

MERCY MULTIPLIED AMERICA, INC.
Financial Statements
And
Independent Auditors' Report
Years Ended December 31, 2018 and 2017

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Independent Auditors' Report

To the Board of Directors
Mercy Multiplied America, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Mercy Multiplied America, Inc. (a Tennessee not-for-profit corporation), which comprise the statements of financial position as of December 31, 2018 and 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.

Auditors' 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 auditors' 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 Multiplied America, Inc. as of December 31, 2018 and 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.

Emphasis of Matter

As discussed in Note 2, the entity adopted the provisions of Financial Accounting Standards Board ASU 2016-14 Not-for-Profit Entities (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

Blankenship CPA Group, PLLC
Blankenship CPA Group, PLLC
Brentwood, Tennessee
May 31, 2019

MERCY MULTIPLIED AMERICA, INC.
Statements of Financial Position
December 31, 2018 and 2017

	ASSETS	2018	2017
Current assets			
Cash		\$ 815,548	\$ 572,029
Contributions receivable		121,537	173,259
Contribution receivable - facility use		108,519	108,519
Other receivables		826	27,825
Inventory		49,752	45,691
Prepaid expenses		51,584	37,063
Other current assets		<u>25,055</u>	<u>5,510</u>
Total current assets		<u>1,172,821</u>	<u>969,896</u>
Cash - designated or restricted for long term purposes		<u>1,178,055</u>	<u>1,025,985</u>
Property and equipment			
Land		1,001,281	1,001,281
Land - undeveloped		1,040,525	1,040,525
Buildings and improvements		7,280,347	6,770,841
Equipment and furniture		2,249,275	2,072,269
Vehicles		276,584	276,584
Website, software and database		<u>76,873</u>	<u>65,311</u>
		11,924,885	11,226,811
Less accumulated depreciation and amortization		<u>(6,118,173)</u>	<u>(5,810,416)</u>
Property and equipment, net		<u>5,806,712</u>	<u>5,416,395</u>
Land held for sale		<u>2,003,323</u>	<u>2,003,323</u>
Total Assets		<u>\$ 10,160,911</u>	<u>\$ 9,415,599</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable		\$ 74,777	\$ 42,960
Accrued expenses		363,012	347,611
Current portion of capital lease obligation		7,108	-
Current portion of note payable		<u>134,092</u>	<u>122,002</u>
Total current liabilities		578,989	512,573
Capital lease obligation, net of current portion		14,778	-
Note payable, net of current portion		<u>346,100</u>	<u>629,185</u>
Total Liabilities		<u>939,867</u>	<u>1,141,758</u>
Net Assets			
Without donor restrictions		8,148,427	7,260,315
With donor restrictions		<u>1,072,617</u>	<u>1,013,526</u>
Total Net Assets		<u>9,221,044</u>	<u>8,273,841</u>
Total Liabilities and Net Assets		<u>\$ 10,160,911</u>	<u>\$ 9,415,599</u>

The accompanying notes are an integral part of these financial statements.

MERCY MULTIPLIED AMERICA, INC.
Statements of Activities
Years Ended December 31, 2018 and 2017

	2018		Total
	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	
Support and Revenues			
Contributions	\$ 7,972,646	\$ 796,706	\$ 8,769,352
Special events	659,569	-	659,569
In-kind donations	119,032	434,076	553,108
Resource sales	50,570	-	50,570
Adoption application fees	1,650	-	1,650
Other income	61,045	-	61,045
	<hr/>	<hr/>	<hr/>
Total Support and Revenues	8,864,512	1,230,782	10,095,294
Net assets released from restrictions	<hr/>	<hr/>	<hr/>
	1,171,691	(1,171,691)	-
	<hr/>	<hr/>	<hr/>
Total Support, Revenues and Reclassifications	10,036,203	59,091	10,095,294
	<hr/>	<hr/>	<hr/>
Functional Expenses			
Counseling and outreach	7,985,438	-	7,985,438
Management and general	610,129	-	610,129
Fundraising	552,524	-	552,524
	<hr/>	<hr/>	<hr/>
Total Functional Expenses	9,148,091	-	9,148,091
	<hr/>	<hr/>	<hr/>
Increase in net assets	888,112	59,091	947,203
Net assets - beginning of year	<hr/>	<hr/>	<hr/>
	7,260,315	1,013,526	8,273,841
	<hr/>	<hr/>	<hr/>
Net assets - end of year	<u>\$ 8,148,427</u>	<u>\$1,072,617</u>	<u>\$ 9,221,044</u>

The accompanying notes are an integral part of these financial statements.

