

MERCY CHEFS, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2022

With Comparative Totals for the Year Ended December 31, 2021



MERCY CHEFS, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Mercy Chefs, Inc.
Portsmouth, Virginia

Opinion

We have audited the accompanying financial statements of Mercy Chefs, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mercy Chefs, Inc. as of December 31, 2022, and the changes in its 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 Mercy Chefs, Inc. and to meet our other ethical standards in accordance with the relevant ethical requirements relating to our audit. We believe 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 these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 Mercy Chefs, Inc.'s ability to continue as a going concern within one year after the date that 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 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 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 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 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 Mercy Chefs, Inc.'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 Mercy Chefs, Inc.'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.

Report on Summarized Comparative Information

We previously audited Mercy Chefs, Inc.'s 2021 financial statements, and in our conclusion dated November 2, 2022, stated that based on our audit, we were not aware of any material modifications that should be made to the 2021 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. We are not aware of any of any material modifications that should be made to the summarized comparative information presented herein as of and for the year ended December 31, 2021, for it to be consistent with the audited financial statements from which it has been derived.

Barnes, Brock, Cornwell & Painter PLLC

Chesapeake, Virginia
November 3, 2023

MERCY CHEFS, INC.

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2022
With Comparative Totals for December 31, 2021**

ASSETS	2022	2021
CURRENT ASSETS:		
Cash and cash equivalents	\$ 7,634,619	\$ 2,762,947
Investments	6,611	987
Receivables:		
Accounts receivable - net	21,607	10,025
Grants receivable	-	101,000
Prepaid expenses	13,086	42,171
Total current assets	\$ 7,675,923	\$ 2,917,130
PROPERTY AND EQUIPMENT:		
Building and improvements	\$ 1,227,227	\$ 835,307
Vehicles	2,172,697	1,425,501
Furniture and equipment	685,482	538,815
Software	89,888	87,088
Land	298,896	231,596
Total	\$ 4,474,190	\$ 3,118,307
Less accumulated depreciation	1,171,445	800,217
Net property and equipment	\$ 3,302,745	\$ 2,318,090
OTHER ASSETS:		
Security Deposit	\$ 1,600	\$ 1,650
Construction in progress	87,343	-
Operating lease right-of-use asset	134,026	-
Total other assets	222,969	1,650
Total assets	\$ 11,201,637	\$ 5,236,870
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of long-term liabilities	\$ 34,576	\$ 65,486
Current portion of right-of-use operating lease liability	86,042	-
Line of credit	-	261,881
Accounts payable	86,150	97,963
Accrued expenses	152,824	161,668
Payroll liabilities	41,365	50,106
Deferred revenue	-	50,000
Total current liabilities	\$ 400,957	\$ 687,104
LONG-TERM LIABILITIES:		
Notes payable - net of current portion	\$ 470,397	\$ 629,829
Right-of-use operating lease liability, net of current portion	47,984	-
Long-term liabilities - net	\$ 518,381	\$ 629,829
Total liabilities	\$ 919,338	\$ 1,316,933
NET ASSETS:		
Without donor restrictions	\$ 10,282,299	\$ 3,869,937
With donor restrictions	-	50,000
Total net assets	\$ 10,282,299	\$ 3,919,937
Total liabilities and net assets	\$ 11,201,637	\$ 5,236,870

See independent auditor's report and accompanying notes to the financial statements.

