

MERCY CHEFS, INC.

FINANCIAL STATEMENTS

DECEMBER 31, 2023

With Comparative Totals for the Year Ended December 31, 2022



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, 2023, 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, 2023, 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 2022 financial statements, and in our conclusion dated November 3, 2023, stated that based on our audit, we were not aware of any material modifications that should be made to the 2022 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, 2022, for it to be consistent with the audited financial statements from which it has been derived.

Barnes, Brock, Cornwell & Painter PLLC

Chesapeake, Virginia
November 12, 2024

MERCY CHEFS, INC.

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2023
With Comparative Totals for December 31, 2022**

ASSETS	2023	2022
CURRENT ASSETS:		
Cash and cash equivalents	\$ 6,247,556	\$ 7,634,619
Investments	10,332	6,611
Receivables:		
Accounts receivable - net	24,763	21,607
Prepaid expenses	137,045	13,086
Total current assets	\$ 6,419,696	\$ 7,675,923
PROPERTY AND EQUIPMENT:		
Building and improvements	\$ 1,882,445	\$ 1,227,227
Vehicles	2,350,133	2,172,697
Furniture and equipment	1,105,199	685,482
Software	96,658	89,888
Land	346,645	298,896
Total	\$ 5,781,080	\$ 4,474,190
Less accumulated depreciation	1,595,578	1,171,445
Net property and equipment	\$ 4,185,502	\$ 3,302,745
OTHER ASSETS:		
Security Deposit	\$ 1,600	\$ 1,600
Construction in progress	-	87,343
Operating lease right-of-use asset	218,822	134,026
Total other assets	220,422	222,969
Total assets	\$ 10,825,620	\$ 11,201,637
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of long-term liabilities	\$ 36,109	\$ 34,576
Current portion of right-of-use operating lease liability	90,000	86,042
Accounts payable	107,460	86,150
Accrued expenses	215,999	152,824
Payroll liabilities	9,384	41,365
Total current liabilities	\$ 458,952	\$ 400,957
LONG-TERM LIABILITIES:		
Notes payable - net of current portion	\$ 434,335	\$ 470,397
Right-of-use operating lease liability, net of current portion	128,822	47,984
Long-term liabilities - net	\$ 563,157	\$ 518,381
Total liabilities	\$ 1,022,109	\$ 919,338
NET ASSETS:		
Without donor restrictions	\$ 9,803,511	\$ 10,282,299
With donor restrictions	-	-
Total net assets	\$ 9,803,511	\$ 10,282,299
Total liabilities and net assets	\$ 10,825,620	\$ 11,201,637

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

MERCY CHEFS, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2023
With Comparative Totals for the Year Ended December 31, 2022**

	Without Donor Restrictions	With Donor Restrictions	2023 Total	2022 Total
OPERATING REVENUE AND SUPPORT:				
Contributions	\$ 11,420,090	\$ -	\$ 11,420,090	\$ 14,681,299
Grants	530,538	650,000	1,180,538	2,905,323
Allowance of bad debt	-	-	-	89,655
In-kind Contributions	981,883	8,662	990,545	1,544,600
Other income	6,994	-	6,994	9,000
Net assets released from restrictions	658,662	(658,662)	-	-
Total operating revenue and support	\$ 13,598,167	\$ -	\$ 13,598,167	\$ 19,229,877
OPERATING EXPENSES:				
Program services	\$ 12,535,859	\$ -	\$ 12,535,859	\$ 11,102,300
Management and general	695,056	-	695,056	510,611
Fundraising	983,949	-	983,949	1,271,433
Total operating expenses	\$ 14,214,864	\$ -	\$ 14,214,864	\$ 12,884,344
CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES	\$ (616,697)	\$ -	\$ (616,697)	\$ 6,345,533
NON-OPERATING ACTIVITIES:				
Unrealized gain (loss) on investments, net	\$ (153)	\$ -	\$ (153)	\$ 431
Gain (loss) on sale of equipment	(49,714)	-	(49,714)	7,083
Investment income	187,776	-	187,776	9,315
CHANGES IN NET ASSETS FROM NON-OPERATING ACTIVITIES	\$ 137,909	\$ -	\$ 137,909	\$ 16,829
CHANGES IN NET ASSETS	\$ (478,788)	\$ -	\$ (478,788)	\$ 6,362,362
NET ASSETS, BEGINNING OF YEAR	10,282,299	-	10,282,299	3,919,937
NET ASSETS, END OF YEAR	\$ 9,803,511	\$ -	\$ 9,803,511	\$ 10,282,299

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, 2023
With Comparative Totals for the Year Ended December 31, 2022**