	2017		
	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>
	<u>Restrictions</u>	<u>Restrictions</u>	
Support and Revenues			
Contributions	\$ 7,389,590	\$ 651,531	\$ 8,041,121
Special events	537,704	-	537,704
In-kind donations	126,406	434,076	560,482
Resource sales	57,521	-	57,521
Adoption application fees	3,000	-	3,000
Other income	58,878	-	58,878
	<u>8,173,099</u>	<u>1,085,607</u>	<u>9,258,706</u>
Total Support and Revenues			
Net assets released from restrictions	<u>745,203</u>	<u>(745,203)</u>	<u>-</u>
	<u>8,918,302</u>	<u>340,404</u>	<u>9,258,706</u>
Total Support, Revenues and Reclassifications			
Functional Expenses			
Counseling and outreach	7,499,532	-	7,499,532
Management and general	704,782	-	704,782
Fundraising	548,849	-	548,849
	<u>8,753,163</u>	<u>-</u>	<u>8,753,163</u>
Total Functional Expenses			
Increase in net assets	165,139	340,404	505,543
Net assets - beginning of year	<u>7,095,176</u>	<u>673,122</u>	<u>7,768,298</u>
Net assets - end of year	<u>\$ 7,260,315</u>	<u>\$1,013,526</u>	<u>\$ 8,273,841</u>

The accompanying notes are an integral part of these financial statements.

MERCY MULTIPLIED AMERICA, INC.
Statements of Functional Expenses
Years Ended December 31, 2018 and 2017

	2018			
	Program Services	Supporting Services		Total
	Counseling and Outreach	Management and General	Fundraising	
Salaries	\$ 3,755,373	\$ 321,382	\$ 292,041	
Benefits	510,441	43,683	39,695	593,819
Contract labor	18,319	-	1,617	19,936
<hr/>				
Total salaries and related expenses	4,284,133	365,065	333,353	4,982,551
Tithe	827,491	-	-	827,491
Occupancy	513,107	5,584	-	518,691
Contributions to Mercy Multiplied International, Inc.	491,693	-	-	491,693
Room and board	435,379	-	-	435,379
Utilities	204,917	3,349	3,044	211,310
Special events	111,976	-	99,309	211,285
Repairs and maintenance	146,985	17,617	11,394	175,996
Insurance	115,403	9,876	8,974	134,253
Professional fees	86,230	23,209	5,409	114,848
IT outsourcing	80,574	15,010	5,003	100,587
Marketing and public relations	49,912	-	49,912	99,824
Travel, conferences and meetings	79,109	9,889	9,889	98,887
Computer and equipment	62,656	5,452	4,955	73,063
Contribution processing charges	-	72,282	-	72,282
Miscellaneous	22,846	40,788	6,384	70,018
Telephone	40,116	3,433	3,120	46,669
New hire and staff development	39,686	3,396	3,086	46,168
Automobile	31,826	3,536	-	35,362
Interest	-	26,515	-	26,515
Office	21,619	1,850	1,681	25,150
Cost of resources sold	22,772	-	-	22,772
Postage	11,724	1,954	5,862	19,540
<hr/>				
Total expenses before depreciation and amortization	7,680,154	608,805	551,375	8,840,334
Depreciation and amortization	305,284	1,324	1,149	307,757
<hr/>				
Total expenses	<u>\$ 7,985,438</u>	<u>\$ 610,129</u>	<u>\$ 552,524</u>	<u>\$ 9,148,091</u>

The accompanying notes are an integral part of these financial statements.