MERCY CHEFS, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022
With Comparative Totals for the Year Ended December 31, 2021**

	Without Donor Restrictions	With Donor Restrictions	2022 Total	2021 Total
OPERATING REVENUE AND SUPPORT:				
Contributions	\$ 14,681,299	\$ -	\$ 14,681,299	\$ 8,127,221
Grants	668,823	2,236,500	2,905,323	826,299
Allowance of bad debt	89,655	-	89,655	-
In-kind Contributions	4,500	1,540,100	1,544,600	1,394,713
Other income	9,000	-	9,000	-
Net assets released from restrictions	3,826,600	(3,826,600)	-	-
Total operating revenue and support	\$ 19,279,877	\$ (50,000)	\$ 19,229,877	\$ 10,348,233
OPERATING EXPENSES:				
Program services	\$ 11,102,300	\$ -	\$ 11,102,300	\$ 7,421,269
Management and general	510,611	-	510,611	301,002
Fundraising	1,271,433	-	1,271,433	482,505
Total operating expenses	\$ 12,884,344	\$ -	\$ 12,884,344	\$ 8,204,776
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	\$ 6,395,533	\$ (50,000)	\$ 6,345,533	\$ 2,143,457
NON-OPERATING ACTIVITIES:				
Unrealized gain (loss) on investments, net	\$ 431	\$ -	\$ 431	\$ 185
Realized gain on investments	-	-	-	2,558
Gain on sale of equipment	7,083	-	7,083	-
Investment income	9,315	-	9,315	78
CHANGES IN NET ASSETS FROM NON-OPERATING ACTIVITIES	\$ 16,829	\$ -	\$ 16,829	\$ 2,821
CHANGES IN NET ASSETS	\$ 6,412,362	\$ (50,000)	\$ 6,362,362	\$ 2,146,278
NET ASSETS, BEGINNING OF YEAR	3,869,937	50,000	3,919,937	1,773,659
NET ASSETS, END OF YEAR	\$ 10,282,299	\$ -	\$ 10,282,299	\$ 3,919,937

See independent auditor's report and accompanying notes to the financial statements.

MERCY CHEFS, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2022
With Comparative Totals for the Year Ended December 31, 2021**

	SUPPORTING ACTIVITIES				2022 Total	2021 Total
	Program Services	Management and General	Fund Raising	Supporting Subtotal		
Salaries and wages	\$ 2,101,390	\$ 338,989	\$ 83,585	\$ 422,574	\$ 2,523,964	\$ 1,984,600
Employee benefits	238,582	28,069	14,034	42,103	280,685	176,504
Payroll taxes	174,988	20,587	10,293	30,880	205,868	149,979
Total salaries and related expenses	\$ 2,514,960	\$ 387,645	\$ 107,912	\$ 495,557	\$ 3,010,517	\$ 2,311,083
Advertising	248,195	-	-	-	248,195	255,548
Bad debt	-	-	-	-	-	89,655
Bank charges	85,570	11,669	-	11,669	97,239	76,506
Computer expenses	3,918	206	-	206	4,124	1,035
Contributions and gifts	7,677	-	-	-	7,677	8,941
Deployment expenses	3,905,517	-	-	-	3,905,517	1,323,626
Depreciation	376,451	1,860	-	1,860	378,311	244,307
Dues and subscriptions	29,593	1,233	-	1,233	30,826	13,020
Equipment rent and storage	26,354	-	-	-	26,354	28,745
Food supplies and expenses	818,294	-	-	-	818,294	973,103
Fundraising expense	-	-	1,154,826	1,154,826	1,154,826	366,376
In-kind expenses	1,544,600	-	-	-	1,544,600	1,394,713
Insurance	97,807	17,260	-	17,260	115,067	83,001
Interest expense	-	38,046	-	38,046	38,046	20,956
Meals and entertainment	62,460	6,940	-	6,940	69,400	91,021
Miscellaneous expense	1,519	-	-	-	1,519	-
Office expense	41,021	5,712	5,193	10,905	51,926	15,574
Postage and printing	19,143	700	3,502	4,202	23,345	31,576
Professional fees	108,464	7,214	-	7,214	115,678	55,323
Rent	69,719	-	-	-	69,719	13,643
Repairs and maintenance	73,274	28,495	-	28,495	101,769	78,211
Taxes and licenses	18,820	784	-	784	19,604	27,905
Telephone	32,966	1,374	-	1,374	34,340	14,003
Travel	968,335	-	-	-	968,335	640,646
Utilities	47,643	1,473	-	1,473	49,116	46,259
Operating expenses	\$ 8,587,340	\$ 122,966	\$ 1,163,521	\$ 1,286,487	\$ 9,873,827	\$ 5,893,693
Total expenses	\$ 11,102,300	\$ 510,611	\$ 1,271,433	\$ 1,782,044	\$ 12,884,344	\$ 8,204,776

See independent auditor's report and accompanying notes to the financial statements.