	Program Services	SUPPORTING ACTIVITIES			2023 Total	2022 Total
		Management and General	Fund Raising	Supporting Subtotal		
Salaries and wages	\$ 3,695,272	\$ 434,740	\$ 217,369	\$ 652,109	\$ 4,347,381	\$ 2,523,964
Employee benefits	466,192	54,846	27,424	82,270	548,462	280,685
Payroll taxes	293,254	34,501	17,250	51,751	345,005	205,868
Total salaries and related expenses	<u>\$ 4,454,718</u>	<u>\$ 524,087</u>	<u>\$ 262,043</u>	<u>\$ 786,130</u>	<u>\$ 5,240,848</u>	<u>\$ 3,010,517</u>
Advertising	266,229	-	-	-	266,229	248,195
Bad debt	40,470	-	-	-	40,470	-
Bank charges	30,846	4,206	-	4,206	35,052	97,239
Commissions	100,000	-	-	100,000	100,000	-
Computer expenses	11,162	588	-	588	11,750	4,124
Contributions and gifts	27,600	-	-	-	27,600	7,677
Deployment expenses	2,819,972	-	-	-	2,819,972	3,905,517
Depreciation	568,525	2,781	-	2,781	571,306	378,311
Dues and subscriptions	64,320	2,680	-	2,680	67,000	30,826
Equipment rent and storage	35,376	-	-	-	35,376	26,354
Food supplies and expenses	1,094,422	-	-	-	1,094,422	818,294
Fundraising expense	-	-	703,035	703,035	703,035	1,154,826
In-kind expenses	832,117	-	-	-	832,117	1,544,600
Insurance	140,600	24,812	-	24,812	165,412	115,067
Interest expense	-	22,018	-	22,018	22,018	38,046
Meals and entertainment	7,563	840	-	840	8,403	69,400
Miscellaneous expense	99	5,097	-	5,097	5,196	1,519
Office expense	88,474	12,319	11,199	23,518	111,992	51,926
Postage and printing	41,670	1,524	7,622	9,146	50,816	23,345
Professional development	841	99	50	149	990	-
Professional fees	130,225	3,456	-	3,456	133,681	115,678
Rent	146,589	-	-	-	146,589	69,719
Repairs and maintenance	219,208	85,248	-	85,248	304,456	101,769
Subcontractors	19,337	-	-	-	19,337	-
Taxes and licenses	51,198	2,133	-	2,133	53,331	19,604
Telephone	35,788	1,491	-	1,491	37,279	34,340
Travel	1,254,293	-	-	-	1,254,293	968,335
Utilities	54,217	1,677	-	1,677	55,894	49,116
Operating expenses	<u>\$ 8,081,141</u>	<u>\$ 170,969</u>	<u>\$ 721,906</u>	<u>\$ 992,875</u>	<u>\$ 8,974,016</u>	<u>\$ 9,873,827</u>
Total expenses	<u>\$ 12,535,859</u>	<u>\$ 695,056</u>	<u>\$ 983,949</u>	<u>\$ 1,779,005</u>	<u>\$ 14,214,864</u>	<u>\$ 12,884,344</u>

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, 2023
With Comparative Totals for the Year Ended December 31, 2022**

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (478,788)	\$ 6,362,362
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	571,306	378,311
Realized and unrealized (gain) on investments, net of fees	153	(431)
Gain (loss) on sale of equipment	49,714	(7,083)
(Increase) decrease in assets:		
Accounts receivable - net	(3,156)	(11,582)
Grants receivable	-	101,000
Deposits	-	50
Prepaid expenses	(123,959)	29,085
Increase (decrease) in liabilities:		
Accounts payable	21,310	(11,813)
Accrued expenses	63,175	(8,844)
Payroll liabilities	(31,981)	(8,741)
Deferred revenue	-	(50,000)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 67,774	\$ 6,772,314
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	\$ (1,487,436)	\$ (1,478,225)
Proceeds from sale of equipment	71,000	35,000
Purchase of investments	(3,872)	(5,194)
NET CASH USED BY INVESTING ACTIVITIES	\$ (1,420,308)	\$ (1,448,419)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds (payments) from notes payable-net	\$ (34,529)	\$ (452,223)
NET CHANGES IN CASH AND CASH EQUIVALENTS	\$ (1,387,063)	\$ 4,871,672
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	7,634,619	2,762,947
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 6,247,556	\$ 7,634,619

SUPPLEMENTAL DISCLOSURES OF NONCASH INFORMATION

Fair value of donated services	\$ 435,538	\$ 586,487
Fair value of donated supplies	\$ 555,007	\$ 958,113
Cash paid for:		
Interest	\$ 22,018	\$ 38,046

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

MERCY CHEFS, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023**

With Comparative Totals for the Year Ended December 31, 2022

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 for both years ended December 31, 2023 and 2022.

MERCY CHEFS, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

With Comparative Totals for the Year Ended December 31, 2022

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, 2023 and 2022 amounted to \$571,306 and \$378,311, 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, 2023 and 2022, the Organization had demand deposits on hand in financial institutions that exceeded depositor's insurance provided by the applicable guaranty agency by \$5,752,216 and \$7,314,059, 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, 2023 and 2022, 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, 2023

With Comparative Totals for the Year Ended December 31, 2022

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
Miscellaneous expense	Reasonable basis consistently applied
Office expense	Reasonable basis consistently applied
Payroll taxes	Time and effort
Postage and printing	Reasonable basis consistently applied
Professional development	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, 2023 and 2022.

