

**Mercy Support Services, Inc.
Independent Auditor's Reports
and
Financial Statements
For the Year Ended December 31, 2017**

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Independent Auditor's Report and Financial Statements
December 31, 2017

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July 20, 2018

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Mercy Support Services, Inc.
PO Box 1526
Orange Park, Florida 32067-1526

We have audited the accompanying financial statements of Mercy Support Services, Inc., a nonprofit organization, which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mercy Support Services, Inc. as of December 31, 2017, 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.

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Mercy Support Services, Inc.
Statement of Financial Position
December 31, 2017

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>TOTAL</u> |
|---------------------------------------|---------------------|-----------------------------------|-------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | \$ 49,864 | \$ - | \$ 49,864 |
| Accounts receivable | 20,961 | | 20,961 |
| Property and equipment, net | 507,328 | | 507,328 |
| Prepaid expenses and other assets | 6,575 | | 6,575 |
| Noncurrent Assets | | | |
| Restricted Cash | | 144,429 | 144,429 |
| Total assets | <u>\$ 584,728</u> | <u>\$ 144,429</u> | <u>\$ 729,157</u> |
| LIABILITIES AND NET ASSETS | | | |
| Liabilities: | | | |
| Accounts payable and payroll accruals | \$ 6,700 | \$ - | \$ 6,700 |
| Recovering Clay Fund | 142,018 | | 142,018 |
| Long-term debt | 499,055 | | 499,055 |
| Total liabilities | <u>647,773</u> | <u>-</u> | <u>647,773</u> |
| Net Assets | <u>(63,045)</u> | <u>144,429</u> | <u>81,384</u> |
| Total liabilities and Net Assets | <u>\$ 584,728</u> | <u>\$ 144,429</u> | <u>\$ 729,157</u> |

The notes to the financial statements are an integral part of this statement.

Mercy Support Services, Inc.
Statement of Activities
For the Year Ended December 31, 2017

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>TOTAL</u> |
|-----------------------------------|---------------------|-----------------------------------|------------------|
| REVENUES | | | |
| Contributions and grants | \$ 51,162 | \$ 144,429 | \$ 195,591 |
| Rental income | 24,047 | - | 24,047 |
| Fees from providing services | 4,256 | - | 4,256 |
| Interest income | 80 | - | 80 |
| Other income | 65,482 | - | 65,482 |
| Total revenues | <u>145,027</u> | <u>144,429</u> | <u>289,456</u> |
| EXPENSES | | | |
| Program services | 251,403 | - | 251,403 |
| Management and general | 20,420 | - | 20,420 |
| Fundraising | 64,937 | - | 64,937 |
| Total expenses | <u>336,760</u> | <u>-</u> | <u>336,760</u> |
| (Decrease) Increase in net assets | (191,733) | 144,429 | (47,304) |
| Beginning net assets | <u>128,688</u> | <u>-</u> | <u>128,688</u> |
| Ending net assets | <u>\$ (63,045)</u> | <u>\$ 144,429</u> | <u>\$ 81,384</u> |

The notes to the financial statements are an integral part of this statement.