2017

	Program Services		Supporting Services		Total
	Counseling and Outreach	Management and General	Fundraising		
Salaries	\$ 3,677,487	\$ 326,277	\$ 283,109	\$ 4,286,873	
Benefits	495,715	43,981	38,162	577,858	
Contract labor	2,562	-	-	2,562	
Total salaries and related expenses	4,175,764	370,258	321,271	4,867,293	
Tithe	755,707	-	-	755,707	
Occupancy	466,616	4,713	-	471,329	
Contributions to Mercy Multiplied International, Inc.	359,790	-	-	359,790	
Room and board	496,413	-	-	496,413	
Utilities	170,678	15,144	13,140	198,962	
Special events	129,025	-	93,432	222,457	
Repairs and maintenance	104,264	11,255	5,424	120,943	
Insurance	106,855	9,481	8,226	124,562	
Professional fees	58,114	56,411	3,639	118,164	
IT outsourcing	-	91,213	-	91,213	
Marketing and public relations	68,547	-	68,546	137,093	
Travel, conferences and meetings	73,216	9,041	9,041	91,298	
Computer and equipment	71,883	6,766	5,920	84,569	
Contribution processing charges	-	73,549	-	73,549	
Miscellaneous	10,003	5,331	1,242	16,576	
Telephone	64,315	5,706	4,951	74,972	
New hire and staff development	32,551	2,888	2,506	37,945	
Automobile	23,497	2,567	-	26,064	
Interest	-	31,561	-	31,561	
Office	17,883	1,579	1,370	20,832	
Cost of resources sold	38,578	-	-	38,578	
Postage	10,727	1,783	5,348	17,858	
Total expenses before depreciation and amortization	7,234,426	699,246	544,056	8,477,728	
Depreciation and amortization	265,106	5,536	4,793	275,435	
Total expenses	\$ 7,499,532	\$ 704,782	\$ 548,849	\$ 8,753,163	

The accompanying notes are an integral part of these financial statements.

MERCY MULTIPLIED AMERICA, INC.
Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Increase in net assets	\$ 947,203	\$ 505,543
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	307,757	275,435
Cash contributions for property and equipment	(329,275)	(403,805)
Decrease (increase) in		
Contributions receivable	51,722	(96,140)
Contribution receivable - facility use	-	(46,644)
Other receivables	26,999	14,040
Inventory	(4,061)	21,052
Prepaid expenses	(14,521)	24,971
Other current assets	(19,545)	(5,010)
Increase (decrease) in		
Accounts payable	31,817	(3,206)
Accrued expenses	15,401	33,599
Total adjustments	<u>66,294</u>	<u>(185,708)</u>
Net cash provided by operating activities	<u>1,013,497</u>	<u>319,835</u>
Cash flows from investing activities		
Purchases of property and equipment	<u>(672,656)</u>	<u>(162,317)</u>
Net cash used by investing activities	<u>(672,656)</u>	<u>(162,317)</u>
Cash flows from financing activities		
Cash contributions for property and equipment	329,275	403,805
Payments on capital leases	(3,532)	-
Payments on notes payable	<u>(270,995)</u>	<u>(107,742)</u>
Net cash provided by financing activities	<u>54,748</u>	<u>296,063</u>
Net increase in cash	395,589	453,581
Cash - beginning of year	<u>1,598,014</u>	<u>1,144,433</u>
Cash - end of year	<u>\$ 1,993,603</u>	<u>\$ 1,598,014</u>
Reconciliation of cash to statements of financial position		
Cash	\$ 815,548	\$ 572,029
Cash - designated or restricted for long term purposes	<u>1,178,055</u>	<u>1,025,985</u>
	<u>\$ 1,993,603</u>	<u>\$ 1,598,014</u>

The accompanying notes are an integral part of these financial statements.

MERCY MULTIPLIED AMERICA, INC.
Notes to Financial Statements
Years Ended December 31, 2018 and 2017

NOTE 1 - ORGANIZATION AND NATURE OF ACTIVITIES

Mercy Multiplied America, Inc. (the “Ministry”) is a Tennessee not-for-profit corporation whose mission is to provide opportunities for all to experience God’s unconditional love, forgiveness, and life-transforming power. The Ministry serves this mission in two ways: through a residential program and through outreach programs and resources.

