

**MERCY CHEFS, INC.**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2024**

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



**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, 2024, 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, 2024, 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 2023 financial statements, and in our conclusion dated November 12, 2024, stated that based on our audit, we were not aware of any material modifications that should be made to the 2023 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, 2023, for it to be consistent with the audited financial statements from which it has been derived.

*Barnes, Brock, Cornwell & Painter PLLC*

Chesapeake, Virginia  
November 16, 2025

**MERCY CHEFS, INC.**

**STATEMENT OF FINANCIAL POSITION  
DECEMBER 31, 2024  
With Comparative Totals for December 31, 2023**

ASSETS	2024	2023
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 12,608,309	\$ 6,247,556
Inventory	108,243	-
Investments	65,049	10,332
Receivables:		
Accounts receivable	11,736	24,763
Grants receivable	105,000	-
Employee loans	1,080	-
Prepaid expenses	60,951	137,045
Total current assets	\$ 12,960,368	\$ 6,419,696
<b>PROPERTY AND EQUIPMENT:</b>		
Building and improvements	\$ 2,006,989	\$ 1,882,445
Vehicles	2,453,733	2,350,133
Furniture and equipment	1,604,053	1,105,199
Software	96,658	96,658
Land	346,645	346,645
Total	\$ 6,508,078	\$ 5,781,080
Less accumulated depreciation	2,103,527	1,595,578
Net property and equipment	\$ 4,404,551	\$ 4,185,502
<b>OTHER ASSETS:</b>		
Security Deposit	\$ 1,600	\$ 1,600
Operating lease right-of-use asset	137,181	218,822
Total other assets	138,781	220,422
Total assets	\$ 17,503,700	\$ 10,825,620
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term liabilities	\$ 37,782	\$ 36,109
Current portion of right-of-use operating lease liability	52,500	90,000
Accounts payable	147,732	107,460
Accrued expenses	369,638	215,999
Deferred compensation	835,000	-
Payroll liabilities	4,235	9,384
Total current liabilities	\$ 1,446,887	\$ 458,952
<b>LONG-TERM LIABILITIES:</b>		
Notes payable - net of current portion	\$ 396,618	\$ 434,335
Right-of-use operating lease liability, net of current portion	84,681	128,822
Long-term liabilities - net	\$ 481,299	\$ 563,157
Total liabilities	\$ 1,928,186	\$ 1,022,109
<b>NET ASSETS:</b>		
Without donor restrictions	\$ 15,475,514	\$ 9,803,511
With donor restrictions	100,000	-
Total net assets	\$ 15,575,514	\$ 9,803,511
Total liabilities and net assets	\$ 17,503,700	\$ 10,825,620

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

**MERCY CHEFS, INC.**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2024  
With Comparative Totals for the Year Ended December 31, 2023**

	Without Donor Restrictions	With Donor Restrictions	2024 Total	2023 Total
<b>OPERATING REVENUE AND SUPPORT:</b>				
Contributions	\$ 21,681,518	\$ -	\$ 21,681,518	\$ 11,420,090
Grants	1,167,022	1,449,250	2,616,272	1,180,538
In-kind Contributions	429,769	708,613	1,138,382	990,545
Other income	8,848	-	8,848	6,994
Net assets released from restrictions	<u>2,057,863</u>	<u>(2,057,863)</u>	<u>-</u>	<u>-</u>
Total operating revenue and support	<u>\$ 25,345,020</u>	<u>\$ 100,000</u>	<u>\$ 25,445,020</u>	<u>\$ 13,598,167</u>
<b>OPERATING EXPENSES:</b>				
Program services	\$ 17,813,295	\$ -	\$ 17,813,295	\$ 12,535,859
Management and general	969,713	-	969,713	673,038
Fundraising	<u>1,084,915</u>	<u>-</u>	<u>1,084,915</u>	<u>983,949</u>
Total operating expenses	<u>\$ 19,867,923</u>	<u>\$ -</u>	<u>\$ 19,867,923</u>	<u>\$ 14,192,846</u>
<b>CHANGE IN NET ASSETS FROM OPERATING ACTIVITIES</b>	<u>\$ 5,477,097</u>	<u>\$ 100,000</u>	<u>\$ 5,577,097</u>	<u>\$ (594,679)</u>
<b>NON-OPERATING ACTIVITIES:</b>				
Unrealized gain (loss) on investments, net	\$ (18)	\$ -	\$ (18)	\$ (153)
Gain (loss) on sale of equipment	14,450	-	14,450	(49,714)
Interest expense	(20,042)	-	(20,042)	(22,018)
Investment income	<u>200,516</u>	<u>-</u>	<u>200,516</u>	<u>187,776</u>
<b>CHANGES IN NET ASSETS FROM NON-OPERATING ACTIVITIES</b>	<u>\$ 194,906</u>	<u>\$ -</u>	<u>\$ 194,906</u>	<u>\$ 115,891</u>
<b>CHANGES IN NET ASSETS</b>	<u>\$ 5,672,003</u>	<u>\$ 100,000</u>	<u>\$ 5,772,003</u>	<u>\$ (478,788)</u>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>9,803,511</u>	<u>-</u>	<u>9,803,511</u>	<u>10,282,299</u>
<b>NET ASSETS, END OF YEAR</b>	<u><u>\$ 15,475,514</u></u>	<u><u>\$ 100,000</u></u>	<u><u>\$ 15,575,514</u></u>	<u><u>\$ 9,803,511</u></u>

