Café 1040, Inc. and Subsidiary

Consolidated Financial Statements

December 31, 2022 and 2021

Café 1040, Inc. and Subsidiary

Table of Contents
December 31, 2022 and 2021

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Café 1040, Inc. and Subsidiary

Opinion

We have audited the accompanying consolidated financial statements of Café 1040, Inc. and Subsidiary, a non-profit organization (collectively, the Organization), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years 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. and Subsidiary as of December 31, 2022 and 2021, and the results of their activities and changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 Brannon, LLC

July 5, 2023

Café 1040, Inc. and Subsidiary

Consolidated Statements of Financial Position
December 31, 2022 and 2021

		2022		2021
Assets				
Cash	**$**	**538,250**	$	1,156,532
Accounts receivable		**89,412**		283
Prepaid expenses		**279,082**		285,973
Property and equipment, net		**311,773**		2,576
Total assets	**$**	**1,218,517**	$	1,445,364
Liabilities and net assets				
Accounts payable and accrued expenses	**$**	**56,007**	$	43,409
Net assets				
Without donor restrictions		**1,139,110**		1,386,955
With donor restrictions		**23,400**		15,000
Total net assets		**1,162,510**		1,401,955
Total liabilities and net assets	**$**	**1,218,517**	$	1,445,364

Café 1040, Inc. and Subsidiary

Consolidated Statements of Activities and Changes in Net Assets
For the Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	**Total**
Support and revenues			
Support:			
Contributions	$ 3,532,131	$ 10,000	**$ 3,542,131**
Total support	3,532,131	10,000	**3,542,131**
Revenues:			
Interest income	81	-	**81**
Other income	14,437	-	**14,437**
Total revenues	14,518	-	**14,518**
Total support and revenues	3,546,649	10,000	**3,556,649**
Net assets released from restrictions	1,600	(1,600)	**-**
Expenses			
Program services:			
Missionary training program	3,220,410	-	**3,220,410**
Support services:			
Management and general	432,793	-	**432,793**
Fundraising	142,891	-	**142,891**
Total support services	575,684	-	**575,684**
Total expenses	3,796,094	-	**3,796,094**
Change in net assets	(247,845)	8,400	**(239,445)**
Net assets, beginning of year	1,386,955	15,000	**1,401,955**
Net assets, end of year	$ 1,139,110	$ 23,400	**$ 1,162,510**

Café 1040, Inc. and Subsidiary

Consolidated Statements 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	2,977,481	-	2,977,481
Support services:			
Management and general	462,064	-	462,064
Fundraising	197,338	-	197,338
Total support services	659,402	-	659,402
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. and Subsidiary

Consolidated Statements of Functional Expenses
For the Year Ended December 31, 2022

	Program Services	Supporting Services			
	Missionary Training Program	Management and General	Fundraising	Total Supporting Services	**Total Expenses**
Contracted services expense	$ 1,485,579	$ -	$ -	$ -	**$ 1,485,579**
Salaries expense	1,229,465	164,816	100,044	264,861	**1,494,325**
Payroll taxes	81,590	12,517	6,757	19,274	**100,864**
Housing allowance	57,234	-	-	-	**57,234**
Travel	175,590	18,028	11,598	29,626	**205,216**
Accounting	-	53,413	-	53,413	**53,413**
Donor services	-	73,669		73,669	**73,669**
Consulting and counseling	20,218	15,820	25	15,845	**36,063**
Computer software	21,240	27,132	4,162	31,294	**52,534**
Grants for mobilization	45,700	-	-	-	**45,700**
Rent and utilities	-	19,795	-	19,795	**19,795**
Cell and internet service	19,825	3,957	2,148	6,105	**25,930**
Insurance	-	16,565	-	16,565	**16,565**
Equipment	6,077	1,955	112	2,067	**8,144**
Gifts	12,093	1,861	4,812	6,673	**18,766**
Education	30,094	3,822	393	4,215	**34,309**
Conferences and events	12,822	-	3,692	3,692	**16,515**
Marketing and printings	8,727	830	6,075	6,905	**15,632**
Postage and delivery	2,876	506	2,255	2,761	**5,637**
Payroll processing fees	-	4,945	-	4,945	**4,945**
Office supplies	3,378	1,417	634	2,051	**5,429**
Miscellaneous	1,357	5,049	183	5,232	**6,589**
Legal fees	-	4,469	-	4,469	**4,469**
Depreciation	6,545	-	-	-	**6,545**
Taxes	-	2,228	-	2,228	**2,228**
Total expenses	$ 3,220,410	$ 432,793	$ 142,891	$ 575,684	**$ 3,796,094**