The Ministry’s residential program is provided free of charge to young women ages 13 to 32 who are struggling with life-controlling issues, including eating disorders, self-harm, drug and alcohol addictions, unplanned pregnancy, depression, sexual abuse, and sex trafficking. The program is voluntary, lasts approximately six months, and includes biblically based counseling and teaching integrated with life-skills training and educational opportunities. The goal is to help residents permanently stop destructive cycles, discover purpose for their lives, and become productive and thriving individuals. The Ministry currently operates Mercy homes in California, Louisiana, Missouri and Tennessee.

In addition to its residential program, the Ministry offers outreach programs and resources built on the same biblically based, life-transforming principles used in Mercy homes. These initiatives are designed for men and women ages 12 and up and seek to bring awareness to life-controlling issues, teach keys to lasting freedom, and share practical insights into helping others who are struggling. Outreach programs include educational events and workshops; resources include content on the Ministry’s website, podcasts, books, a biblically based study, and various teaching materials for pastors, parents, and the community at large.

The Ministry has experienced tremendous increase in the global interest and demand for its services. In order to respond to the increase in demand, during 2007 a separate not-for-profit was organized, Mercy Multiplied International, Inc. (“MMI” – formally known as Mercy Ministries International, Inc.). MMI is the custodian and owner of the Mercy Multiplied programs on a global basis. MMI provides the Ministry spiritual support and technical assistance with the ongoing operation of existing homes and the startup and initial operation of new homes. The Ministry transferred all rights to its intellectual properties to MMI upon formation.

The Ministry has a Ministry Collaboration Agreement (“MCA”) with MMI, agreeing to adhere to the standards of operation, governance, structure and commitments as defined per the MCA. As part of this agreement, the board of directors, on behalf of the Ministry, may make donations to MMI as the Ministry deems appropriate to support its efforts to spread the ministry throughout the world.

Mercy Multiplied America, Inc. operated under the name Mercy Ministries of America, Inc. until October 2015, when it changed its name to reflect its expanded outreach initiatives and commitment to “multiplying” Mercy outside of its residential homes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the Ministry have been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”), which require the Ministry to report information regarding its financial position and activities according to the following net asset classifications:

MERCY MULTIPLIED AMERICA, INC.
Notes to Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

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 Ministry. These net assets may be used at the discretion of the Ministry's management and the board of directors.

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 Ministry 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.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Contributions Receivable

Contributions receivable represent those contributions received immediately after year end that are postmarked prior to year end and pledge receivables made at fundraising events.

A contribution receivable for facility use and corresponding revenues with donor restrictions for the difference between the fair rental value of the facilities and the stated amount of lease payments have been recognized each year for the ensuing one-year period. The associated facility expense is then recorded over the lease term.

Inventory

Inventory consists of paperback copies of books written by the founder of the Ministry, jewelry and apparel. Inventory is stated at the lower of cost, determined on a first-in, first-out (FIFO) basis, or net realizable value.

Long-lived Assets

Management evaluates the recoverability of the investment in long-lived assets on an ongoing basis and recognizes any impairment in the year of determination. It is reasonably possible that relevant conditions could change in the near term and necessitate a change in management's estimate of the recoverability of these assets.

Property and Equipment and Depreciation

It is the Ministry's policy to capitalize all property and equipment over \$2,000. Property and equipment acquisitions are recorded at cost. Donations of property and equipment are recorded as revenues at their estimated fair value. Such donations are reported as revenues without donor restrictions unless the donor has restricted the donated asset to a specific purpose or for a specific time period. When depreciable assets are disposed of, the cost and related accumulated depreciation are removed from the accounts, and any gain (except on trade-in) or loss is included in the statement of activities for the period. A gain on trade-in is applied to reduce the cost of the new acquisition. Depreciation is provided over the assets' estimated useful lives using the straight-line method. Buildings and improvements are generally depreciated over seven to forty years. Equipment and furniture are depreciated over three to ten years. Vehicles are depreciated over five years. Website, software and database costs are amortized over a period of three to seven years.

MERCY MULTIPLIED AMERICA, INC.
Notes to Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accrued Absences

Employees of the Ministry are entitled to paid time off including vacation, sick days, and personal days off, depending on job classification, length of service, and other factors. The Ministry's policy is to recognize the costs of compensated absences when earned. Accrued compensated absences are included with accrued expenses on the accompanying statements of financial position and totaled \$122,633 and \$110,949 at December 31, 2018 and 2017, respectively.

