

Mercy Neighborhood Ministries, Inc.

**Financial Statements
December 31, 2022 and 2021, and
Independent Auditors' Report**

MERCY NEIGHBORHOOD MINISTRIES, INC.
December 31, 2022 and 2021

Contents

	<u>Page(s)</u>
Independent Auditors' Report	1 – 2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4 – 5
Statements of Functional Expenses	6 – 7
Statements of Cash Flows	8
Notes to Financial Statements	9 – 18

Independent Auditors' Report

To the Board of Directors
Mercy Neighborhood Ministries, Inc.
Cincinnati, Ohio

Opinion

We have audited the accompanying financial statements of Mercy Neighborhood Ministries, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years 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 Neighborhood Ministries, Inc. as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Mercy Neighborhood Ministries, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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 Neighborhood Ministries, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

BARNES DENNIG

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 Neighborhood Ministries 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 Neighborhood Ministries 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.

Barnes, Dennig & Co., Ltd.

July 12, 2023
Crestview Hills, Kentucky

MERCY NEIGHBORHOOD MINISTRIES, INC.

**Statements of Financial Position
December 31, 2022 and 2021**

	2022	2021
Assets		
Cash and cash equivalents	\$ 727,633	\$ 975,166
Restricted cash held for eligible tenants	8,175	42,434
Accounts receivable	5,197	44,493
Contributions receivable - related party	20,000	17,498
Prepaid expenses and other assets	27,192	23,397
Investments	2,948,776	3,093,722
Property and equipment, net	15,374	22,991
Right of use assets, net - operating leases	71,128	-
	<u>\$ 3,823,475</u>	<u>\$ 4,219,701</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 8,691	\$ 4,209
Assets held for others	701	19,689
Accrued expenses	60,385	92,520
Deferred revenue	-	13,500
Lease liabilities - operating leases	72,377	-
	<u>142,154</u>	<u>129,918</u>
Net Assets		
Without donor restrictions	3,586,777	3,917,961
With donor restrictions	94,544	171,822
	<u>3,681,321</u>	<u>4,089,783</u>
	<u>\$ 3,823,475</u>	<u>\$ 4,219,701</u>

See accompanying notes to financial statements

MERCY NEIGHBORHOOD MINISTRIES, INC.

**Statement of Activities
Year Ended December 31, 2022**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support			
Program service income	\$ 319,401	\$ -	\$ 319,401
Grant revenue	307,131	138,498	445,629
Contributions	538,743	-	538,743
Donated services and materials	96,337	-	96,337
Special events	73,711	-	73,711
Investment return, net	(544,517)	-	(544,517)
Miscellaneous	12,792	-	12,792
Net assets released from restrictions	215,776	(215,776)	-
	<u>1,019,374</u>	<u>(77,278)</u>	<u>942,096</u>
Total revenue, gains and other support			
Expenses			
Program expenses	1,090,216	-	1,090,216
Management and general	155,126	-	155,126
Fundraising	105,216	-	105,216
	<u>1,350,558</u>	<u>-</u>	<u>1,350,558</u>
Total expenses			
Change in net assets	(331,184)	(77,278)	(408,462)
Net assets, beginning of year	<u>3,917,961</u>	<u>171,822</u>	<u>4,089,783</u>
Net assets, end of year	<u>\$ 3,586,777</u>	<u>\$ 94,544</u>	<u>\$ 3,681,321</u>

See accompanying notes to financial statements

MERCY NEIGHBORHOOD MINISTRIES, INC.