MERCY CHEFS, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

With Comparative Totals for the Year Ended December 31, 2022

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 2023, 2022, 2021 and 2020 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, 2023 and 2022, advertising costs were \$266,229 and \$248,195, respectively.

NOTE 3 - ACCOUNTS RECEIVABLE:

Accounts receivable at December 31, 2023 and 2022 consisted of the following:

	2023	2022
Receivables in less than one year	\$ 24,763	\$ 21,607
Less: allowance for uncollectible accounts	-	-
	<u>\$ 24,763</u>	<u>\$ 21,607</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, 2023

With Comparative Totals for the Year Ended December 31, 2022

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, 2023.

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, 2023 and 2022.

Assets at Fair Value as of December 31, 2023:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common Stocks	<u>\$ 10,332</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,332</u>

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>\$ 6,611</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,611</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 \$555,007 and \$958,113 that were used to respond to disaster relief for the year ended December 31, 2023 and 2022, respectively.

Chefs have volunteered over 13,005 and 18,443 hours of service during the years ended December 31, 2023 and 2022, respectively. The value of these services are estimated to be \$435,538 and \$586,487 for the years ended December 31, 2023 and 2022, respectively.

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

MERCY CHEFS, INC.

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023**

With Comparative Totals for the Year Ended December 31, 2022

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, 2023 and 2022 consisted of the following:

	2023	2022
Expenses from donor restricted funds:		
Food, supplies and expenses	\$ 658,662	\$ 3,826,600

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, 2023 and 2022:

	2023	2022
Financial assets at year end:		
Cash and cash equivalents	\$ 6,247,556	\$ 7,634,619
Investments	10,332	6,611
Accounts receivable	24,763	21,607
Financial assets available to meet general expenditures within one year	\$ 6,282,651	\$ 7,662,837

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, 2023**

With Comparative Totals for the Year Ended December 31, 2022

NOTE 9 - LINE OF CREDIT:

The Organization established a \$400,000 line of credit in August 2021. The outstanding balance at December 31, 2023 and 2022 was \$0. The credit line has a maturity date of November 16, 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:

	2023	2022
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.	\$ 259,463	\$ 281,596
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.	210,981	223,377
Total Notes payable	\$ 470,444	\$ 504,973
Less - current portion	36,109	34,576
Notes payable, net of current portion	\$ 434,335	\$ 470,397

Current maturities of long-term debt are as follows:

<u>For the year ended December 31,</u>	
2024	36,109
2025	37,782
2026	39,497
2027	41,290
2028	43,143
Thereafter	272,623
	\$ 470,444

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. This lease was renewed in April 2022 at \$1,750 per month. In March 2024 and 2023, the lease was renewed at \$2,025 and \$1,895 per month with termination dates of May 17, 2025 and May 16, 2024, respectively.

In May 2023, the Organization entered into a 12-month lease for cafe space at J Sargeant Reynolds Community College located in Richmond, VA, effective June 1, 2023. The rent was \$30,000 per year and terminated May 30, 2024. This lease was renewed in April 2024 for the same amount.

In June 2023, the Organization entered into a 12-month lease for kitchen space at Youth World located in Dallas, TX, effective June 5, 2023. The rent was \$1,500 per month and terminated June 4, 2024. This lease was renewed in June 2024 on a month to month basis.

MERCY CHEFS, INC.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023

With Comparative Totals for the Year Ended December 31, 2022

NOTE 11 -LEASES (Continued):

Future minimum lease payments are as follows:

<u>For the year ended December 31,</u> 2024	<u>\$ 27,613</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 was 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, 2023, along with a reconciliation to the discounted amount recorded on the balance sheet.

Undiscounted cash flows due within:	
2024	\$ 90,000
2025	90,000
2026	<u>90,000</u>
Total undiscounted cash flows	\$ 270,000
Impact of present value discount	<u>(51,178)</u>
Amount reported on balance sheet	<u>\$ 218,822</u>

The following table displays the weighted-average term and discount rates for operating leases outstanding as of December 31, 2023:

Weighted-average term (years)	3
Weighted-average discount rate	4.60%

Rent expense for the years ended December 31, 2023 and 2022 was \$146,589 and \$69,719, respectively.

NOTE 12 - PROFIT SHARING PLAN:

The Company started a Profit Sharing Plan for its' employees in 2023. The Company matched employee withholdings in the amount of \$88,232 for the year ended December 31, 2023. The safe harbor match cannot be more than 4% of eligible compensation.

NOTE 13 - SUBSEQUENT EVENTS:

Subsequent events were evaluated through November 12, 2024, 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 12, 2024 that would require adjustment to, or disclosure in, the financial statements.