Income Taxes

The Ministry is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3) and the tax laws of the state of Tennessee.

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Functional Allocation of Expenses

The costs of providing various program and supporting services of the Ministry have been summarized on a functional basis. Accordingly, certain expenses have been allocated among program (counseling and outreach), management and general, and fundraising expenses. Expenses requiring allocation on the statements of functional expenses are allocated based on management's estimate of time and effort spent.

Program expenses consist of the activities that promote the Ministry's vision, including the operation of the residential program, counseling services, Christian education, outreach initiatives, publication and media that supports the Ministry's mission and other activities that fulfill the purpose for which the Ministry exists.

Management and general expenses include oversight, business management and finance activities. These expenses are not identifiable with program or fundraising activities, but are indispensable in conducting those activities and to the Ministry's existence.

Fundraising expenses relate to those activities that promote the growth of contributions, gifts, grants, etc., including conducting fundraising campaigns and events, maintaining donor information, distributing fundraising materials and conducting other fundraising activities.

The Ministry's policy is to report all joint costs not specifically attributable to particular components of the activities, as allocated among program, management and general, and fundraising expenses.

The Ministry donates ten percent of its unrestricted cash contributions as a tithe to other organizations or individuals that are involved in activities aligned with the Ministry's mission and vision.

MERCY MULTIPLIED AMERICA, INC.
Notes to Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Accounting Pronouncement

On August 18, 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2016-14 Not-for-Profit Entities (Topic 958) *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Ministry has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

NOTE 3 - AVAILABILITY AND LIQUIDITY

The following represents the Ministry’s financial assets at December 31:

	2018	2017
Financial assets at year end:		
Cash	\$ 1,993,603	\$ 1,598,014
Contributions receivable	121,537	173,259
Other receivables	<u>826</u>	<u>27,825</u>
Total financial assets	2,115,966	1,799,098
Less amounts not available to be used within one year:		
Cash permanently restricted for working capital	\$ 550,000	\$ 550,000
Cash designated for working capital	100,000	-
Cash designated for future maintenance	191,227	181,253
Cash with donor restrictions for long term purposes	<u>336,828</u>	<u>294,732</u>
Financial assets available to meet general expenditures over the next twelve months	<u>\$ 937,911</u>	<u>\$ 773,113</u>

As part of its liquidity plan, the Ministry has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As further described in Note 10, the Ministry has a working capital fund consisting of permanently restricted donations and of internally designated operating surplus which represents additional funds available to cover fluctuations in liquidity.

MERCY MULTIPLIED AMERICA, INC.
Notes to Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

NOTE 4 - PROPERTY AND EQUIPMENT

A summary of property and equipment, net of accumulated depreciation and amortization, by location as of December 31 is as follows:

	2018	2017
St. Louis, Missouri home	\$ 2,118,303	\$ 2,112,206
Nashville, Tennessee corporate offices	1,276,700	1,254,387
Nashville, Tennessee home	995,889	834,916
Destin, Florida (undeveloped land)	1,040,525	1,040,525
Destin, Florida – development costs	164,760	82,160
Sacramento, California home	24,959	11,840
Monroe, Louisiana home	<u>185,576</u>	<u>80,361</u>
	<u>\$ 5,806,712</u>	<u>\$ 5,416,395</u>

The Ministry is leasing the Sacramento, California home from a third party (Note 9).

NOTE 5 - LAND HELD FOR SALE

Land held for sale of \$2,003,323 consists of approximately 8 acres of an 11.75 acre plot of undeveloped land in Florida. The remainder of the land is to be used for a future residential facility and is included in property and equipment.

NOTE 6 - NOTE PAYABLE

Note payable consists of the following as of December 31:

	2018	2017
Note payable to a bank, requiring monthly principal and interest payments of \$12,664 at an annual interest rate of 4.25% with all principal due March 11, 2020. The note is secured by the undeveloped and held for sale Florida land.	\$ 480,192	\$ 751,187
Less current portion	<u>(134,092)</u>	<u>(122,002)</u>
Note payable, excluding current portion	<u>\$ 346,100</u>	<u>\$ 629,185</u>

Annual principal maturities of the note payable are as follows:

Year ending December 31,	
2019	\$ 134,092
2020	<u>346,100</u>
	<u>\$ 480,192</u>

NOTE 7 - CONCENTRATIONS

The Ministry has cash balances in a bank in excess of amounts federally insured. The uninsured balances totaled approximately \$1,727,000 and \$1,320,000 at December 31, 2018 and 2017, respectively. The Ministry maintains its cash with a high quality financial institution which the Ministry believes limits these risks.