**Statement of Activities
Year Ended December 31, 2021**

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, gains and other support			
Program service income	\$ 604,716	\$ -	\$ 604,716
Grant revenue	190,640	148,500	339,140
Contributions	400,470	-	400,470
Donated services and materials	113,947	-	113,947
Special events	89,356	-	89,356
Investment return, net	399,208	-	399,208
Miscellaneous	222,292	-	222,292
Net assets released from restrictions	211,259	(211,259)	-
	<u>2,231,888</u>	<u>(62,759)</u>	<u>2,169,129</u>
Total revenue, gains and other support			
Expenses			
Program expenses	1,256,027	-	1,256,027
Management and general	143,021	-	143,021
Fundraising	122,887	-	122,887
	<u>1,521,935</u>	<u>-</u>	<u>1,521,935</u>
Total expenses			
Change in net assets	709,953	(62,759)	647,194
Net assets, beginning of year	<u>3,208,008</u>	<u>234,581</u>	<u>3,442,589</u>
Net assets, end of year	<u>\$ 3,917,961</u>	<u>\$ 171,822</u>	<u>\$ 4,089,783</u>

See accompanying notes to financial statements

MERCY NEIGHBORHOOD MINISTRIES, INC.

**Statement of Functional Expenses
Year Ended December 31, 2022**

	Home Health	Home Care Training	Senior and Support Services	Education	Hospital Workers Readiness Program	Community Partner Services	Total Program	Management and General	Fundraising	Total
Personnel expenses	\$ 166,358	\$ 280,766	\$ 95,065	\$ 155,789	\$ 80,544	\$ -	\$ 778,522	\$ 113,701	\$ 81,240	\$ 973,463
Occupancy	13,536	40,831	17,201	11,340	11,340	-	94,248	7,480	-	101,728
Program	730	15,602	4,451	700	665	-	22,148	-	-	22,148
Professional services	3,111	1,411	1,684	4,431	4,403	-	15,040	19,283	868	35,191
Donated services and materials	-	-	91,400	4,937	-	-	96,337	-	-	96,337
Depreciation	2,323	1,742	1,742	2,323	2,323	-	10,453	1,161	-	11,614
Miscellaneous	3,763	12,909	2,644	3,324	3,710	8,350	34,700	8,062	11,264	54,026
Travel	2,019	45	294	1,560	-	-	3,918	-	-	3,918
Communications	2,557	5,103	2,088	2,958	2,473	-	15,179	1,611	454	17,244
Special event expenses	-	-	-	-	-	-	-	-	9,363	9,363
Insurance	3,065	3,343	1,710	2,123	1,537	-	11,778	2,718	-	14,496
Printing and postage	444	705	471	362	204	-	2,186	500	1,191	3,877
Equipment	1,193	1,095	596	746	945	-	4,575	364	763	5,702
Supplies	189	253	95	302	293	-	1,132	246	73	1,451
	<u>\$ 199,288</u>	<u>\$ 363,805</u>	<u>\$ 219,441</u>	<u>\$ 190,895</u>	<u>\$ 108,437</u>	<u>\$ 8,350</u>	<u>\$ 1,090,216</u>	<u>\$ 155,126</u>	<u>\$ 105,216</u>	<u>\$ 1,350,558</u>

See accompanying notes to financial statements

MERCY NEIGHBORHOOD MINISTRIES, INC.

**Statement of Functional Expenses
Year Ended December 31, 2021**

	Home Health	Home Care Training	Senior and Support Services	Education	Hospital Workers Readiness Program	Community Partner Services	Total Program	Management and General	Fundraising	Total
Personnel expenses	\$ 349,132	\$ 261,867	\$ 90,818	\$ 138,854	\$ 74,930	\$ -	\$ 915,601	\$ 94,621	\$ 103,132	\$ 1,113,354
Occupancy	13,395	40,911	17,514	11,396	11,396	-	94,612	6,064	-	100,676
Program	2,936	11,141	2,011	392	824	-	17,304	-	-	17,304
Professional services	3,079	1,233	1,445	3,657	3,488	-	12,902	21,843	616	35,361
Donated services and materials	-	-	99,270	4,937	9,740	-	113,947	-	-	113,947
Depreciation	3,636	2,727	2,727	3,636	3,636	-	16,362	1,820	-	18,182
Miscellaneous	4,217	19,580	3,107	3,802	4,609	6,327	41,642	10,321	4,829	56,792
Travel	8,704	13	210	709	73	-	9,709	-	35	9,744
Communications	2,626	5,247	2,496	3,161	2,702	-	16,232	1,945	456	18,633
Special event expenses	-	-	-	-	-	-	-	-	10,915	10,915
Insurance	2,172	2,530	1,098	1,623	1,098	-	8,521	5,197	-	13,718
Printing and postage	561	723	604	467	295	-	2,650	534	1,964	5,148
Equipment	1,192	1,085	586	736	936	-	4,535	358	757	5,650
Supplies	741	632	135	264	238	-	2,010	318	183	2,511
	<u>\$ 392,391</u>	<u>\$ 347,689</u>	<u>\$ 222,021</u>	<u>\$ 173,634</u>	<u>\$ 113,965</u>	<u>\$ 6,327</u>	<u>\$ 1,256,027</u>	<u>\$ 143,021</u>	<u>\$ 122,887</u>	<u>\$ 1,521,935</u>