Café 1040, Inc. and Subsidiary

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

	Program Services	Supporting Services			
	Missionary Training Program	Management and General	Fundraising	Total Supporting Services	Total Expenses
Contracted services expense	$ 1,341,551	$ -	$ -	$ -	$ 1,341,551
Salaries expense	1,194,840	210,702	119,493	330,195	1,525,035
Payroll taxes	76,714	11,365	6,630	17,995	94,709
Housing allowance	113,909	-	15,795	15,795	129,704
Travel	79,046	6,752	20,994	27,746	106,793
Accounting	-	48,281	-	48,281	48,281
Donor services	-	70,910		70,910	70,910
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
Grants for mobilization	41,455	-	-	-	41,455
Rent and utilities	-	32,937	-	32,937	32,937
Cell and internet service	20,120	3,966	2,471	6,438	26,558
Insurance	-	13,904	-	13,904	13,904
Equipment	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
Conferences and events	2,926	11,981	-	11,981	14,907
Marketing and printings	812	344	8,281	8,625	9,437
Postage and delivery	3,083	726	3,317	4,042	7,125
Payroll processing fees	-	3,971	-	3,971	3,971
Office supplies	2,976	1,033	1,330	2,363	5,339
Miscellaneous	720	4,130	211	4,340	5,060
Legal fees	-	1,130	-	1,130	1,130
Depreciation	-	74	-	74	74
Total expenses	$ 2,977,481	$ 462,064	$ 197,338	$ 659,402	$ 3,636,883

Café 1040, Inc. and Subsidiary

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2022 and 2021

		2022		2021
Cash flows from operating activities				
Change in net assets	**$**	**(239,445)**	$	547,857
Adjustments to reconcile change in net assets to net cash used in operating activities:				
Depreciation		**6,545**		74
PPP loan forgiveness		**-**		(512,816)
(Increase) decrease in assets:				
Accounts receivable		**(89,129)**		(283)
Prepaid expenses		**6,891**		(77,699)
Increase in liabilities:				
Accounts payable and accrued expenses		**12,598**		35,199
Net cash used in operating activities		**(302,540)**		(7,668)
Cash flows from investing activities				
Purchases of property and equipment		**(315,742)**		(2,650)
Cash flows from financing activities				
Borrowings on PPP loan payable		**-**		256,408
Net (decrease) increase in cash		**(618,282)**		246,090
Cash, beginning of year		**1,156,532**		910,442
Cash, end of year	**$**	**538,250**	$	1,156,532

1. Organization and Summary of Significant Accounting Policies

Café 1040, Inc. and Subsidiary (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.

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.

Adoption of ASC 842, *Leases*

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-02, *Leases (*ASC 842*)* to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities within a lessee entity's financial statements. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. Leases are classified as finance or operating, with classification affecting both the pattern and classification of expense recognition.

On January 1, 2022, the Organization adopted ASC 842, using the modified retrospective transition method, and recognized and measured existing leases on the consolidated statement of financial position without making adjustments to prior period balances. Upon adoption, the Organization elected the practical expedients available to non-profit entities, which permit the Organization to not reassess its prior conclusions pertaining to lease identification, lease classification, and initial direct costs on leases commenced prior to the adoption of the new standard. The Organization also elected the ongoing practical expedient to not recognize operating lease ROU assets and operating lease liabilities related to short-term leases. The Organization has elected not to apply the practical expedient available to combine lease and non-lease components (e.g., maintenance) into a single component for all asset classes. The contract consideration of non-lease components, if any, is allocated on a relative standalone price basis.

At the adoption date, the Organization’s only leases were office leases that was scheduled to expire in 2022. As such, the leases were treated as short-term leases and no ROU asset or lease liability was recorded on the adoption date.

