957,550, which represented its present value of the total remaining lease payments on January 1, 2022, at adoption. The Organization also recorded a liability of \$957,550 at adoption and there was no impact on net assets. The right of use asset is being amortized over the term of the lease. During the year ended December 31, 2022, the amortization expense related to the right of use asset was \$149,300, and is included in occupancy cost on the statement of functional expenses. As of December 31, 2022, the net present value of the right of use asset was \$808,250.

The lease liability represents the future commitments for the Organization's office lease. The term of a lease is assessed as the non-cancellable period of the lease, plus any extension options that the Organization is reasonably certain to exercise. The lease liability is discounted using the Organization's estimated borrowing rate. Costs related to maintenance and other janitorial services are expensed as incurred.

EMMA'S TORCH LTD.

Notes to the Financial Statements December 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Assets

Net assets without donor restrictions are assets and contributions that are not restricted by donors, or for which restrictions have expired.

Net assets with donor restrictions are those whose use by the Organization has been restricted by donors primarily for a specific time period or purpose. When a donor restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions. Net assets with donor restrictions was \$4,411,363 and \$1,712,803 as of December 31, 2022 and 2021, respectively.

Support and Revenue

The Organization recognizes all unconditional grants and contributions in the period in which the commitment to give is made. Grants and contributions received are 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. Contributions received with donor-imposed conditions and restrictions that are met in the same reporting period are reported as support without donor restrictions and an increase in net assets without donor restrictions. All other donor-restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction.

When a donor restriction expires, that is, when some stipulated time restriction ends or purpose of the restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

The Organization accounts for program service arrangements as exchange transactions and recognizes revenue in the period that the Organization has performed the services. Restaurant sales are included in this line item.

Individuals volunteer their time and perform a variety of tasks that assist the Organization. Certain services do not meet the recognition criteria under accounting principles generally accepted in the United States of America. Donations of both goods and services that meet the recognition criteria are presented at their fair market values on the statement of activities as in-kind contributions.

EMMA'S TORCH LTD.

Notes to the Financial Statements December 31, 2022 and 2021

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 statements of activities and changes in net assets and in the statements of functional expenses. Accordingly, certain costs have been allocated between the program services and supporting services that benefit from those costs. Supporting services expenses include those expenses that are not directly identified with any other specific function but provide for the overall support and direction of the Organization. Allocated indirect expenditures include payroll, occupancy expenses, professional fees and legal fees. Those shared costs are allocated on the basis of estimates of time and effort.

Income Taxes

The Organization is a not-for-profit organization described under Section 501(c)(3) of the Internal Revenue Code (IRC) and is therefore exempt from federal income taxes under Section 501(a) of the IRC. The Organization is also exempt under N.Y. Tax Law Section 1116: Exempt Organizations. Accordingly, no provision for Federal or State income taxes has been presented in the accompanying financial statements.

Accounting principles generally accepted in the United States of America provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition of tax positions taken or expected to be taken in a tax return. The Organization performed an evaluation of uncertain tax positions as of December 31, 2022 and 2021, and determined that there were no matters that would require recognition in the accompanying financial statements or which may have any effect on its tax-exempt status. As of December 31, 2022, the statute of limitations for fiscal years 2019 through 2022 remains open with the U.S. Federal jurisdiction and the various states and local jurisdictions in which the Organization files tax returns.

It is the Organization's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense.

Annually, the Organization maintains that income derived from its restaurant operations is a related business activity that is conducted without the intent to make a profit. Profits, if any, are dedicated to the furtherance of the purpose for which the Organization was organized and operated as specified in its articles of incorporation. Accordingly, management has determined that as of December 31, 2022 and 2021, the Organization has no material uncertain tax positions to be accounted for in the financial statements and is not an unrelated trade or business within the meaning of section 513 of the IRC.

EMMA'S TORCH LTD.

Notes to the Financial Statements December 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Liquidity and Availability of Resources

The Organization's liquidity management plan is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Management anticipates meeting general expenditures within one year of the date of the statement of financial position with existing financial assets plus funding provided by anticipated contributions from the general public and revenue from the restaurant.