See accompanying notes to financial statements

MERCY NEIGHBORHOOD MINISTRIES, INC.

Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities		
Change in net assets	\$ (408,462)	\$ 647,194
Adjustments to reconcile change in net assets to net cash from operating activities:		
Depreciation	11,614	18,182
Realized and unrealized (gains) losses on investments	622,815	(327,502)
Disbursements of cash held for eligible tenants in agency transactions	(18,988)	(47,026)
Debt forgiveness	-	(205,377)
Non-cash lease expense	1,249	-
Changes in:		
Accounts receivable	39,296	39,374
Prepaid expenses and other assets	(3,795)	397
Accounts payable	4,482	(1,163)
Accrued expenses	(32,135)	(30,872)
Deferred revenue	(13,500)	13,500
	<u>200,074</u>	<u>106,707</u>
Net cash provided by operating activities	<u>200,074</u>	<u>106,707</u>
Cash flows from investing activities		
Purchase of property and equipment	(3,997)	-
Purchase of investments	(485,075)	(576,510)
Proceeds from sale of investments	7,206	-
	<u>(481,866)</u>	<u>(576,510)</u>
Net cash used in investing activities	<u>(481,866)</u>	<u>(576,510)</u>
Cash flows from financing activities		
Proceeds from issuance of debt	-	205,377
	<u>-</u>	<u>205,377</u>
Net cash provided by financing activities	<u>-</u>	<u>205,377</u>
Net change in cash, cash equivalents, and restricted cash	<u>(281,792)</u>	<u>(264,426)</u>
Cash, cash equivalents, and restricted cash, beginning of year	<u>1,017,600</u>	<u>1,282,026</u>
Cash, cash equivalents, and restricted cash, end of year	<u>\$ 735,808</u>	<u>\$ 1,017,600</u>

See accompanying notes to financial statements

MERCY NEIGHBORHOOD MINISTRIES, INC.

Notes to Financial Statements

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Mercy Neighborhood Ministries, Inc. (the Organization), is a religious not-for-profit organization that promotes the empowerment of individuals and families living in poverty through programs that address their immediate needs, foster self-reliance, promote holistic health and advocate for social justice. Services include adult education and workforce development, home health care training, home care aide and state tested nurse aide training, senior and supportive services. The Organization is sponsored by the Sisters of Mercy of the Americas, South Central Community, Inc. (the Community).

Financial Statement Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). The Organization is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restriction, which are available for use in general operations and are not subject to donor restrictions; and net assets with donor restriction, which are either temporary in nature, such as those that will be met by the passage of time or other events specified by the donor, or perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Fair Value Measurements

GAAP has a three-level hierarchy for fair value measurements based on transparency of valuation inputs as of the measurement date. The hierarchy is based on the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows: Level 1 inputs are unadjusted quoted prices for identical assets in active markets; Level 2 inputs are observable quoted prices for similar assets in active markets; Level 3 inputs are unobservable and reflect management's best estimate of what market participants would use as fair value.

Cash, Cash Equivalents, and Restricted Cash

The Organization considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2022 and 2021, cash equivalents consisted primarily of money market accounts. The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk.

