

Café 1040, Inc.

Consolidated Financial Statements

December 31, 2021

Café 1040, Inc.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Café 1040, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Café 1040, Inc., a non-profit organization (the Organization), which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statement of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Café 1040, Inc. as of December 31, 2021, and the results of its activities and 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 the Organization 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.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 control. Misstatements 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 consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated financial statements.
- Obtain an understanding of internal control 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 control. 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 consolidated 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.

Windham Braannon, LLC

June 10, 2022

Café 1040, Inc.

Consolidated Statement of Financial Position December 31, 2021

| | |
|---|---------------------|
| Cash | \$ 1,156,532 |
| Accounts Receivable | 283 |
| Prepaid expenses | 285,973 |
| Computers and equipment, net | 2,576 |
| Total assets | \$ 1,445,364 |
| <hr/> Liabilities and net assets <hr/> | |
| Accounts payable and accrued expenses | \$ 43,409 |
| Net assets | |
| Without donor restrictions | 1,386,955 |
| With donor restrictions | 15,000 |
| Total net assets | 1,401,955 |
| Total liabilities and net assets | \$ 1,445,364 |

Café 1040, Inc.

Consolidated Statement of Activities and Changes in Net Assets For the Year Ended December 31, 2021

| | Without Donor Restrictions | With Donor Restrictions | Total |
|--|----------------------------------|-------------------------------|--------------|
| Support and revenues | | | |
| Support: | | | |
| Contributions | \$ 3,650,862 | \$ 15,000 | \$ 3,665,862 |
| Total support | 3,650,862 | 15,000 | 3,665,862 |
| Revenues: | | | |
| Interest income | 96 | - | 96 |
| Other income | 5,966 | - | 5,966 |
| Paycheck Protection Program (PPP) loan forgiveness | 512,816 | - | 512,816 |
| Total revenues | 518,878 | - | 518,878 |
| Total support and revenues | 4,169,740 | 15,000 | 4,184,740 |
| Net assets released from restrictions | - | - | - |
| Expenses | | | |
| Program services: | | | |
| Missionary training program | 2,977,480 | - | 2,977,480 |
| Support services: | | | |
| Management and general | 391,154 | - | 391,154 |
| Fundraising | 268,248 | - | 268,248 |
| Total support services | 659,403 | - | 659,403 |
| Total expenses | 3,636,883 | - | 3,636,883 |
| Change in net assets | 532,857 | 15,000 | 547,857 |
| Net assets, beginning of year | 854,098 | - | 854,098 |
| Net assets, end of year | \$ 1,386,955 | \$ 15,000 | \$ 1,401,955 |

Café 1040, Inc.