MERCY CHEFS, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2022
With Comparative Totals for the Year Ended December 31, 2021**

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 6,362,362	\$ 2,146,278
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	378,311	244,307
Realized and unrealized (gain) on investments, net of fees	(431)	(2,743)
Gain on sale of equipment	(7,083)	-
(Increase) decrease in assets:		
Accounts receivable - net	(11,582)	(4,174)
Grants receivable	101,000	(101,000)
Deposits	50	(1,650)
Prepaid expenses	29,085	7,775
Increase (decrease) in liabilities:		
Accounts payable	(11,813)	(42,502)
Accrued expenses	(8,844)	91,306
Payroll liabilities	(8,741)	13,898
Deferred revenue	(50,000)	50,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 6,772,314	\$ 2,401,495
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	\$ (1,478,225)	\$ (1,235,869)
Proceeds from sale of equipment	35,000	-
Purchase of investments	(5,194)	(66,336)
Sales of investments	-	74,104
NET CASH USED BY INVESTING ACTIVITIES	\$ (1,448,419)	\$ (1,228,101)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds (payments) from notes payable-net	\$ (452,223)	\$ 634,334
NET CHANGES IN CASH AND CASH EQUIVALENTS	\$ 4,871,672	\$ 1,807,728
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	2,762,947	955,219
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 7,634,619	\$ 2,762,947
SUPPLEMENTAL DISCLOSURES OF NONCASH INFORMATION		
Fair value of donated services	\$ 586,487	\$ 141,067
Fair value of donated supplies	\$ 958,113	\$ 1,253,646

See independent auditor's report and accompanying notes to the financial statements.

MERCY CHEFS, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022**

With Comparative Totals for the Year Ended December 31, 2021

NOTE 1 - ORGANIZATION:

Mercy Chefs, Inc. (the "Organization") is a tax exempt not-for-profit corporation organized in 2006. The purpose of the Organization is to provide professionally prepared, restaurant-quality meals to victims, volunteers and first-responders in natural disasters and national emergencies and to partner with like-minded organizations to further their mission by providing food service in underserved communities across the country.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The accrual basis of accounting recognizes income when earned and expenses when incurred.

(b) Basis of presentation

These financial statements, presented on the accrual basis of accounting, have been prepared to focus on the Organization as a whole and to present net assets, revenues, and expenses based on the existence or absence of donor-impaired restrictions. This has been accomplished by the classification of assets, liabilities, and net assets into two groups with donor restrictions and without donor restrictions.

These two groups are defined as follows:

- Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. The Organization's board may designate assets without restrictions for specific operational purposes from time to time.
- Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

The Organization follows the provisions of the Financial Accounting Standards Board *Accounting Standards Codification (FASB ASC)*.

(c) Cash and cash equivalents

For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

(d) Accounts receivable and allowance for doubtful accounts

Accounts receivable is stated at amounts less an allowance for doubtful accounts. Receivables outstanding for more than 30 days are considered past due. The Organization uses the allowance method to determine uncollectible pledges receivable. The allowance for doubtful accounts was \$0 and \$89,655 for the years ended December 31, 2022 and 2021, respectively.

MERCY CHEFS, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

With Comparative Totals for the Year Ended December 31, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

(e) Measure of operations

The statements of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing activities. Non-operating activities are limited to resources that generate return from investments, financing costs, and other activities considered to be of a more unusual or nonrecurring nature.

