

SMILE FARMS, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2023 and 2022

SMILE FARMS, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Smile Farms, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Smile Farms, Inc. (the "Organization"), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities and changes in net assets, functional expenses, and cash flows for each of the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Smile Farms, Inc. as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for each of 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 ("GAAS"). Our responsibilities under those standards are further described in the Auditors' 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 audits. 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

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

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 the Organization's ability to continue as a going concern for 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 GAAS 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 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 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 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.

EisnerAmper LLP

EISNERAMPER LLP
Philadelphia, Pennsylvania
November 15, 2024



SMILE FARMS, INC.**Statements of Financial Position**

	December 31,	
	2023	2022
ASSETS		
Cash	\$ 483,565	\$ 560,663
Investments	509,199	146,543
Contributions receivable, net of allowance for doubtful accounts of \$65,000 in 2023 and \$0 in 2022	302,641	144,431
	\$ 1,295,405	\$ 851,637
LIABILITIES		
Accounts payable and accrued expenses	\$ 192,639	\$ 87,990
NET ASSETS		
Without donor restrictions	1,037,766	763,647
With donor restrictions	65,000	-
	1,102,766	763,647
	\$ 1,295,405	\$ 851,637
Total net assets		
	1,102,766	763,647
	\$ 1,295,405	\$ 851,637

SMILE FARMS, INC.

Statements of Activities and Changes in Net Assets

	Year Ended December 31,					
	2023			2022		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Support and revenue:						
Contributions of cash and other financial assets	\$ 533,144	\$ 65,000	\$ 598,144	\$ 339,396	\$ -	\$ 339,396
Contributions of nonfinancial assets	106,314	-	106,314	38,227	-	38,227
Special events income, net of direct benefits to donors of \$546,413 in 2023 and \$538,553 in 2022	692,075	-	692,075	592,921	-	592,921
Product sales	41,185	-	41,185	29,123	-	29,123
Investment income	16,660	-	16,660	2,232	-	2,232
Other income	648	-	648	24,702	-	24,702
Total support and revenue	1,390,026	65,000	1,455,026	1,026,601	-	1,026,601
Expenses:						
Program services:						
Farm campuses	753,567	-	753,567	516,653	-	516,653
Supporting services:						
Management and general	257,285	-	257,285	225,001	-	225,001
Fundraising	105,055	-	105,055	81,484	-	81,484
Total expenses	1,115,907	-	1,115,907	823,138	-	823,138
Change in net assets	274,119	65,000	339,119	203,463	-	203,463
Net assets at beginning of year	763,647	-	763,647	560,184	-	560,184
Net assets at end of year	\$ 1,037,766	\$ 65,000	\$ 1,102,766	\$ 763,647	\$ -	\$ 763,647

See notes to the financial statements.

SMILE FARMS, INC.**Statement of Functional Expenses
Year Ended December 31, 2023**

	Program Services	Supporting Services		
	Farm Campuses	Management and General	Fundraising	Total
Salaries	\$ 317,200	\$ 45,314	\$ 90,628	\$ 453,142
Employee benefits and payroll taxes	33,480	4,782	9,566	47,828
 Total salaries and related expenses	 350,680	 50,096	 100,194	 500,970
 Grants	 392,957	 -	 -	 392,957
Professional services	-	38,510	-	38,510
Subscriptions and fees	-	36,664	4,074	40,738
Insurance	-	4,812	-	4,812
Travel	-	5,293	-	5,293
Meals	-	1,409	-	1,409
Supplies and materials	8,593	748	-	9,341
Shipping and postage	1,337	-	787	2,124
Advertising and marketing	-	28,543	-	28,543
Bad debts	-	70,050	-	70,050
Other	-	21,160	-	21,160
 Total expenses included in the expense section on the statements of activities and changes in net assets	 753,567	 257,285	 105,055	 1,115,907
 Plus expenses included with revenue on the statements of activities and changes in net assets:				
Gifts and awards	-	-	147,866	147,866
Rent/facility costs	-	-	253,365	253,365
Entertainment	-	-	12,400	12,400
Professional services	-	-	121,665	121,665
Other	-	-	11,117	11,117
	-	-	546,413	546,413
 Total expenses	 \$ 753,567	 \$ 257,285	 \$ 651,468	 \$ 1,662,320

See notes to the financial statements.