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.

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.

Accounts Receivable

Accounts receivable consist mainly of contributions made that have not been remitted to the Organization as of year-end. As of December 31, 2022 and 2021, management believes that all outstanding receivables are collectible; therefore no allowance for doubtful accounts has been recorded.

Property and Equipment

Property 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 in the same year, the contributions are recorded as without donor restrictions. For the years ended December 31, 2022 and 2021, there were no such contributions.

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.

Leases

Management determines whether an arrangement is, or contains, a lease at inception. Specifically, a contract is or contains a lease when 1) the contract contains an explicitly or implicitly identified asset and 2) the Organization obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract in exchange for consideration.

Short-Term Leases—The standard defines a short-term lease as a lease that, at the commencement date, has a lease term of twelve months or less and does not include an option to purchase the underlying asset that the lessee is reasonably certain to exercise. Leases with terms of twelve months or less are treated as immaterial leases.

The Organization has adopted an accounting policy to forgo applying the requirements for recognition of ROU assets and lease liabilities for short-term leases. The lease payments will be recognized as rent expense in the consolidated statements of activities and changes in net assets on a straight-line basis.

Immaterial Leases—The Organization has adopted an accounting policy to forgo applying the requirements for recognition of ROU assets and lease liabilities for immaterial leases. Immaterial leases are those whose ROU assets and related lease liabilities are determined to be immaterial to the consolidated financial statements overall, individually and in the aggregate. For such immaterial leases, the lease payments will be recognized as rent expense in the consolidated statements of activities and changes in net assets as incurred.

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 7).

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 years ended December 31, 2022 and 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.

Reclassification

Certain prior year amounts have been reclassified for consistency with the current period presentation. These reclassifications had no effect on the reported change in net assets.

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 July 5, 2023, which is the date the consolidated financial statements were available to be issued.

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.

	2022	2021
Cash	**$ 538,250**	$ 1,156,532
Accounts receivable	**89,412**	283
Less: Contractual or donor-imposed restrictions:		
Donor restricted funds	**23,400**	15,000
Financial assets available to meet cash needs for general expenditures within one year	**$ 604,262**	$ 1,141,815

3. Property and Equipment

At December 31, 2022 and 2021, computers and equipment were as follows:

	2022	2021
Building	**$ 291,743**	$ -
Automobile	**24,000**	-
Computers and equipment	**42,408**	56,909
	358,151	56,909
Accumulated depreciation	**(46,378)**	(54,333)
Computers and equipment, net	**$ 311,773**	$ 2,576

Depreciation expense was $6,545 and $74 for the years ended December 31, 2022 and 2021, respectively.

4. Lease Commitments

The Organization leased office space under non-cancelable operating leases that expired in 2022 and were not renewed. The amount charged to rental expense under these agreements was $13,180 and $30,921 in 2022 and 2021, respectively.

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, 2022 and 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
Additions	10,000
Net assets released from restrictions	(1,600)
Balance at December 31, 2022	**$ 23,400**

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. The contract was renewed in January 2023 that expires in December 2023. For 2023, the Organization is committed to pay a retainer of $85,000 in January and then $56,000 per month for the remainder of 2023 for on-going services provided, plus a one-time amount of $7,500 or $8,000 per program participant. The Organization is also committed to pay a contracted services fee of $10,330 in January and February and then $14,330 per month for the remainder of 2023. 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 statements of financial position. During the years ended December 31, 2022 and 2021, the Organization paid the consulting company $1,461,472 and $1,302,201, respectively.

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 was committed to pay a fee of $23,400 in 2022, 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. In 2023, the contract was renegotiated, and the Organization is committed to pay an annual fee of $12,000 starting January 1, 2023, payable in equal monthly installments.

In October 2022, the Organization entered into a contract for a strategic consultant. The contract is from October 1, 2022-September 20, 2023, and the Organization is committed to pay an annual fee of $12,000, payable in equal monthly installments.

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 years ended December 31, 2022 and 2021, the Executive Director’s spouse provided support raising training to the Organization’s employees. For the years ended December 31, 2022 and 2021, the Organization paid $1,155 and $1,320, respectively, to the spouse for training provided.