(f) Investments

The Company records investments at fair market value based on quoted prices in active markets (all Level 1 and Level 2 measurements) and are classified by management as available-for-sale. Accordingly, realized gains and losses, if any, are determined on the basis of the actual cost of the securities sold. Unrealized gains and losses are presented as a single amount in the statement of income.

(g) Property and equipment

The Organization capitalizes all property and equipment over \$1,000. Property and equipment are recorded at cost, and donated items are stated at fair market value at the date of gift. Expenditures for maintenance and repairs are expensed as incurred while renewals and betterments are capitalized. The gain or loss on items disposed of is reflected in the statements of activities.

Depreciation has been provided for using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of the assets are as follows:

Building and improvements	39 - 40 years
Furniture and equipment	5 - 10 years
Software	3 years
Vehicles	5 - 10 years

Depreciation expense for the years ended December 31, 2022 and 2021 amounted to \$378,311 and \$244,307, respectively.

(h) Concentration of credit risk

The Organization places its cash and cash equivalents on deposit with financial institutions in the United States. Accounts at each financial institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000, for each deposit insurance ownership category. For the years ended December 31, 2022 and 2021, the Organization had demand deposits on hand in financial institutions that exceeded depositor's insurance provided by the applicable guaranty agency by \$7,314,059 and \$2,382,583, respectively.

Other cash and cash equivalents were held in an account with a brokerage firm to reduce the Organization's credit risk. While not an agency of the United States government like the FDIC, the Securities Investor Protection Corporation (SIPC) insures accounts (not with underlying investments) up to a maximum amount of \$500,000. At December 31, 2022 and 2021, the Organization did not have cash and cash equivalents with the brokerage firm that exceeded insurance provided by the SIPC.

MERCY CHEFS, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

With Comparative Totals for the Year Ended December 31, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

(i) Functional allocation of expenses

The cost of providing the Organization's various programs and supporting services have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense:</u>	<u>Method of Allocation:</u>
Bank Charges	Reasonable basis consistently applied
Computer expenses	Reasonable basis consistently applied
Depreciation	Reasonable basis consistently applied
Dues and subscriptions	Reasonable basis consistently applied
Employee benefits	Time and effort
Insurance	Reasonable basis consistently applied
Meals and entertainment	Reasonable basis consistently applied
Office expense	Reasonable basis consistently applied
Payroll taxes	Time and effort
Postage and printing	Reasonable basis consistently applied
Professional fees	Reasonable basis consistently applied
Repairs and maintenance	Reasonable basis consistently applied
Salaries and wages	Time and effort
Taxes and licenses	Reasonable basis consistently applied
Telephone	Reasonable basis consistently applied
Utilities	Reasonable basis consistently applied

(j) Lease accounting

The Organization determines whether to account for its leases as operating or capital leases depending on the underlying terms of the lease agreement. This determination of classification requires significant judgment relating to certain information, including the estimated fair value and remaining economic life of the leased assets, minimum lease payments and other lease terms.

(k) Income taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code, and as a public charity under 509(a) of the code and qualifies for deductible contributions in Section 170(b)(A)(vi).

The Organization adopted the recognition requirements for uncertain income tax positions as required by generally accepted accounting principles, with no cumulative effect adjustment required. Income tax benefits are recognized for income tax positions taken or expected to be taken in a return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Organization has analyzed the tax positions taken in its filings with the Internal Revenue Service. The Organization believes that its income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Organization's financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at December 31, 2022 and 2021.

MERCY CHEFS, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

With Comparative Totals for the Year Ended December 31, 2021

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

(k) Income taxes (continued)

The Organization's Form 990, Return of Organization Exempt from Income Tax, for the years ending 2022, 2021, 2020, and 2019 are subject to examination by the IRS, generally for three years after they were filed.

(l) Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

(m) Advertising costs

The Organization expenses the cost of advertising when incurred. For the years ended December 31, 2022 and 2021, advertising costs were \$248,195 and \$255,548, respectively.