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

| | Program Services | | Supporting Services | | Total Expenses |
|--------------------------------|-----------------------------|------------------------|---------------------|---------------------------|---------------------|
| | Missionary Training Program | Management and General | Fundraising | Total Supporting Services | |
| | Contracted services expense | \$ 1,341,551 | \$ - | \$ - | |
| Salaries expense | 1,271,554 | 222,067 | 126,122 | 348,190 | 1,619,744 |
| Housing allowance | 113,909 | - | 15,795 | 15,795 | 129,704 |
| Airline tickets | 25,386 | 1,570 | 830 | 2,401 | 27,787 |
| Accounting | - | 48,281 | - | 48,281 | 48,281 |
| Donor services | - | - | 70,910 | 70,910 | 70,910 |
| Automobile expense | 12,303 | 816 | 5,334 | 6,150 | 18,452 |
| Meals | 17,937 | 2,852 | 13,388 | 16,240 | 34,177 |
| Consulting and counseling | 30,235 | 10,992 | 7,000 | 17,992 | 48,227 |
| Computer software | 32,706 | 23,760 | 6,284 | 30,044 | 62,750 |
| Tithe and cheerful giving | 41,455 | - | - | - | 41,455 |
| Rent and utilities | - | 32,937 | - | 32,937 | 32,937 |
| Internet service | 10,028 | 2,800 | 1,264 | 4,065 | 14,093 |
| Insurance | - | 13,904 | - | 13,904 | 13,904 |
| Cell phone | 10,092 | 1,166 | 1,207 | 2,373 | 12,465 |
| Hotel | 16,737 | 838 | 933 | 1,772 | 18,509 |
| Equipment and maintenance | 12,019 | 1,423 | 1,364 | 2,787 | 14,806 |
| Gifts | 9,791 | 2,140 | 3,624 | 5,765 | 15,556 |
| Education | 14,577 | 1,542 | 545 | 2,087 | 16,663 |
| Meetings and events | - | 11,981 | - | 11,981 | 11,981 |
| Mailings and printed materials | 723 | 266 | 4,405 | 4,671 | 5,393 |
| Student recruiting events | 2,926 | - | - | - | 2,926 |
| Postage and delivery | 3,083 | 726 | 3,317 | 4,042 | 7,125 |
| Marketing | 89 | 79 | 3,876 | 3,955 | 4,044 |
| Payroll processing fees | - | 3,971 | - | 3,971 | 3,971 |
| Transportation | 3,279 | 128 | 450 | 578 | 3,857 |
| Office supplies | 1,917 | 1,023 | 1,030 | 2,053 | 3,970 |
| Memberships | - | 3,637 | - | 3,637 | 3,637 |
| Admissions and experiences | 1,788 | 374 | 46 | 420 | 2,207 |
| Per diem | 1,617 | 174 | 13 | 187 | 1,804 |
| Other supplies | 1,059 | 10 | 301 | 311 | 1,370 |
| Legal fees | - | 1,130 | - | 1,130 | 1,130 |
| Depreciation | - | 74 | - | 74 | 74 |
| Miscellaneous | 720 | 493 | 211 | 703 | 1,423 |
| Total expenses | \$ 2,977,480 | \$ 391,154 | \$ 268,248 | \$ 659,403 | \$ 3,636,883 |

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

Café 1040, Inc.

Consolidated Statement of Cash Flows For the Year Ended December 31, 2021

Cash flows from operating activities

| | |
|---|------------|
| Change in net assets | \$ 547,857 |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | |
| Depreciation | 74 |
| PPP loan forgiveness | (512,816) |
| Impairment loss on prepaid asset | - |
| (Increase) in assets: | |
| Accounts receivable | (283) |
| Prepaid expenses | (77,699) |
| Increase in liabilities: | |
| Accounts payable and accrued expenses | 35,199 |

Net cash used in operating activities **(7,668)**

Cash flows from investing activities

| | |
|--------------------------------------|---------|
| Purchases of computers and equipment | (2,650) |
|--------------------------------------|---------|

Cash flows from financing activities

| | |
|--------------------------------|---------|
| Borrowings on PPP loan payable | 256,408 |
|--------------------------------|---------|

Net increase in cash **246,090**

| | |
|-------------------------|---------|
| Cash, beginning of year | 910,442 |
|-------------------------|---------|

| | |
|-------------------|--------------|
| Cash, end of year | \$ 1,156,532 |
|-------------------|--------------|

Notes to Consolidated Financial Statements
December 31, 2021

1. Organization and Summary of Significant Accounting Policies

Café 1040, Inc. (the Organization) is a Georgia non-profit corporation whose primary purpose is to prepare North American college students for Evangelism inside the 10/40 window. The 10/40 window is the area between 10 degrees and 40 degrees north of the equator and represents the largest population of non-Christians in the world. The Organization's main program is offering intense missionary training inside the 10/40 region of the world for college students and young adults. Students and young adults are exposed to field survival, as well as to culture, customs, history, religion, language, and technology.

On December 2, 2021, the Organization formed a single member LLC, a Georgia limited liability company (the LLC), whose purpose is to pay the employees of the Organization.

Significant Accounting Standards Not Yet Adopted

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-02, *Leases (Topic 842)*. ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their statements of financial position and making targeted changes to lessor accounting. The new standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The guidance is effective for nonpublic business entities for fiscal years beginning after December 15, 2021. Early adoption is permitted. Subsequent to the issuance of ASU 2016-02, the FASB issued an additional ASUs clarifying aspects of the new lease accounting standard, which will be effective upon adoption of ASU 2016-02. The Organization plans to adopt ASU 2016-02 as of the reporting year end of December 31, 2022. The Organization is still evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures, but does not expect the adoption of ASU 2016-02 to have a material impact on its consolidated financial statements.