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, 2024  
With Comparative Totals for the Year Ended December 31, 2023**

	SUPPORTING ACTIVITIES				2024 Total	2023 Total
	Program Services	Management and General	Fund Raising	Supporting Subtotal		
Salaries and wages	\$ 5,171,917	\$ 608,461	\$ 304,230	\$ 912,691	\$ 6,084,608	\$ 4,347,381
Employee benefits	1,516,797	178,447	89,223	267,670	1,784,467	548,462
Payroll taxes	341,692	40,199	20,100	60,299	401,991	345,005
Total salaries and related expenses	<u>\$ 7,030,406</u>	<u>\$ 827,107</u>	<u>\$ 413,553</u>	<u>\$ 1,240,660</u>	<u>\$ 8,271,066</u>	<u>\$ 5,240,848</u>
Advertising	\$ 1,041,681	\$ -	\$ -	\$ -	\$ 1,041,681	\$ 266,229
Bad debt	-	-	-	-	-	40,470
Bank charges	43,853	5,980	-	5,980	49,833	35,052
Commissions	-	-	-	-	-	100,000
Computer expenses	11,012	580	-	580	11,592	11,750
Contributions and gifts	17,688	-	-	-	17,688	27,600
Deployment expenses	3,310,689	-	-	-	3,310,689	2,819,972
Depreciation	618,473	2,782	-	2,782	621,255	571,306
Dues and subscriptions	99,851	4,160	-	4,160	104,011	67,000
Equipment rent and storage	25,418	-	-	-	25,418	35,376
Food supplies and expense:	2,019,272	-	-	-	2,019,272	1,094,422
Fundraising expense	-	-	643,835	643,835	643,835	703,035
In-kind expenses	936,138	-	-	-	936,138	832,117
Insurance	204,649	36,114	-	36,114	240,763	165,412
Meals and entertainment	1,123	125	-	125	1,248	8,403
Miscellaneous expense	-	95	-	95	95	5,196
Office expense	90,056	12,539	11,399	23,938	113,994	111,992
Postage and printing	86,772	3,175	15,873	19,048	105,820	50,816
Professional development	4,343	511	255	766	5,109	990
Professional fees	80,724	1,960	-	1,960	82,684	133,681
Rent	172,229	-	-	-	172,229	146,589
Repairs and maintenance	177,913	69,189	-	69,189	247,102	304,456
Subcontractors	-	-	-	-	-	19,337
Taxes and licenses	36,201	1,508	-	1,508	37,709	53,331
Telephone	43,452	1,811	-	1,811	45,263	37,279
Travel	1,694,201	-	-	-	1,694,201	1,254,293
Utilities	67,151	2,077	-	2,077	69,228	55,894
Operating expenses	<u>\$ 10,782,889</u>	<u>\$ 142,606</u>	<u>\$ 671,362</u>	<u>\$ 813,968</u>	<u>\$ 11,596,857</u>	<u>\$ 8,951,998</u>
Total expenses	<u>\$ 17,813,295</u>	<u>\$ 969,713</u>	<u>\$ 1,084,915</u>	<u>\$ 2,054,628</u>	<u>\$ 19,867,923</u>	<u>\$ 14,192,846</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, 2024  
With Comparative Totals for the Year Ended December 31, 2023**