NOTE 3 - ACCOUNTS RECEIVABLE:

Accounts receivable at December 31, 2022 and 2021 consisted of the following:

	2022	2021
Receivables in less than one year	\$ 21,607	\$ 99,680
Less: allowance for uncollectible accounts	-	(89,655)
	<u>\$ 21,607</u>	<u>\$ 10,025</u>

NOTE 4 - FAIR VALUE MEASUREMENT:

FASB Statement No. 157, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described as follows:

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

Level 2: Inputs to the valuation methodology include:

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

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

MERCY CHEFS, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

With Comparative Totals for the Year Ended December 31, 2021

NOTE 4 - FAIR VALUE MEASUREMENT (Continued):

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

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

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2022.

Common Stocks: Valued at closing price reported on the active market on which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are 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 following table sets forth by level, within the fair value hierarchy, the Organization's assets at fair value as of December 31, 2022 and 2021.

Assets at Fair Value as of December 31, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common Stocks	<u>\$ -</u>	<u>\$ 6,611</u>	<u>\$ -</u>	<u>\$ 6,611</u>

Assets at Fair Value as of December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common Stocks	<u>\$ -</u>	<u>\$ 987</u>	<u>\$ -</u>	<u>\$ 987</u>

NOTE 5 - DONATED GOODS AND SERVICES:

The Organization records the value of donated goods and services when there is an objective basis available to measure their value. The Organization recognizes the estimated fair value of contributed services that meet the following criteria:

- The services rendered either create or enhance nonfinancial assets.
- The services received required specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by contribution.

The Organization received supplies donated by other organizations and food suppliers, with a value of \$958,113 and \$1,253,646 that were used to respond to disaster relief for the year ended December 31, 2022 and 2021, respectively.

Chefs have volunteered over 18,443 and 4,841 hours of service during the years ended December 31, 2022 and 2021, respectively. The value of these services are estimated to be \$586,487 and \$141,067 for the years ended December 31, 2022 and 2021, respectively.

See independent auditor's report. Notes continued on next page.

MERCY CHEFS, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022**

With Comparative Totals for the Year Ended December 31, 2021

NOTE 6 - NET ASSETS:

Net assets released from donor restrictions by incurring expenses satisfying the restricted purpose or by occurrence of other events specified by donors during December 31, 2022 and 2021 consisted of the following:

	2022	2021
Expenses from donor restricted funds:		
Food, supplies and expenses	\$ 3,826,600	\$ 2,268,065

NOTE 7 - NEW ACCOUNTING PRONOUCEMENTS:

The Financial Accounting Standards Board (FASB) issued ASU 2016-02, *Leases (Topic 842)*, which replaces existing lease accounting guidance. The new guidance is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet for all leases with terms exceeding twelve months. The Organization adopted ASU 2016-02 and its related amendments as of January 1, 2022, which resulted in the recognition of operating right-of-use assets totaling \$134,026, as well as operating lease liabilities totaling \$134,026. The related policy elections can be found in Note 2 and the additional lease disclosures can be found in Note 11.

NOTE 8 - LIQUIDITY:

The table below presents financial assets available for general expenditures within one year at December 31, 2022 and 2021:

	2022	2021
Financial assets at year end:		
Cash and cash equivalents	\$ 7,634,619	\$ 2,762,947
Investments	6,611	987
Accounts receivable	21,607	10,025
Grants receivable	-	101,000
Total financial assets	\$ 7,662,837	\$ 2,874,959
Less amounts not available to be used for general expenditures in one year, due to:		
Donor restrictions	-	50,000
Financial assets available to meet general expenditures within one year	\$ 7,662,837	\$ 2,824,959

The Organization's goal is generally to maintain financial assets to meet six months of operating expenses with no additional funding from outside sources. Grants receivable are subject to collectability, but are expected to be collected within one year.