SMILE FARMS, INC.**Statement of Functional Expenses
Year Ended December 31, 2022**

	Program Services	Supporting Services		
	Farm Campuses	Management and General	Fundraising	Total
Salaries	\$ 228,232	\$ 32,605	\$ 65,209	\$ 326,046
Employee benefits and payroll taxes	24,693	3,528	7,055	35,276
Total salaries and related expenses	252,925	36,133	72,264	361,322
Grants	259,593	-	-	259,593
Professional services	-	51,951	5,772	57,723
Subscriptions and fees	-	39,166	2,948	42,114
Insurance	-	4,807	-	4,807
Travel	-	3,253	-	3,253
Meals	-	1,154	-	1,154
Supplies and materials	2,508	712	-	3,220
Shipping and postage	1,627	98	500	2,225
Advertising and marketing	-	23,855	-	23,855
Bad debts	-	45,729	-	45,729
Other	-	18,143	-	18,143
Total expenses included in the expense section on the statements of activities and changes in net assets	516,653	225,001	81,484	823,138
Plus expenses included with revenue on the statements of activities and changes in net assets:				
Gifts and awards	-	-	83,605	83,605
Rent/facility costs	-	-	270,507	270,507
Entertainment	-	-	24,350	24,350
Professional services	-	-	156,225	156,225
Other	-	-	3,866	3,866
	-	-	538,553	538,553
Total expenses	\$ 516,653	\$ 225,001	\$ 620,037	\$ 1,361,691

See notes to the financial statements.

SMILE FARMS, INC.**Statements of Cash Flows**

	Year Ended December 31,	
	2023	2022
Cash flows from operating activities:		
Change in net assets	\$ 339,119	\$ 203,463
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Bad debts	70,050	45,729
Changes in assets and liabilities:		
Contributions receivable	(228,260)	(25,713)
Accounts payable and accrued expenses	104,649	(104,092)
Net cash provided by operating activities	285,558	119,387
Cash flows from investing activities:		
Purchases of investments	(539,656)	(1,677)
Sales of investments	177,000	-
Net cash used in investing activities	(362,656)	(1,677)
Net (decrease) increase in cash	(77,098)	117,710
Cash at beginning of year	560,663	442,953
Cash at end of year	\$ 483,565	\$ 560,663

SMILE FARMS, INC.

Notes to the Financial Statements December 31, 2023 and 2022

NOTE A - ORGANIZATION

Smile Farms, Inc. (the "Organization") was established and incorporated in the state of New York in 2014 as a not-for-profit corporation, beginning operations in 2015. The Organization's mission is to create jobs for people with developmental disabilities in horticultural settings within their communities. To achieve this, the Organization provides funding to seven unique not-for-profit organizations, which operate twelve unique locations.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

[1] Basis of accounting:

The accompanying financial statements of the Organization have been prepared using the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") as applicable to not-for-profit organizations.

[2] Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosure of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

[3] Income taxes:

The Organization is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, and is not subject to income tax, except on unrelated business income. The Organization had no unrelated business income for either of the years ended December 31, 2023 or 2022.

U.S. GAAP requires management to evaluate tax positions taken and recognize a tax liability if the Organization has taken an uncertain tax position that more likely than not would not be sustained upon examination by a government authority. Management has analyzed the tax positions taken by the Organization and has concluded that as of December 31, 2023 and 2022, there are no uncertain tax positions taken, or expected to be taken, that would require recognition of a liability or disclosure in the financial statements.

The Organization recognizes accrued interest and penalties associated with uncertain tax positions, if any. There was no income tax related interest or penalties recorded for either of the years ended December 31, 2023 or 2022.

[4] Fair value measurement:

The Organization measures fair value in accordance with Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*. ASC 820 defines fair value, establishes a framework, and provides guidance regarding the methods used for measuring fair value, and expands disclosures about fair value measurements. Fair value is an exit price representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability.

SMILE FARMS, INC.

Notes to the Financial Statements December 31, 2023 and 2022

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[4] Fair value measurement: (continued)

As a basis for considering such assumptions, there exists a three-tiered fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access as of the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data.

Level 3: Unobservable inputs for the asset or liability only used when there is little, if any, market activity for the asset or liability as of the measurement date.

This hierarchy requires the Organization to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

[5] Investments:

Investments consist of stocks and mutual funds stated at their fair values based on quoted market prices. Dividend and interest income is recorded as earned. Increases and decreases in fair value are recognized in the period in which they occur. Investment income consists of dividends and interest, as well as realized and unrealized gains and losses on investments, and is included in the statements of activities and changes in net assets.

[6] Contributions receivable:

Contributions receivables are stated at the amount the Organization expects to collect from outstanding balances. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history and current credit conditions. Accounts are written-off as uncollectible after management has exhausted all collection efforts. The allowance for uncollectible contributions receivable as of December 31, 2023 and 2022 was \$65,000 and \$0, respectively.