	2024	2023
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Changes in net assets	\$ 5,772,003	\$ (478,788)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	621,255	571,306
Realized and unrealized (gain) on investments, net of fees	18	153
Gain (loss) on sale of equipment	(14,450)	49,714
(Increase) decrease in assets:		
Accounts receivable	11,947	(3,156)
Grants receivable	(105,000)	-
Inventory	(108,243)	-
Prepaid expenses	76,094	(123,959)
Increase (decrease) in liabilities:		
Accounts payable	40,272	21,310
Accrued expenses	153,639	63,175
Payroll liabilities	(5,149)	(31,981)
Deferred compensation	835,000	-
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 7,277,386</b>	<b>\$ 67,774</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of equipment	\$ (1,020,080)	\$ (1,487,436)
Proceeds from sale of equipment	194,228	71,000
Purchase of investments	(54,737)	(3,872)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<b>\$ (880,589)</b>	<b>\$ (1,420,308)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on notes payable	\$ (36,044)	\$ (34,529)
<b>NET CHANGES IN CASH AND CASH EQUIVALENTS</b>	<b>\$ 6,360,753</b>	<b>\$ (1,387,063)</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>6,247,556</b>	<b>7,634,619</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$12,608,309</b>	<b>\$ 6,247,556</b>
<b>SUPPLEMENTAL DISCLOSURES OF NONCASH INFORMATION</b>		
Fair value of donated services	\$ 250,650	\$ 435,538
Fair value of donated supplies	\$ 887,732	\$ 555,007

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

**MERCY CHEFS, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2024**

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

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**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-imposed 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, 2024 and 2023.

(e) Inventory is stated at the lower of cost, determined using the first-in, first-out or market.

MERCY CHEFS, INC.

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2024

With Comparative Totals for the Year Ended December 31, 2023

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

(f) 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.

(g) 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.

(h) 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
Vehicles	5 - 10 years
Furniture and equipment	5 - 10 years
Software	3 years

Depreciation expense for the years ended December 31, 2024 and 2023 amounted to \$621,255 and \$571,306, respectively.

(i) 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, 2024 and 2023, the Organization had demand deposits on hand in financial institutions that exceeded depositor's insurance provided by the applicable guaranty agency by \$12,145,887 and \$5,752,216, 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, 2024 and 2023, 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, 2024

With Comparative Totals for the Year Ended December 31, 2023

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

(j) 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 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

(k) 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.

(l) 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, 2024 and 2023.

MERCY CHEFS, INC.

NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2024

With Comparative Totals for the Year Ended December 31, 2023

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

(l) Income taxes (continued)

The Organization's Form 990, Return of Organization Exempt from Income Tax, for the years ending 2024, 2023, 2022 and 2021 are subject to examination by the IRS, generally for three years after they were filed.

(m) 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.

(n) Advertising costs

The Organization expenses the cost of advertising when incurred. For the years ended December 31, 2024 and 2023, advertising costs were \$1,041,681 and \$266,229, respectively.

NOTE 3 - ACCOUNTS RECEIVABLE:

Accounts receivable at December 31, 2024 and 2023 consisted of the following:

	2024	2023
Receivables in less than one year	\$ 11,736	\$ 24,763
Less: allowance for uncollectible accounts	-	-
	<u>\$ 11,736</u>	<u>\$ 24,763</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, 2024

With Comparative Totals for the Year Ended December 31, 2023

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, 2024 and 2023, respectively.

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, 2024 and 2023.

Assets at Fair Value as of December 31, 2024:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common Stocks	<u>\$ 65,049</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 65,049</u>

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>

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 equipment, supplies and food donated by other organizations, with a value of \$887,732 and \$555,007 that were used to respond to disaster relief for the year ended December 31, 2024 and 2023, respectively.

Chefs have volunteered over 7,500 and 13,005 hours of service during the years ended December 31, 2024 and 2023, respectively. The value of these services are estimated to be \$250,650 and \$435,538 for the years ended December 31, 2024 and 2023, respectively.