At December 31, 2022, cash and cash equivalents of \$727,633 and cash held for others of \$8,175 reported within the statement of financial position sum to the total of \$735,808 which is the total of the cash, cash equivalents, and restricted cash shown in the statement of cash flows. At December 31, 2021, cash and cash equivalents of \$975,166 and cash held for others of \$42,434 reported within the statement of financial position sum to the total of \$1,017,600, which is the total of the cash, cash equivalents, and restricted cash shown in the statement of cash flows.

MERCY NEIGHBORHOOD MINISTRIES, INC.

Notes to Financial Statements (Continued)

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable are stated at their contractual balances, net of any allowance for doubtful accounts. Accounts are considered past due if any portion of an account has not been paid in full within the contractual terms of the account. The Organization begins to assess its ability to collect receivables that are over 90 days past due and provides for an adequate allowance for doubtful accounts based on the Organization's collection history, the financial stability and recent payment history of the customer, and other pertinent factors. Receivables are written off as uncollectible after the Organization has used reasonable collection efforts and deems them uncollectible. Based on this criteria, no allowance for doubtful accounts has been provided at December 31, 2022 and 2021 since the Organization expects no material losses. Accounts receivable at December 31, 2020 was \$83,867.

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Other investments are valued at the lower of cost or fair value. Investment return includes dividends, interest, realized and unrealized gains and losses on investments, and investment fees.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Other investment return is reflected in the statements of activities as revenues with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

The Organization's investments do not have a significant concentration of credit or market risk within any industry, specific institution, or group of investments.

Property and Equipment

Property and equipment are recorded at cost or, if donated or impaired, at fair value at the time of the gift or determination. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets. Major improvements are capitalized, while maintenance and repairs are expensed as incurred.

Contributions

Gifts of cash and other assets received are recorded at their fair market value as of the date of the contribution. Such donations are recorded as revenue without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as revenue without donor restrictions and net assets without donor restrictions.

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are reported at the present value of estimated future cash flows. The resulting discount is amortized and reported as contribution revenue. Conditional promises to give are recognized as revenues when the conditions on which they depend are substantially met.

MERCY NEIGHBORHOOD MINISTRIES, INC.

**Notes to Financial Statements
(Continued)**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Revenue Recognition

The Organization identifies a contract with a customer for revenue recognition when there is approval and commitment from both parties, the rights of the parties and payment terms are identified, the contract has commercial substance and the collectability of consideration is probable. The Organization evaluates each contract to determine the number of distinct performance obligations in the contract, which requires the use of judgment. To determine the proper revenue recognition method, the Organization evaluates whether two or more contracts should be combined and accounted for as one single contract and whether the combined or single contract should be accounted for as single or more than one performance obligation.

Revenue from contracts with customers is primarily recognized from program service fees for home visits to assist the elderly population primarily in the Cincinnati region. These contracts consist of a single performance obligation as the promise to transfer the service is not separately identifiable from other promises in the contracts and therefore, not distinct. Generally, the Organization bills home visiting services within 30 days of the service being performed and payment is expected within 30 days of receipt of a valid invoice. Revenue is recognized by the Organization over the time its services are provided to the client. The organization generally uses the time elapse method, an input measure, as it considers it to best depict the simultaneous consumption and delivery of its services. The determination of the method by which the Organization measures its progress towards the satisfaction of its performance obligations requires judgment.

There is also revenue from contracts with customers recognized as program service fees from registration fees received from participants in classes for the home care aide program, state tested nursing assistant program, and healthcare worker readiness program. There is a single performance obligation provided to participants which is to complete the program that the participant is enrolled in. For this performance obligation, control transfers to the participant over time, as the customer simultaneously receives and consumes the benefits provided and participants complete the classes on a specified date as published by the Organization. Payments for registration fees are typically received in advance or are due within 30 days of completing the course.

MERCY NEIGHBORHOOD MINISTRIES, INC.