Principles of Consolidation

The consolidated financial statements include the accounts of the Organization and the LLC, which is wholly owned by the Organization. There were no inter-company transactions that need to be eliminated in consolidation.

Basis of Accounting

The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Notes to Consolidated Financial Statements
December 31, 2021

Basis of Presentation

The Organization is required to report information regarding its consolidated statement of financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions. These two classifications are defined as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations, including board designated endowments.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time or that require the donated assets be maintained permanently by the Organization.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial position and the reported amounts of support and expenses during the reporting period in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash

The Organization maintains cash accounts at a financial institution that is insured by the Federal Deposit Insurance Company (FDIC). At times, cash balances may exceed FDIC federally insured limits.

Computers and Equipment

Computers and equipment are recorded at cost. Depreciation is recorded using the straight-line method over estimated useful lives ranging from two to three years. The Organization's policy is to capitalize computer and equipment additions exceeding \$2,500.

Revenue Recognition

Unconditional contributions are recognized as support to the Organization in the period received. Contributions with donor-imposed restrictions are classified as with donor restrictions according to the donor stipulations.

When restrictions on contributions received with donor-imposed restrictions are met within the same year, the contributions are recorded as without donor restrictions. For the year ended December 31, 2021, there were no such contributions.

Notes to Consolidated Financial Statements
December 31, 2021

Functional Allocation of Expenses

The consolidated statement of functional expenses categorizes expenses that are attributable to one or more program or supporting services of the Organization and have been summarized on a functional basis. Accordingly, costs have been allocated among the programs and supporting services based typically on headcount, space, or usage.

Paycheck Protection Program Loan

The Organization elected to account for the Paycheck Protection Program (PPP) Loan in accordance with ASC 470, *Debt*. Accordingly, the Organization recorded the receipt of the PPP Loan as debt, and it derecognized the debt when the Organization was legally released from the debt as the primary obligor (Note 6).

Income Taxes

The Organization is a non-profit organization and is exempt, under Section 501(c)(3) of the Internal Revenue Code (the Code), from federal, state and local income taxes whereby only unrelated business income, if any, as defined by Section 512(a)(1) of the Code, is subject to federal income tax. The Organization did not have any unrelated business income tax for the year ended December 31, 2021.

The LLC is a single member LLC and is disregarded for tax purposes. All financial information of the LLC will be consolidated into the Organization's income tax return.

Management of the Organization considers the likelihood of changes by taxing authorities in its income tax returns and recognizes a liability for or discloses potential significant changes that management believes are more likely than not to occur, including changes to the Organization's status as a not-for-profit entity. Management believes that the Organization met the requirements to maintain its tax-exempt status and has no income subject to unrelated business income tax; therefore, no provision for income taxes has been provided in these consolidated financial statements. The Organization's income tax returns for the past three years are subject to examination by tax authorities and may change upon examination.

Subsequent Events

Management evaluates events occurring subsequent to the date of the consolidated financial statements in determining the accounting for and disclosure of transactions and events that affect the consolidated financial statements. Subsequent events have been evaluated through June 10, 2022, which is the date the consolidated financial statements were available to be issued.

On April 15, 2022, the Organization purchased an office building for \$290,000. The Organization paid cash in full on the purchase date and did not obtain debt financing.

Notes to Consolidated Financial Statements
December 31, 2021

2. Liquidity and Availability of Financial Assets

The following reflects the Organization’s financial assets as of the statement of consolidated financial position date, reduced by amounts not available for general use within one year of the consolidated statement of financial position date because of contractual or donor-imposed restrictions. The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

| | |
|---|--------------|
| Cash | \$ 1,156,532 |
| Accounts receivable | 283 |
| Less: Contractual or donor-imposed restrictions: | |
| Donor restricted funds | 15,000 |
| <hr/> | |
| Financial assets available to meet cash needs for general expenditures within one year | \$ 1,141,815 |
| <hr/> | |

3. Computers and Equipment

At December 31, 2021, computers and equipment were as follows:

| | |
|------------------------------|-----------|
| Computers and equipment | \$ 56,909 |
| <hr/> | |
| | 56,909 |
| Accumulated depreciation | (54,333) |
| <hr/> | |
| Computers and equipment, net | \$ 2,576 |
| <hr/> | |

Depreciation expense was \$74 for the year ended December 31, 2021.

