

Café 1040, Inc. and Subsidiary

Consolidated Financial Statements

December 31, 2023 and 2022

Café 1040, Inc. and Subsidiary

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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, 2023 and 2022, 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, 2023 and 2022, 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

April 30, 2024

Café 1040, Inc. and Subsidiary
Consolidated Statements of Financial Position
December 31, 2023 and 2022

	2023	2022
Assets		
Cash	\$ 499,898	\$ 538,250
Certificates of deposit	450,172	-
Contributions receivable	124,283	89,412
Prepaid expenses	121,042	279,082
Property and equipment, net	284,080	311,773
Total assets	\$ 1,479,475	\$ 1,218,517
Liabilities and net assets		
Accounts payable and accrued expenses	\$ 63,157	\$ 56,007
Net assets		
Without donor restrictions	1,403,464	1,139,110
With donor restrictions	12,854	23,400
Total net assets	1,416,318	1,162,510
Total liabilities and net assets	\$ 1,479,475	\$ 1,218,517

Café 1040, Inc. and Subsidiary
Consolidated Statements of Activities and
Changes in Net Assets
For the Year Ended December 31, 2023

	Without Donor Restrictions	With Donor Restrictions	Total
Support and revenues			
Support:			
Contributions	\$ 3,444,388	\$ -	\$ 3,444,388
Total support	3,444,388	-	3,444,388
Revenues:			
Interest income	115	-	115
Gain on sale of property and equipment	4,800	-	4,800
Net gain from Employee Retention Credi	590,819	-	590,819
Other income	18,457	-	18,457
Total revenues	614,191	-	614,191
Total support and revenues	4,058,579	-	4,058,579
Net assets released from restrictions	10,546	(10,546)	-
Expenses			
Program services:			
Missionary training program	3,094,994	-	3,094,994
Support services:			
Management and general	486,380	-	486,380
Fundraising	223,398	-	223,398
Total support services	709,777	-	709,777
Total expenses	3,804,771	-	3,804,771
Change in net assets	264,354	(10,546)	253,808
Net assets, beginning of year	1,139,110	23,400	1,162,510
Net assets, end of year	\$ 1,403,464	\$ 12,854	\$ 1,416,318

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 Functional Expenses For the Year Ended December 31, 2023

	Program Services	Supporting Services			Total Expenses
	Missionary Training Program	Management and General	Fundraising	Total Supporting Services	
Contracted services expense	\$ 1,258,263	\$ -	\$ -	\$ -	\$ 1,258,263
Salaries expense	1,182,589	201,136	165,333	366,469	1,549,058
Payroll taxes	78,156	13,504	9,798	23,302	101,458
Housing allowance	83,475	-	7,605	7,605	91,080
Travel	180,210	18,520	24,577	43,097	223,307
Accounting	-	57,477	-	57,477	57,477
Donor services	-	79,746	-	79,746	79,746
Consulting and counseling	16,081	11,652	125	11,777	27,858
Computer software	47,613	26,159	1,466	27,625	75,238
Grants for mobilization	150	-	-	-	150
Rent and utilities	-	17,067	-	17,067	17,067
Cell and internet service	20,994	5,603	2,874	8,477	29,471
Insurance	-	20,682	-	20,682	20,682
Equipment	9,456	2,501	146	2,647	12,103
Gifts	7,123	2,082	3,479	5,561	12,684
Education	16,391	10,479	1,309	11,788	28,179
Conferences and events	85,413	3,691	3,149	6,840	92,253
Marketing and printings	5,726	345	814	1,159	6,885
Postage and delivery	2,745	1,194	1,909	3,103	5,848
Payroll processing fees	-	6,138	-	6,138	6,138
Office supplies	4,403	830	1,032	1,862	6,265
Miscellaneous	6,087	5,187	(218)	4,969	11,056
Other professional fees	80,196	-	-	-	80,196
Legal fees	-	87	-	87	87
Depreciation	9,922	-	-	-	9,922
Taxes	-	2,300	-	2,300	2,300
Total expenses	\$ 3,094,994	\$ 486,380	\$ 223,398	\$ 709,777	\$ 3,804,771

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

Café 1040, Inc. and Subsidiary

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

	Program Services	Supporting Services			Total Expenses
	Missionary Training Program	Management and General	Fundraising	Total Supporting Services	
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 Cash Flows For the Years Ended December 31, 2023 and 2022

	2023	2022
Cash flows from operating activities		
Change in net assets	\$ 253,808	\$ (239,445)
Adjustments to reconcile change in net assets to net cash provided (used) in operating activities:		
Depreciation	9,922	6,545
Gain on sale of property and equipment	(4,800)	-
(Increase) decrease in assets:		
Contributions receivable	(34,871)	(89,129)
Prepaid expenses	158,040	6,891
Increase in liabilities:		
Accounts payable and accrued expenses	7,150	12,598
Net cash provided (used) in operating activities	389,249	(302,540)
Cash flows from investing activities		
Purchases of certificates of deposit	(450,172)	-
Proceeds from sale of property and equipment	24,000	-
Purchases of property and equipment	(1,429)	(315,742)
Net cash used in investing activities	(427,601)	(315,742)
Net decrease in cash	(38,352)	(618,282)
Cash, beginning of year	538,250	1,156,532
Cash, end of year	\$ 499,898	\$ 538,250

Café 1040, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

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.