Contributions to be received after one year are discounted at a rate commensurate with the risk involved. All balances are expected to be collected before December 31, 2024; therefore, no discount has been recorded.

[7] Classification of net assets:

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

(i) Net assets without donor restrictions:

Net assets available for use in general operations and not subject to donor-imposed or certain grantor-imposed restrictions.

SMILE FARMS, INC.

Notes to the Financial Statements December 31, 2023 and 2022

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[7] Classification of net assets: (continued)

(ii) *Net assets with donor restrictions:*

Net assets subject to donor-imposed or certain grantor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates resources be maintained in perpetuity. Net assets with donor restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Organization reports contributions with donor restrictions as support without donor restrictions if the restrictions are met in the same reporting period in which the contributions are received.

[8] Revenue recognition:

Contributions of cash and other financial assets

Contributions, including unconditional promises to give, are recorded as net assets without donor restrictions and net assets with donor restrictions, depending on the existence and/or nature of any donor restrictions. Contributions, including unconditional promises to give, are recorded at the time they are received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met.

Contributions of nonfinancial assets

The Organization receives contributed goods, services, and facilities.

Contributed goods consist of gifts and prizes auctioned at the Organization's special events, as well as equipment and supplies. Contributed goods are recorded at their estimated fair values at the dates of donation. Contributed goods are valued using estimated prices of identical or similar goods considering the goods' condition and utility for use at the time of the contribution. Contributed goods amounted to \$106,314 and \$38,227 for the years ended December 31, 2023 and 2022, respectively. All contributed goods received during the years ended December 31, 2023 and 2022 were unrestricted.

Contributed services consist of staff providing general operational support and professional organizations providing event planning services. For contributed services to be recognized in the financial statements, they must (i) require specialized skills, (ii) be provided by individuals possessing these skills, and (iii) typically need to be purchased if not provided by donation. Contributed services are recorded at their estimated fair values at the dates of donation if they meet the above criteria. Contributed services are valued using estimated prices of identical or similar services. Contributed services amounted to \$121,665 and \$156,225 for the years ended December 31, 2023 and 2022, respectively. All contributed services received during the years ended December 31, 2023 and 2022 were unrestricted.

Contributed facilities consist of utilization of space. Contributed facilities are recorded at their estimated fair values at the dates of donation. Contributed facilities are valued using estimated prices of identical or similar venues considering the venues' condition and utility for use at the time of the contribution. Contributed facilities amounted to \$253,365 and \$270,507 for the years ended December 31, 2023 and 2022, respectively. All contributed facilities received during the years ended December 31, 2023 and 2022 were unrestricted.

Expenses recognized as a result of contributions of nonfinancial assets are included in the statements of activities and changes in net assets and in the statements of functional expenses by their natural class.

SMILE FARMS, INC.

Notes to the Financial Statements December 31, 2023 and 2022

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

[8] Revenue recognition: (continued)

Special events

The Organization follows the Financial Accounting Standards Board's ("FASB") ASC 606, *Revenue from Contracts with Customers*, which provides a five-step analysis of contracts to determine when and how revenue is recognized. The core principle of ASC 606 is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity received or expects to receive.

Special event revenue is bifurcated into an exchange transaction component and a contribution component.

The exchange transaction component is considered to be the fair market value of the goods and services received by an attendee, which is estimated by management for each event based on an analysis of the benefits received by an attendee. Exchange transaction revenue is recognized at the point in time when the event takes place, as that is when the Organization's sole obligation to perform is satisfied. The fair market value of goods and services received by attendees of the Organization's special events is included in special events income within the statements of activities and changes in net assets. There were no contract assets or liabilities related to special events as of either December 31, 2023 or 2022.

The contribution component is considered to be the amount in excess of the fair market value of the goods and services received by an attendee. Contribution revenue is recognized when the event takes place, as the occurrence of the event is considered a barrier and there is a right of return if the event does not occur. Payments for special events are generally required to be made when registration for the event occurs.

[9] Functional allocation of expenses:

Directly identifiable expenses are charged to program services, management and general, and fundraising expenses. Expenses related to more than one function are allocated among the functions benefited as follows: salaries and employee benefits and payroll taxes based on employees' functions; professional services based on estimates of time and effort, depending on employees' functions; and subscriptions and fees, supplies and materials, and shipping and postage based on estimates of usage.