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

**MERCY CHEFS, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2024**

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

**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, 2024 and 2023 consisted of the following:

	2024	2023
Expenses from donor restricted funds:		
Food, supplies and expenses	\$ 2,057,863	\$ 658,662

**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, 2024 and 2023:

	2024	2023
Financial assets at year end:		
Cash and cash equivalents	\$ 12,608,309	\$ 6,247,556
Investments	65,049	10,332
Accounts and grants receivable	117,816	24,763
	\$ 12,896,174	\$ 6,282,651
Less amounts not available to be used in one year:		
Donor restrictions	(100,000)	-
Financial assets available to meet general expenditures within one year	\$ 12,796,174	\$ 6,282,651

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.

**NOTE 9 - LINE OF CREDIT:**

The Organization established a \$400,000 line of credit in August 2021. The outstanding balance at December 31, 2024 and 2023 was \$0. The credit line has a maturity date of November 16, 2026 and is secured by real estate. Monthly interest payments are due at Prime plus .5% with a floor of 4% per annum.

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

**MERCY CHEFS, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2024**

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

NOTE 10 - NOTES PAYABLE:

	2024	2023
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.	\$ 236,301	\$ 259,463
 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.	 198,099	 210,981
Total Notes payable	\$ 434,400	\$ 470,444
Less - current portion	<u>37,782</u>	<u>36,109</u>
Notes payable, net of current portion	<u>\$ 396,618</u>	<u>\$ 434,335</u>

Current maturities of long-term debt are as follows:

<u>For the year ended December 31,</u>	
2025	\$ 37,782
2026	39,497
2027	41,290
2028	43,143
2029	45,124
Thereafter	<u>227,564</u>
	<u>\$ 434,400</u>

Interest expense for the years ended December 31, 2024 and 2023 was \$20,042 and \$22,018, respectively.

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 March 2024 and 2023, for 12 months at \$1,895 and \$2,025 per month, respectively. The amount paid on this lease was \$23,129 and \$21,239 for the years ended December 31, 2024 and 2023, respectively.

In December 2022, the Organization entered into a 13-month lease for kitchen space at Christ Church Nashville, located in Nashville, TN, effective January 2023. The rent was for \$1,200 per month. The lease was renewed in January 2024 for 11-months, effective February 1, 2024. The rent was \$1,500 per month and terminated December 31, 2024. The amount paid on this lease was \$17,700 and \$14,400 for the years ended December 31, 2024 and 2023, 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 renewed in April 2024 for the same amount. The amount paid on this lease was \$30,000 and \$13,750 for the years ended December 31, 2024 and 2023, respectively.

**MERCY CHEFS, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
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**With Comparative Totals for the Year Ended December 31, 2023**

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NOTE 11 -LEASES (Continued):

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. This lease was renewed in June 2024 on a month to month basis and terminated in July 2024. The amount paid on this lease was \$8,400 and \$7,200 for the years ended December 31, 2024 and 2023, respectively.

In November 2024, the Organization entered into a 3-month lease for kitchen space located in Asheville, NC, effective November 11, 2024. The rent was \$3,000 per month. The amount paid on this lease was \$3,000 in 2024.

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 amount paid on this lease was \$90,000 each year for the years ended December 31, 2024 and 2023.

The following table displays the undiscounted cash flows related to the operating lease as of December 31, 2024, along with a reconciliation to the discounted amount recorded on the balance sheet.

Undiscounted cash flows due within:		
2025	\$	90,000
2026		<u>52,500</u>
Total undiscounted cash flows	\$	142,500
Impact of present value discount		<u>(5,319)</u>
Amount reported on balance sheet	\$	<u><u>137,181</u></u>

The following table displays the weighted-average term and discount rates for operating leases outstanding as of December 31, 2024:

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

Rent expense for the years ended December 31, 2024 and 2023 was \$172,229 and \$146,589, 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 \$154,769 and \$88,232 for the year ended December 31, 2024 and 2023, respectively. The safe harbor match cannot be more than 4% of eligible compensation.

NOTE 13 - DEFERRED COMPENSATION:

The Organization established a formal plan for deferred compensation payable to the Founders in 2024. There are no set terms of repayment. The Founders took a reduced salary from inception so that the organization had a stronger financial history. The balance accrued was \$835,000 as of December 31, 2024.

**MERCY CHEFS, INC.**

**NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2024**

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

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**NOTE 14 - SUBSEQUENT EVENTS:**

Subsequent events were evaluated through November 16, 2025, 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 16, 2025 that would require adjustment to, or disclosure in, the financial statements.