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 of America 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

Café 1040, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

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.

Certificates of Deposit

Certificates of deposit are carried at cost. Interest income is recognized when earned.

Contributions Receivable

Contributions receivable consist of contributions made that have not been remitted to the Organization as of year-end. As of December 31, 2023 and 2022, 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, 2023 and 2022, 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.

Café 1040, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

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, 2023 and 2022.

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 April 30, 2024, which is the date the consolidated financial statements were available to be issued.

Café 1040, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

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.

	2023	2022
Cash	\$ 499,898	\$ 538,250
Certificates of deposit	450,172	-
Accounts receivable	124,283	89,412
Less: Contractual or donor-imposed restrictions:		
Donor restricted funds	12,854	23,400
Financial assets available to meet cash needs for general expenditures within one year	\$ 611,327	\$ 604,262

3. Property and Equipment

At December 31, 2023 and 2022, computers and equipment were as follows:

	2023	2022
Building	\$ 291,743	\$ 291,743
Automobile	-	24,000
Computers and equipment	23,598	42,408
	315,341	358,151
Accumulated depreciation	(31,261)	(46,378)
Computers and equipment, net	\$ 284,080	\$ 311,773

Depreciation expense was \$9,922 and \$6,545 for the years ended December 31, 2023 and 2022, respectively.

4. 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.

Café 1040, Inc. and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2023 and 2022

As of December 31, 2023 and 2022, net assets with donor restrictions consisted of the following:

		Overseas Program
Balance at December 31, 2021	\$	15,000
Additions		10,000
Net assets released from restrictions		(1,600)
Balance at December 31, 2022		23,400
Additions		-
Net assets released from restrictions		(10,546)
Balance at December 31, 2023	\$	12,854

5. Contract Commitments

The Organization has entered into a contract through December 2023 with a third-party service provider to perform various services related to the mission of the Organization. The contract was renewed in January 2024 that expires in December 2024. For 2024, the Organization is committed to pay a retainer of \$80,000 in January and then \$72,000 per month for the remainder of 2024 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 \$25,000 in January and then \$18,440 per month for the remainder of 2024. 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, 2023 and 2022, the Organization paid the consulting company \$1,258,623 and \$1,461,472, respectively.

On November 1, 2021, the Organization entered into another contract with the same third-party service provider who provides security consulting services to the Organization under the contract. 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, until the agreement is terminated by one of the parties for any reason upon 60-day advance written notice.

In October 2022, the Organization entered into a contract for a strategic consultant. The contract was from October 1, 2022-September 20, 2023, and the Organization was committed to pay an annual fee of \$12,000, payable in equal monthly installments. This contract was renewed in September of 2023. The contract expires September 30, 2024.

Café 1040, Inc. and Subsidiary

Notes to Consolidated Financial Statements December 31, 2023 and 2022

6. Related Party Transactions

During the years ended December 31, 2023 and 2022, the Executive Director's spouse provided support raising training to the Organization's employees. For the years ended December 31, 2023 and 2022, the Organization paid \$2,970 and \$1,155, respectively, to the spouse for training provided.

7. Employee Retention Credit

The Employee Retention Credit (ERC) was enacted as part of the CARES Act during 2020, but was not initially available to Paycheck Protection Program (PPP) borrowers, which excluded the Organization from applying for this credit initially. Congress retroactively made the ERC available to eligible employers who received a PPP loan in 2020 and extended ERC benefits to December 31, 2021. The ERC, which provides an incentive to eligible employers who retained their employees during periods affected by the COVID-19 pandemic, is a refundable credit claimed on the employment tax Form 941. Two critical tests for eligibility exist – a partial or total government-ordered shutdown, or a decline in gross receipts. The decline in gross receipts test is based on a “significant” decline in gross receipts in quarters of 2020 (more than 50%) and 2021 (more than 20%) compared with the same quarters in 2019.

During the year ended December 31, 2023, the Organization applied for and received ERC's of \$590,819 related to qualifying quarters in 2020 and 2021. Management believes there is reasonable assurance that the Organization has met the requirements to be eligible for the ERC in 2021 and 2020. These credits are subject to review and approval by the government and may change upon examination. Under Accounting Standards Codification (ASC) 958-605, *Not-for-Profit Entities – Revenue Recognition* (ASC 958-605), this conditional contribution is recognized as revenue as the related conditions are met.

Generally, the Internal Revenue Service (IRS) has a three-to-five-year statute of limitations, from the date filed, for any ERC claims. A successful challenge of the Organization's eligibility for the ERC by the IRS could result in the repayment of the ERC funds received as well as payment of additional tax, interest, and penalties. The Organization could also incur significant expenses to defend its position, including but not limited to the payment of attorneys' fees, court costs, accountant fees, and other expenses contesting deficiencies asserted by the IRS.