**Notes to Financial Statements
(Continued)**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

Revenue Recognition (Continued)

Program service income includes both revenue from conditional contributions and revenue from exchange transactions. All revenue in this category relates to providing home visits and providing education to enable participants to perform home visits. The following table shows the program service income disaggregated between exchange transactions and conditional contributions for the year ended December 31:

	<u>2022</u>	<u>2021</u>
Program service income - exchange transaction	\$ 100,552	\$ 344,490
Program service income - conditional contribution	<u>218,849</u>	<u>260,226</u>
	<u>\$ 319,401</u>	<u>\$ 604,716</u>

Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of Ohio law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

The Organization's IRS Form 990 is subject to review and examination by federal and state authorities. The Organization believes it has appropriate support for any tax positions taken, and therefore, does not have any uncertain income tax positions that are material to the financial statements.

Leases

Mercy Neighborhood Ministries, Inc. has lease agreements with lease and non-lease components, which are generally accounted for separately. The Organization accounts for the lease and non-lease components as a single lease component.

As most of Mercy Neighborhood Ministries, Inc.'s leases do not provide an implicit rate, the Organization uses a risk-free rate based on information available at commencement date in determining the present value of lease payments. Mercy Neighborhood Ministries, Inc. also elected to apply the short-term lease exemption to all its classes of assets.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

MERCY NEIGHBORHOOD MINISTRIES, INC.

Notes to Financial Statements (Continued)

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Expenses have been classified based upon actual and direct expenditures and cost allocations. Expenses are allocated based upon time spent in different departments by the Organization's personnel.

Effect of Adopting New Accounting Standards

In February 2016, the Financial Accounting Services Board (FASB) issued Accounting Standard Update (ASU) 2016-02, *Leases* which created Accounting Standards Codification (ASC) Topic 842. This ASU requires organizations that lease assets to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by those leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.

Mercy Neighborhood Ministries, Inc. adopted the standard effective January 1, 2022 and recognized and measured leases existing at, or entered into after, January 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases. Lease disclosures for the year ended December 31, 2021 are made under prior lease guidance in FASB ASC 840.

As a result of the adoption of the new lease accounting guidance, the Organization recognized on January 1, 2022 a lease liability of \$97,231, which represents the present value of the remaining operating lease payments, and a right of use asset of \$97,231.

The Organization elected the available practical expedients to account for its existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

During 2022, The Organization, adopted FASB ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which increases transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. These include separate presentation in the statement of activities, disaggregation by type, policy and qualitative information about monetization and utilization, description of valuation techniques and inputs used to arrive at a fair value measure, and donor-imposed restrictions associated with the contributed nonfinancial assets. Mercy Neighborhood Ministries adopted the ASU using the retrospective approach as of January 1, 2022. The most significant impact of adoption of ASU 2020-07 is expanded disclosures for contributions of nonfinancial assets.

Subsequent Events

Subsequent events have been evaluated through July 12, 2023, which is the date the financial statements were available to be issued.

MERCY NEIGHBORHOOD MINISTRIES, INC.

**Notes to Financial Statements
(Continued)**

NOTE 2 LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of December 31 comprise the following:

	2022	2021
Cash and restricted cash	\$ 735,808	\$ 1,017,600
Accounts and contributions receivable	25,197	61,991
Investments	2,948,776	3,093,722
Total financial assets	3,709,781	4,173,313
Assets with temporary restrictions	(94,544)	(171,822)
Fiscal agent funds (iMap)	(701)	(19,689)
Financial assets available for general expenditure	\$ 3,614,536	\$ 3,981,802

The Organization manages its liquidity through annual budgeting. Cash is available to cover general expenditures in the Organization's five programs, management and general, and fundraising. There are no reserves or Board restrictions on the available financial assets.

The Organization has a \$250,000 line of credit agreement which it could draw upon in the event of an unanticipated liquidity need (See Note 5 for more details on the line of credit).

Fiscal agent funds represent a fund managed by MNM for clients in a restricted category.