Mercy Support Services, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2017

| | Program Services | Management and General | Fundraising | TOTAL |
|-------------------------------------|-------------------------|-----------------------------------|--------------------|-------------------|
| Salaries and Wages | \$ 98,559 | \$ 6,685 | \$ 23,812 | \$ 129,056 |
| Employee Benefits and payroll taxes | 3,852 | 5,076 | 1,236 | 10,164 |
| Total salaries and benefits | <u>57,748</u> | <u>11,761</u> | <u>19,057</u> | <u>139,220</u> |
| Advertising | - | - | 13,501 | 13,501 |
| Business registration fees | - | 67 | - | 67 |
| Repairs and maintenance | 34,187 | 1,009 | - | 35,196 |
| Dues and subscriptions | - | 822 | 874 | 1,696 |
| Professional fees | 16,800 | - | - | 16,800 |
| Service charges | - | 96 | - | 96 |
| Travel and meetings | 688 | 264 | 170 | 1,122 |
| Overhead | 23,306 | - | 5,081 | 28,387 |
| Supplies | 2,157 | 737 | 946 | 3,840 |
| Postage and shipping | - | - | 1,377 | 1,377 |
| Printing and copying | - | - | 1,756 | 1,756 |
| Special events | 57 | - | 14,408 | 14,465 |
| Office expenses | 15,492 | - | 497 | 15,989 |
| Professional and contractual fees | 1,164 | - | 1,279 | 2,443 |
| Telephone/Internet | 2,353 | 1,250 | - | 3,603 |
| Accounting fees | - | 3,563 | - | 3,563 |
| Insurance | 13,294 | 784 | - | 14,078 |
| Occupancy | 535 | - | - | 535 |
| Utilities | 17,620 | 67 | - | 17,687 |
| Total expenses before depreciation | <u>230,064</u> | <u>20,420</u> | <u>64,937</u> | <u>315,421</u> |
| Depreciation | 21,339 | - | - | 21,339 |
| Total expenses | <u>\$ 251,403</u> | <u>\$ 20,420</u> | <u>\$ 64,937</u> | <u>\$ 336,760</u> |

The notes to the financial statements are an integral part of this statement.

Mercy Support Services, Inc.
Statement of Cash Flows
For the Year Ended December 31, 2017

| | |
|--|--------------------------|
| Cash flows from operating activities: | |
| Decrease in net assets | \$ (47,304) |
| Adjustments to reconcile increase in net assets to net cash provided by operating activities: | |
| Depreciation adjustments and expense | 135,653 |
| Net increase (decrease) in cash flow from changes in: | |
| Accounts Receivable | (23,131) |
| Prepaid expenses | 3,897 |
| Accounts payable | (4,100) |
| Restricted cash - Recovering Clay | <u>142,018</u> |
| Net cash provided by operating activities | <u>207,333</u> |
| Cash flows from investing activities | |
| Fixed asset improvements | <u>(45,537)</u> |
| Net cash used in investing activities | <u>(45,537)</u> |
| Cash flows from financing activities | |
| Mortgage adjustments and paydowns | <u>(70,563)</u> |
| Net cash provided by financing activities | <u>(70,563)</u> |
| Net increase in cash and cash equivalents | 90,933 |
| Cash and cash equivalents at beginning of year | <u>103,360</u> |
| Cash and cash equivalents at end of year | <u><u>\$ 194,293</u></u> |

The notes to the financial statements are an integral part of this statement.

Mercy Support Services, Inc.
Notes to the Financial Statements
December 31, 2017

1. Nature of Organization

Mercy Support Services, Inc. referred to herein as MSS or Organization, a Florida not-for-profit corporation organized in 2012 to serve the people of Clay County, Florida, who are circumstantially in need by providing temporary housing and other services that guide them to self-sufficiency. MSS call center provides the connection of an active network of compassion-hearted people and organizations to the people of Clay County.

2. Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements are presented on the accrual basis and represent the financial position and results of operations of MSS. MSS has adopted the provisions of Financial Accounting Standards Board ASC 958, Accounting for Contributions Received and Contributions Made and Financial Statements for Not-for-Profit Organizations.

These financial statements are prepared on an entity wide basis, focusing on the organization as a whole and present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by aggregating all funds into one set of financial statements and classifying fund balances and transactions into three classes of net assets - unrestricted, temporarily restricted or permanently restricted as follows:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations. MSS reports donor-restricted contributions whose restrictions are met in the same reporting period as unrestricted support.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met by actions of MSS and/or the passage of time. There was \$144,429 in temporarily restricted net assets as of December 31, 2017.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by MSS. There were no permanently restricted net assets as of December 31, 2017.