The Organization receives significant contributions and promises to give restricted by donors, and considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. The Organization manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs, and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged.

MERCY CHEFS, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022**

With Comparative Totals for the Year Ended December 31, 2021

NOTE 9 - LINE OF CREDIT:

The Organization established a \$400,000 line of credit in August 2021. The outstanding balance at December 31, 2022 and 2021 was \$0 and \$261,881. The credit line has a maturity date of November 2024 and is secured by real estate. Monthly interest payments are due at Prime plus .5% with a floor of 4% per annum.

NOTE 10 - NOTES PAYABLE:

	2022	2021
Note payable to Townebank in the amount of \$358,365, payable in 179 remaining payments of \$2,909, including principal and interest at 4.64% per annum, effective January 16, 2019 with a maturity date of February 28, 2033. The loan is secured by real estate located at 711 Washington and 528 Columbia Streets in Portsmouth, VA.	\$ 281,596	\$ 302,713
Note payable to Townebank in the amount of \$238,000, payable in 120 payments of \$1,765, including principal and interest at 3.98% per annum, with a balloon payment due for the balance at November 4, 2031. The loan is secured by real estate located at 715 Washington Street in Portsmouth, VA.	223,377	237,024
Note payable to Ally in the amount of \$59,700 payable in 60 payments of \$1,181, including principal and interest at 6.84% per annum. The note is secured by a vehicle.	-	58,860
Note payable to Ascentium in the amount of \$98,500 payable in 48 payments of \$2,398, including principal and interest at 7.88% per annum. The note is secured by a vehicle.	-	96,718
Total Notes payable	\$ 504,973	\$ 695,315
Less - current portion	34,576	65,486
Notes payable, net of current portion	\$ 470,397	\$ 629,829
Current maturities of long-term debt are as follows:		
<u>For the year ended December 31,</u>		
2023	\$ 34,576	
2024	36,109	
2025	37,782	
2026	39,497	
2027	41,290	
Thereafter	315,719	
	\$ 504,973	

NOTE 11 - LEASES:

In May 2021, the Organization committed to paying for a 12-month lease entered into by a related party for a residence located in Antioch, TN, effective May 17, 2021. The rent was \$1,600 monthly and terminated May 16, 2022. This lease was renewed in April 2022 at \$1,750 per month. In March 2023, the lease was renewed at \$1,895 per month with a termination date of May 16, 2024.

MERCY CHEFS, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2022

With Comparative Totals for the Year Ended December 31, 2021

NOTE 11 -LEASES (Continued):

Future minimum lease payments are as follows:

<u>For the year ended December 31,</u> 2023	<u>\$ 7,875</u>
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The Organization entered into an agreement in July, 2022 to lease warehouse space in Tanner, Alabama. The twenty-four month lease term began on August 1, 2022 and calls for five months of abated rent followed by monthly rent payments of \$7,500. The lease is set to run through July 31, 2024. The lease can be renewed for an additional two years at the same rate.

The following table displays the undiscounted cash flows related to the operating lease as of December 31, 2022, along with a reconciliation to the discounted amount recorded on the balance sheet.

Undiscounted cash flows due within:	
2023	\$ 90,000
2024	52,500
Total undiscounted cash flows	<u>\$ 142,500</u>
Impact of present value discount	(8,474)
Amount reported on balance sheet	<u>\$ 134,026</u>

The following table displays the weighted-average term and discount rates for operating leases outstanding as of December 31, 2022:

Weighted-average term (years)	2
Weighted-average discount rate	4.60%

Rent expense for the years ended December 31, 2022 and 2021 was \$69,719 and \$13,643, respectively.

NOTE 12 - SUBSEQUENT EVENTS:

Subsequent events were evaluated through November 3, 2023, which is the date the financial statements were available to be issued. No events have occurred subsequent to the balance sheet date and through November 3, 2023 that would require adjustment to, or disclosure in, the financial statements.