Financial assets available within one year of the balance sheet date for general expenses were as follows as of December 31:

	<u>2022</u>	<u>2021</u>
Financial Assets:		
Cash and cash equivalents	\$ 3,100,602	\$ 2,100,003
Unconditional promises to give, net	2,721,576	1,400,303
Investments	456,167	-
Available financial assets	<u>6,278,345</u>	<u>3,500,306</u>
Less: financial assets not available within one year:		
Unconditional promises to give due in greater than one year, net	954,836	670,303
Net assets with donor restrictions	4,411,363	1,712,803
Total Available Financial Assets	<u>\$ 912,146</u>	<u>\$ 1,117,200</u>

Accounting Pronouncements Implemented

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, which creates a singular reporting model for leases. This standard required the Organization to record changes to its statement of financial position to reflect balances for current leases that are not shown in the statement of financial position. The Organization adopted this ASU for the fiscal year ended December 31, 2022. The implementation resulted in a right of use asset of \$943,389 (\$957,550 net of a deferred rent liability of \$14,111) and a lease liability of \$957,550 as of January 1, 2022.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard will require the presentation of contributed nonfinancial assets as a separate line item in the statements of activities and changes in net assets, apart from contributions of cash or other financial assets. The Organization adopted this standard during the fiscal year ended December 31, 2022. The adoption of this ASU did not have a material effect on the accompanying financial statements.

EMMA'S TORCH LTD.

Notes to the Financial Statements December 31, 2022 and 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncement

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses*. The objective of this update is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity. This standard is effective for periods beginning after December 15, 2022.

Management is evaluating the effects of this pronouncement on the financial statements and will implement this pronouncement by its effective date. Management does not believe the adoption of this pronouncement will have a material effect on the financial statements.

Reclassifications

Certain reclassifications have been made to the 2021 amounts to confirm to the 2022 presentation. These reclassifications did not impact the net assets as of December 31, 2021.

Subsequent Events

The Organization evaluated the subsequent events and transactions through July 31, 2023, the date these financial statements were available for issue and have determined that no material subsequent events have occurred, other than disclosed above, that would affect the information presented in the accompanying financial statements or require additional disclosure.

3. UNCONDITIONAL PROMISES TO GIVE, NET

Unconditional promises to give consist of the following as of December 31,:

	<u>2022</u>	<u>2021</u>
Promises without donor restriction	\$ 22,500	\$ 5,000
Promises with donor restriction:		
Capacity building and expansion	<u>2,744,240</u>	1,450,000
Total unconditional promises to give	<u>2,766,740</u>	1,455,000
Less: discount for long-term pledges	<u>45,164</u>	54,697
Unconditional Promises to Give, Net	<u>\$ 2,721,576</u>	<u>\$ 1,400,303</u>
Amounts Due in:		
Less than one year	\$ 1,766,740	\$ 730,000
One to five years	<u>1,000,000</u>	725,000
Total	<u>\$ 2,766,740</u>	<u>\$ 1,455,000</u>

EMMA'S TORCH LTD.

Notes to the Financial Statements December 31, 2022 and 2021

4. PROPERTY AND EQUIPMENT, NET

Property and equipment as of December 31, consisted of:

	<u>2022</u>	<u>2021</u>	<u>Useful Lives</u>
Equipment	\$ 49,453	\$ 49,453	5 years
Furniture & fixtures	12,000	12,000	7 years
Leasehold improvements	43,506	43,506	5 years
Management software	152,018	45,000	5 years
Total property and equipment	<u>256,977</u>	<u>149,959</u>	
Less: accumulated depreciation	<u>112,548</u>	<u>71,296</u>	
Property and Equipment, Net	<u>\$ 144,429</u>	<u>\$ 78,663</u>	

Depreciation expense for the years ended December 31, 2022 and 2021 was \$41,252 and \$26,306, respectively.

5. LEASE LIABILITY

In March 2020, the Organization entered into an 8-year lease agreement for office space which is set to expire in February 2028. The lease calls for monthly principal payments with annual increases thereafter equal to 3.0 percent of the previous year's payment for the remainder of the lease. As of December 31, 2022, the lease payable was \$822,361. Total interest expense under the office lease for the year ended December 31, 2022 was \$1,253, and rent expense was \$149,083 for the year ended December 31, 2021.

As of December 31, 2022, the future minimum payments under the lease liability are as follows:

<u>Years Ending December 31</u>	<u>Amount</u>
2023	\$ 154,300
2024	159,701
2025	165,290
2026	171,075
2027	177,063
Thereafter	<u>29,847</u>
Total	857,276
Less: amounts representing interest	<u>34,915</u>
Total	<u>\$ 822,361</u>

EMMA'S TORCH LTD.