Under generally accepted accounting principles, contributions are generally recognized as revenue when the gift is made and are recorded as unrestricted, temporarily restricted or permanently restricted, depending on the presence or absence and type of donor imposed restrictions or conditions.

B. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

C. Functional Allocation of Expenses

The costs of providing program services and supporting activities have been summarized on a functional basis in the Statement of Activities and Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Mercy Support Services, Inc.
Notes to the Financial Statements
December 31, 2017

D. Income Tax Status

MSS is exempt from federal income tax under provision of Section 501(c)(3) of the Internal Revenue Code. In addition, MSS has been determined by the Internal Revenue Service (IRS) not to be a private foundation within the meaning of Section 509(a) of the Code. Consequently, no provision for income taxes has been included in the accompanying financial statements.

MSS's IRS filings are subject to review and examination by federal authorities. MSS is not aware of any activities that would jeopardize its tax-exempt status. MSS is not aware of any activities that are subject to tax on unrelated business income, excise or other taxes. The IRS filings for the years ended December 31, 2017, 2016 and 2015, will be open to examination by federal authorities.

E. Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, MSS considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

F. Accounts Receivable

Accounts receivable are carried at their estimated collectible amounts and are recorded net of contractual adjustments and an allowance for doubtful accounts. The allowance for doubtful accounts is estimated by management based on the Organization's prior years' experience when available and a review of the current status of the existing receivables. Adjustments to the allowance for doubtful accounts are recorded to an expense account. When management determines that a receivable is uncollectible, it is removed from accounts receivable and is charged to the allowance for doubtful accounts. No allowance is established at December 31, 2017 as management believes all amounts are collectible.

G. Revenue Recognition

MSS's resources as presented on the statements of activities and changes in net assets include revenue, gains or loss, and other support. Revenue consists of public support such as contributions and grants, investment income which consists of interest, rents and other revenue or support. Public support such as contributions and grants are unconditional gifts to the Organization of cash or other assets in a voluntary nonreciprocal transfer by another entity.

Revenue, gains, and other support are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses and losses are reported as decreases in unrestricted net assets unless their use is limited by donor-imposed restrictions. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Donor restricted contributions, whose restrictions are met in the same reporting period, are reported as unrestricted support.

Contributions, including unconditional promises to give, are recognized as revenue in the period made or received.

H. Property and Equipment

Purchased property and equipment are stated at cost. Donated property and equipment are stated at estimated fair market value at the date of donation. It is the policy of MSS to expense assets in the period purchased if the assets cost \$5,000 or less individually.

Mercy Support Services, Inc.
Notes to the Financial Statements
December 31, 2017

Assets, defined as those items purchased or donated with a probable future economic benefit to the organization, costing in excess of \$5,000 individually will be capitalized and depreciated in accordance with MSS's depreciation policies. Repairs and improvements to real property and leasehold improvements will be capitalized if they cost in excess of \$10,000 individually.

Depreciation is computed on a straight-line method over the estimated useful lives of the related assets which may range from 3 to 30 years.

I. Fair Value of Financial Instruments

MSS's financial instruments are cash and cash equivalents, investments, prepaid expenses and deposits, short-term receivables, long-term receivables, accounts payable and accrued expenses.

The recorded values of cash and cash equivalents, prepaid expenses and deposits, short-term receivables, accounts payable and accrued expenses approximate their fair value based on their short-term nature.

J. Long-Lived Assets

MSS follows the policy of lifting restrictions on contributions of cash and other assets received for the acquisition of long-lived assets when the long-lived assets are acquired. In accordance with generally accepted accounting principles, long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No such events or changes in circumstances occurred that required impairment charges to be recorded in the accompanying financial statements related to long-lived assets.