4. Lease Commitments

The Organization leases office space under non-cancelable operating leases expiring in 2022. The amount charged to rental expense under these agreements was \$30,921 in 2021. The following is a schedule of future minimum lease payments under the office space operating lease:

| Year Ending | Amount |
|-------------|----------|
| 2022 | \$ 5,600 |
| <hr/> | |

Notes to Consolidated Financial Statements
December 31, 2021

5. Restrictions on Net Assets and Net Assets Released from Restrictions

Net assets are considered to be released from donor restrictions by incurring expenses satisfying the donor-imposed restriction, due to the passage of time, or by the occurrence of other events specified by donors.

As of December 31, 2021, net assets with donor restrictions consisted of the following:

| | | Overseas Program |
|---------------------------------------|-----------|---------------------|
| Balance at December 31, 2020 | \$ | - |
| Additions | | 15,000 |
| Net assets released from restrictions | | - |
| Balance at December 31, 2021 | \$ | 15,000 |

6. Contract Commitments

The Organization has entered into a contract through December 2022 with a third-party service provider to perform various services related to the mission of the Organization. In 2022, the Organization is committed to pay a retainer of \$150,000 in January, \$70,000 in February and March, \$25,000 in April, and then \$78,000 per month for the remainder of 2022 for on-going services provided, plus a one-time amount of \$7,000, \$7,500, or \$8,000 per program participant. The Organization is also committed to pay a contracted services fee of \$9,075 in January and February and then \$13,700 per month for the remainder of 2022, plus a program restart overhead fee of \$25,650 in February. At the end of each year under contract, the third-party service provider and Organization reconcile amounts paid. Any retainer amounts paid that did not relate to direct expenses by the third-party service provider will be refunded to the Organization or retained as a credit towards the next payment amount due, which is shown in prepaid expenses on the accompanying consolidated statement of financial position. During the year ended December 31, 2021, the Organization paid the consulting company \$1,302,201.

On November 1, 2021, the Organization entered into another contract with the same third-party service provider who provides cybersecurity consulting services to the Organization under the contract. The Organization is committed to pay a fee of \$23,400 per year, payable in equal monthly installments beginning on November 1, 2021, until the agreement is terminated by one of the parties for any reason upon 60-day advance written notice.

Notes to Consolidated Financial Statements
December 31, 2021

7. Paycheck Protection Program Loan Payable

On May 4, 2020, the Organization applied for and was approved for a Small Business Administration (SBA) loan in conjunction with the Paycheck Protection Program (PPP) and received loan proceeds of \$256,408 under an unsecured promissory note (the PPP Loan). The PPP was established by Congress and the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The PPP Loan was to mature in May of 2022 and beared interest at a rate of 1.0% per annum.

On January 28, 2021, the Organization applied for and was approved for the second PPP Loan and received loan proceeds of \$256,408. The second loan was to mature in January 2023 and beared interest at a rate of 1.0% per annum.

Under the terms of the CARES Act, PPP loan recipients can be granted forgiveness for all or a portion of loans granted under the PPP. Such forgiveness is determined by the SBA, subject to limitations, based on the use of loan proceeds for payment of payroll costs, rent, and utilities. On March 10, 2021 and December 30, 2021, the Organization received full forgiveness of the first and second PPP Loans from the SBA, respectively, and recorded the forgiveness during the year ended December 31, 2021.

8. Related Party Transactions

During the year ended December 31, 2021, the Executive Director's spouse provided support raising training to the Organization's employees. For the year ended December 31, 2021, the Organization paid \$1,320 to the spouse for training provided.