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment as of December 31 consisted of the following:

	2022	2021
Equipment	\$ 168,341	\$ 164,343
Leasehold improvements	143,385	143,385
	311,726	307,728
Less accumulated depreciation	(296,352)	(284,737)
	\$ 15,374	\$ 22,991

MERCY NEIGHBORHOOD MINISTRIES, INC.

**Notes to Financial Statements
(Continued)**

NOTE 4 INVESTMENTS AT FAIR VALUE

Investments at fair value as of December 31 consisted of the following:

	2022	2021
Level 1:		
Equity securities	\$ 1,302,528	\$ 1,330,778
Fixed income mutual funds	694,320	594,514
Equity mutual funds	642,838	977,153
Other securities and mutual funds	47,003	72,409
Level 2:		
Money market funds	262,087	118,868
	\$ 2,948,776	\$ 3,093,722

Where quoted market prices are available in an active market, securities are classified Level 1 of the valuation hierarchy. Level 1 securities include equity mutual funds, equity securities, fixed income mutual funds and other securities and mutual funds. If quoted market prices are not available, then fair values are estimated using pricing models or quoted prices of securities with similar characteristics. Level 2 securities include money market funds. There were no Level 3 investments as of December 31, 2022 and 2021.

NOTE 5 LINE OF CREDIT

The Organization has a \$250,000 line of credit agreement. As of December 31, 2022 and 2021 there was \$-0- borrowed against this line. Any interest is payable monthly at the prime rate (7.50% at December 31, 2022). The line of credit agreement expires on October 8, 2023.

NOTE 6 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of December 31 were restricted for the following purposes:

	2022	2021
Crisis Assistance	\$ 49,792	\$ 99,069
Home Care	31,066	41,066
General education program	13,521	13,024
Other	165	18,663
	\$ 94,544	\$ 171,822

MERCY NEIGHBORHOOD MINISTRIES, INC.

Notes to Financial Statements (Continued)

NOTE 7 RELATED PARTY TRANSACTIONS

The Community committed to providing \$40,000 and \$35,000 to the Organization during December 31, 2022 and 2021, respectively, which is recorded in contributions without donor restrictions on the statement of activities. The commitment is to be paid monthly in equal installments over a fiscal year from July to June. The unpaid balance of the commitment as of December 31, 2022 and 2021 has been recorded as contributions receivable – related party on the statement of financial position and is expected to be paid in-full by June 30 of the following year.

NOTE 8 RETIREMENT PLAN

A Simple IRA Plan began on January 1, 2022. The Organization's employees with one preceding year of at least \$5,000 in compensation are able to participate in the plan. The employer can contribute up to 3% of employee compensation. The Organization contributed \$10,548 to the plan for December 31, 2022.

The Organization's employees participated in a salary reduction 403(b) retirement plan to which they could contribute at their discretion. All employees were eligible to participate in the plan after an introductory period of ninety days. There were no employer contributions to the plan made by the Organization for December 31, 2021. The plan was terminated effective January 1, 2022.

NOTE 9 LEASE AGREEMENTS

The Company has operating leases for office space and office equipment with remaining lease terms through March 2026. As of December 31, 2022, the operating lease ROU assets and operating lease liabilities related to these leases were \$71,128 and \$72,377, respectively. Additionally, there is a short-term lease agreement for office space that had total payments of \$61,114. The total lease expense under these agreements were \$90,454 for 2022.

The components of lease expense were as follows:

Operating lease expense	\$ 27,235
Short-term lease expense	61,114
Variable lease expense	2,105

Other information related to leases was as follows:

Operating cash flows	\$ 25,986
Weighted average remaining lease term	3.33 years
Weighted average discount rate	1.36%

MERCY NEIGHBORHOOD MINISTRIES, INC.