3. Property and Equipment

The following is a summary of the components of property and equipment for the year ended December 31, 2017:

| | |
|--------------------------------|-----------------------------|
| Buildings and improvements | \$ 678,867 |
| Less: Accumulated depreciation | <u>(171,539)</u> |
| Total | <u><u>\$ 507,328</u></u> |
| Depreciation expense | <u><u>\$ 21,339</u></u> |

4. In-kind Donations

Contributions of assets, materials, and facilities are recorded at their estimated fair value at the date of gift. Such values are recorded in the financial statements as an asset or expense and revenue. In addition, the Organization receives contributed time related to various program services and construction projects. These contributed services are recorded at their estimated fair value at the date of service if they meet the following criteria: (a) the services would have otherwise been purchased by the Organization, and (b) the services required specialized skills. For the year ended December 31, 2017, MSS recognized contributed services, meeting the above criteria, in the amount of \$13,301.

A substantial number of unpaid volunteers have made significant contributions of their time to provide assistance to MSS in its program and support activities. The value of contributed time of part-time volunteers has not been recorded in the accompanying financial statements since specialized skills were not required.

Mercy Support Services, Inc.
Notes to the Financial Statements
December 31, 2017

5. Long Term Liabilities

MSS purchased properties to provide work force and transitional housing. MSS operations utilize 1681 Bartlett Avenue for office space. The Housing Finance Authority of Clay County, Florida (HFACC), loaned funds to MSS secured by a mortgage on the related property. The mortgage notes bear interest at the rate of zero percent per annum. The loan payments are \$100 monthly on each of the loans and the entire outstanding balance is due and payable on the fifth anniversary date of the note. However, it is the policy of the HFACC at the time the balloon note matures to assess whether both parties agree to extend the terms for an additional five years.

| Description | Balance January 1, 2017 | Additions | Deletions | Balance December 31, 2017 | Amount Due Within One Year |
|---------------------------|----------------------------|-----------------|--------------------|---------------------------------|-------------------------------------|
| Mortgages | | | | | |
| 622 Filmore Street, #113 | \$ 161,105 | \$ - | \$ (1,100) | \$ 160,005 | \$ 1,200 |
| 622 Filmore Street, #146 | 85,038 | | (68,563) | 16,475 | 1,200 |
| 457 Crabapple Court | 178,700 | | (1,200) | 177,500 | 1,200 |
| 1681 Bartlett Avenue | 143,600 | | (1,100) | 142,500 | 1,200 |
| Refundable deposits | 1,175 | 1,400 | | 2,575 | - |
| Total long-term liability | <u>\$ 569,618</u> | <u>\$ 1,400</u> | <u>\$ (71,963)</u> | <u>\$ 499,055</u> | <u>\$ 4,800</u> |

Annual amounts due to maturity:

| Year Ending December 31, | Principal | Interest | Total |
|-----------------------------|-------------------|-------------|-------------------|
| 2018 | \$ 4,800 | \$ - | \$ 4,800 |
| 2019 | 176,480 | - | 176,480 |
| 2020 | 2,400 | - | 2,400 |
| 2021 | 312,800 | - | 312,800 |
| 2022 | - | - | - |
| Total | <u>\$ 496,480</u> | <u>\$ -</u> | <u>\$ 496,480</u> |

6. Forgivable Loan

The Organization entered into an agreement with Clay County to operate a program utilizing SHIP Program funds. This agreement provided funds of \$121,829 for a portion of the costs of the acquisition, construction and rehabilitation of property located at 622 Filmore Street #146, Orange Park, Florida, 32065, in the form of a forgivable loan. Under the terms of the agreement, the loan will be deferred and forgiven so long as the organization has fully complied with all of its obligations and covenants contained in the mortgage and in the funding agreement for a period of fifteen years running from the date of the agreement. No interest is charged under the terms of this agreement and no interest revenue or expense has been recorded in the accounting records or reported in the financial statements. The Organization recognized the principal of these contributed funds as grant revenue at the time of purchase of the property.

7. Subsequent Events

In preparing these financial statements, management of MSS has evaluated subsequent events and transactions for potential recognition and disclosure through July 20, 2018, which is the date the financial statements were available to be issued and determined there were no other matters to disclose.