[10] Advertising:

The Organization expenses all advertising and marketing costs when incurred. Total advertising and marketing costs amounted to \$28,543 and \$23,855, respectively, for the years ended December 31, 2023 and 2022.

[11] Reclassification:

Certain amounts in the 2022 financial statements have been reclassified to conform to the current year presentation. Donated nonfinancial assets related to special events in the amount of \$38,227, which were originally included in the expense section on the statements of activities and changes in net assets in the 2022 financial statements, are now presented as direct benefits to donors within support and revenue on the statements of activities and changes in net assets.

SMILE FARMS, INC.

Notes to the Financial Statements December 31, 2023 and 2022

NOTE C - LIQUIDITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following as of December 31, 2023 and 2022:

	December 31,	
	2023	2022
Financial assets:		
Cash	\$ 483,565	\$ 560,663
Investments	509,199	146,543
Contributions receivable	302,641	144,431
Financial assets available for general expenditures within one year	\$ 1,295,405	\$ 851,637

General expenditures include program services, management and general, and fundraising expenses expected to be paid in the subsequent year.

As part of the Organization's liquidity management plan, the Organization structures its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, the Organization invests cash in excess of daily requirements in money market mutual funds.

NOTE D - FAIR VALUE MEASUREMENTS

Mutual funds are valued based on quoted market prices that are deemed to be actively traded.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation method is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying assets and liabilities.

SMILE FARMS, INC.

Notes to the Financial Statements December 31, 2023 and 2022

NOTE D - FAIR VALUE MEASUREMENTS (CONTINUED)

The following tables summarize the Organization's financial instruments measured at fair value as of December 31, 2023 and 2022:

Investment Assets at Fair Value as of				
December 31, 2023				
	Level 1	Level 2	Level 3	Total
Mutual funds -				
money market	\$ 503,884	\$ -	\$ -	\$ 503,884
Stocks	5,315	-	-	5,315
	\$ 509,199	\$ -	\$ -	\$ 509,199

	Investment Assets at Fair Value as of December 31, 2022			
	Level 1	Level 2	Level 3	Total
Mutual funds -				
money market	\$ 146,543	\$ -	\$ -	\$ 146,543

The availability of observable market data is monitored to assess the appropriate classifications of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such circumstances, the transfer is reported at the beginning of the reporting period. For the year ended December 31, 2023 and 2022, there were no transfers into or out of Levels 1, 2, or 3.

NOTE E - RELATED PARTY TRANSACTIONS

During the years ended December 31, 2023 and 2022, the Organization received approximately \$369,000 and \$361,000, respectively, of contributions of cash and other financial assets and contributions of nonfinancial assets, from related entities that were founded by the chairman of the Organization's board of directors and individuals who serve as members of the Organization's board of directors or advisory board. For each of the years ended December 31, 2023 and 2022, contributions from related entities and individuals represented approximately 25% and 35% of total support and revenue, respectively.

As of December 31, 2023 and 2022, contributions of approximately \$124,000 and \$8,000, respectively, were due from related entities and individuals.

A member of the Organization's board of directors provides fundraising consulting services to the Organization in the amount of \$15,000. As of December 31, 2023 and 2022, approximately \$4,000 and \$6,200, respectively, was due to this individual.

Related entities and individuals pay for expenses on behalf of the Organization, which the Organization reimburses. During the years ended December 31, 2023 and 2022, related entities and individuals incurred approximately \$7,000 and \$6,000, respectively, on behalf of the Organization. As of December 31, 2023 and 2022, approximately \$2,000 was due to related entities and individuals.

SMILE FARMS, INC.

Notes to the Financial Statements
December 31, 2023 and 2022

NOTE F - NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>Farm Campuses</u>
Balance at December 31, 2022	\$ -
Additions	65,000
Releases	<u>-</u>
Balance at December 31, 2023	<u>\$ 65,000</u>

NOTE G - CURRENT VULNERABILITY DUE TO CERTAIN CONCENTRATIONS AND CONTINGENCIES

Financial instruments, which potentially expose the Organization to concentrations of credit risk, consist primarily of cash and investments. At times, the Organization may have cash deposits and temporary cash investments with major financial institutions that exceed Federal Deposit Insurance Corporation limits. Management does not believe cash is subject to undue risk when balances exceed federally insured limits.

The Organization invests in investment securities that are exposed to various risks, such as interest rate, market, and credit risk. It is at least reasonably possible that changes in the value of investment securities will occur in the near term and that such changes could materially affect account balances, and the amounts reported in the financial statements.

NOTE H - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through November 15, 2024, which is the date the financial statements were available to be issued.