**Notes to Financial Statements
(Continued)**

NOTE 9 LEASE AGREEMENTS (CONTINUED)

Future minimum lease payments under non-cancellable leases as of December 31, 2022 were as follows:

2023	\$ 22,181
2024	22,554
2025	23,337
2026	<u>5,883</u>
Total future minimum lease payments	73,955
Less imputed interest	<u>(1,578)</u>
Lease liabilities	<u><u>\$ 72,377</u></u>

Lease disclosures for the year ended December 31, 2021

As the Accounting Standard Codification (ASC) 842: Leases was adopted during 2022, the Organization is required to disclose information for 2021 in accordance with prior guidance under ASC 840, Leases. The Organization leases office equipment and office space during the normal course of its operations that expire in various years through 2026.

Future annual minimum lease payments at December 31, 2021 were:

2022	\$ 25,986
2023	22,181
2024	22,554
2025	23,337
2026	<u>5,883</u>
	<u><u>\$ 99,941</u></u>

Rent expense for these leases included in the statement of functional expenses for the year ended December 31, 2021 was \$86,967.

NOTE 10 RISKS AND UNCERTAINTIES

The Organization's investments consist of items noted in Note 4. Investment securities are exposed to various risks, such as credit, market, and interest rate. Due to the level of uncertainty related to changes in interest rates, market volatility and credit risks, it is at least reasonably possible that changes in these risks could materially affect the fair value of the investments reported in the statement of financial position at December 31, 2022. However, the diversification of the Organization's investments among various asset classes should mitigate the impact of any adverse changes on any one asset class. Investments are managed by the Board of Directors with advice and assistance from investment professionals.

MERCY NEIGHBORHOOD MINISTRIES, INC.

Notes to Financial Statements (Continued)

NOTE 11 PAYCHECK PROTECTION PROGRAM (PPP) LOANS

On January 23, 2021, the Organization entered into a term note pursuant to the Paycheck Protection Program Second Round (the "Program") for \$205,377. All or a portion of the note may be forgiven in accordance with the Program requirements. Interest on the outstanding principal balance will accrue at a fixed rate of 1.00%, but neither principal or interest are due and payable during the initial 12-month deferral period after issuance. After the initial 12-month deferral period expires, the outstanding principal balance that is not forgiven under the Program will convert to an amortizing loan payable in 48 equal installments of principal and interest.

This PPP loan was forgiven on September 24, 2021 in full. The Organization recognized the funds as revenue for the year ended December 31, 2021 and are included in miscellaneous revenues on the statement of activities.

NOTE 12 CONTRIBUTED NONFINANCIAL ASSETS

Mercy Neighborhood Ministries, Inc. receives nonfinancial contributions that are recognized within revenues and expenses on the statement of activities. Contributed nonfinancial assets include contributed education and support services, donated food for the pantry, and Christmas gifts. Unless otherwise noted, contributed nonfinancial assets do not have donor-imposed restrictions and are used in Mercy Neighborhood Ministries, Inc.'s general programs.

Contributed services are recognized at their estimated fair value if they create or enhance nonfinancial assets, or they require specialized skills that would need to be purchased if they were not donated. The fair value of contributed services are estimated at the standard hourly rates for the employees of Mercy Neighborhood Ministries, Inc. The Organization recognized contributed services of \$6,242 and \$15,982 in 2022 and 2021, respectively.

Contributed food donated to Mercy Neighborhood Ministries, Inc.'s pantry to assist with food insecurity in the area that they service. Mercy Neighborhood Ministries, Inc. estimated the fair value by using an approximate average wholesale value per pound, which was determined to be an average of \$2.21 which was provided by Freestore Foodbank. Mercy Neighborhood Ministries, Inc. recognized contributed food for its pantry of \$85,495 and \$97,965 in 2022 and 2021, respectively.

In 2022, Mercy Neighborhood Ministries, Inc. conducted a Christmas drive to provide gifts to those who may not receive gifts during the holidays. The Organization received donated Christmas gifts where the value was determined by their fair market value by comparing online prices. Mercy Neighborhood Ministries, Inc. recognized in-kind donations of \$4,600 and \$-0- in 2022 and 2021, respectively, related to its Christmas drive.