Notes to the Financial Statements December 31, 2022 and 2021

6. PAYCHECK PROTECTION PROGRAM

During the years ended December 31, 2021 and 2020, the Organization received Paycheck Protection Program (PPP) loans in the amount of \$309,879 and \$225,061, respectively. The PPP loans were received from the U.S. Federal government under the Coronavirus Aid, Relief and Economic Security (CARES) Act passed by Congress. The terms of the loan required the proceeds to be spent on eligible expenses, which were primarily payroll related costs. Part or all of the loans may be forgiven based on meeting certain conditions as set forth in the loan agreement. Any portion of the PPP loans that are not forgiven must be repaid over two years after a six-month deferral period at an interest rate of 1%.

During the year ended December 31, 2021, the Organization submitted its applications for forgiveness for both loans to the financial institution issuing the loans and received full forgiveness for both loans. As such, the Organization recorded the total loan forgiveness of \$534,940 as income in the accompanying statements of activities and changes in net assets for the year ended December 31, 2021.

7. ECONOMIC INJURY DISASTER LOAN

On May 12, 2020, the Organization obtained an Economic Injury Disaster loan (EIDL) in the amount of \$150,000, pursuant to the terms of the CARES Act. In response to COVID-19, nonprofit organizations were eligible to apply for a loan in order to meet financial obligations and operating expenses that could have been met had the disaster not occurred. The loan was authorized by the Small Business Administration (SBA) and the agreement contains certain provisions. In April 2022, the Organization obtained an additional \$314,600 in EIDL funds.

Under the SBA deferment period, monthly installment payments on the loan, including principal and interest of \$631 per month, began twelve months from the date of the original note. The balance of principal and interest will be payable thirty years from the date of the note or May 2050. The Organization's monthly payments increased from \$641 to \$2,021 in April 2022. Interest accrues at the rate of 2.75% per annum and accrues only on funds advanced. Accrued interest of \$8,961 is included in the loan balance as of December 31, 2022.

The loan is collateralized by substantially all assets of the Organization as defined in the Uniform Commercial Code and as further detailed in the agreement. Proceeds from the loan may only be used for working capital and normal operating expenses.

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Notes to the Financial Statements December 31, 2022 and 2021

7. ECONOMIC INJURY DISASTER LOAN (continued)

As of December 31, 2022, the minimum future debt payments are as follows:

<u>Years Ending December 31,</u>	<u>Amount</u>
2023	\$ 10,738
2024	12,617
2025	12,292
2026	11,959
2027	11,617
Thereafter	414,338
Total	<u><u>\$ 473,561</u></u>

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are available for the following purposes as of December 31,:

	<u>2022</u>	<u>2021</u>
Capacity building and expansion	\$ 4,411,363	\$ 1,695,303
2022 Brooklyn Public Library revitalization	-	17,500
Total Net Assets with Donor Restrictions	<u><u>\$ 4,411,363</u></u>	<u><u>\$ 1,712,803</u></u>

9. IN-KIND DONATIONS

Donations are recorded as income and expense at the time the items are received at their estimated fair value. The value of these in-kind donations meets the criteria for recognition under GAAP. The value of the contributions are determined based on the retail value of the donated goods. The fair value of the professional fees is determined based on the hours incurred and the market rate for legal services, and the program space fair value is determined based on the square footage and rate per square foot for similar space.

For the years ended December 31, in-kind donations were recognized at their fair values as follows in the accompanying statements of activities and changes in net assets:

<u>Functional Classification</u>	<u>Natural Classification</u>	<u>2022</u>	<u>2021</u>
Administration	Professional fees	\$ 167,475	\$ 105,350
Program	Uniforms	-	5,485
Program	Supplies	23,402	5,054
Program	Food and beverage	5,404	4,372
Program	Space	48,049	-
	Total	<u><u>\$ 244,330</u></u>	<u><u>\$ 120,261</u></u>

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Notes to the Financial Statements December 31, 2022 and 2021

10. COMMITMENTS

During the year ended December 31, 2018, the Organization assumed a lease for restaurant space under a purchase agreement. The non-cancelable lease expired in February 2023. Payments made under this lease amounted to \$50,281 for the year ended December 31, 2022. The lease was renewed for one year in March 2023.

During the year ended December 31, 2018, the Organization 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 cafe, including food, beverages, utensils and supplies, are the responsibility of the Organization. The Organization is entitled to all proceeds from the operations of the cafe but must segregate any profits in a segregated account to act as a reserve fund for the cafe. For the year ended December 31, 2021 through January 31, 2022, the space was not utilized due to COVID-19 and therefore, no amounts were considered contributed. For the period February 2022 through December 31, 2022, the in-kind donations related to the space were valued at \$48,049, based on the square footage and rate per square foot for similar space.