MERCY MULTIPLIED AMERICA, INC.
Notes to Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

NOTE 8 - JOINT COSTS

During the year ended December 31, 2018 and 2017, the Ministry incurred joint costs of \$211,285 and \$222,457, respectively, for special events that included both educational outreach activities and fundraising appeals. The Organization allocated \$111,976 and \$129,025, respectively, to program services, and \$99,309 and \$93,432, respectively, to fundraising.

NOTE 9 - LEASE COMMITMENTS AND RENT EXPENSE

The Ministry has entered into various operating leases for office copiers and a capital lease for computer equipment. A schedule of future minimum lease payments required under leases as of December 31, 2018 follows:

Year ending December 31,	Capital Lease	Operating Leases
2019	\$ 8,400	\$ 12,516
2020	8,400	12,516
2021	7,385	12,516
2022	<u>-</u>	<u>3,129</u>
Total minimum lease payments	24,185	<u>\$ 40,677</u>
Less: interest	<u>(2,299)</u>	
Present value of minimum lease payments	<u>\$ 21,886</u>	

The Ministry leases a residential facility in Sacramento, California under an operating lease through March 31, 2018 at which time the lease term automatically renewed for two successive one-year terms. The lease payment, \$3,000 per month, is considered a below market rental rate. For this lease, the Ministry has included on the statements of activities an in-kind rent donation with donor restrictions and expense of \$434,076 for both 2018 and 2017. Additionally, the property taxes for this facility are also donated which totaled \$41,880 for 2018 and 2017 and accordingly are included as an additional in-kind donations. The contribution receivable for facility use consists of the difference between the fair rental value of the property and the stated amount of the lease payments for the remaining one year's lease agreement period.

Rental expense was \$534,614 and \$484,109 for the years ended December 31, 2018 and 2017, respectively.

NOTE 10 - CONTINGENT LIABILITIES

In 2001, a not-for-profit entity contributed land with a value of approximately \$790,000 on which the St. Louis facility was constructed. The deed to this land contains certain restrictions which require the property to revert to the contributing not-for-profit entity if the following restrictions are not met:

- The Ministry shall remain a Christian-based residential facility for young women struggling with life-controlling issues.
- The Founder of the Ministry shall be the President of MMI and the Ministry shall continue to be affiliated with MMI.

MERCY MULTIPLIED AMERICA, INC.
Notes to Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

NOTE 11 - NET ASSETS

Net assets without donor restrictions consist of the following at December 31:

	2018	2017
Undesignated net assets without donor restrictions	\$ 7,857,200	\$ 7,079,022
Designated net assets		
Maintenance	191,227	181,293
Working capital	<u>100,000</u>	<u>-</u>
	<u>\$ 8,148,427</u>	<u>\$ 7,260,315</u>

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

	2018	2017
Time and purpose restrictions		
Development of Florida home	\$ 162,822	\$ 57,415
Nashville bathroom remodel	145,281	-
Sacramento in-kind lease	108,519	108,519
Christmas funds	55,610	49,704
Information technology equipment	17,214	3,915
Sacramento equipment	10,811	-
Staffing program	8,750	-
Scholarship fund	6,000	6,000
Leadership training	3,172	-
Development of potential Los Angeles home	-	2,849
Accounting system	1,562	-
Bibles	1,219	619
Residents	782	791
Resident database	700	1,700
Nashville furnishings	175	-
Nashville kitchen remodel	-	231,444
Nashville home education	-	292
St. Louis home furnishings	-	258
Development of potential Houston home	<u>-</u>	<u>20</u>
	522,617	463,526
Held in perpetuity, income is expendable		
Working capital fund	<u>550,000</u>	<u>550,000</u>
Total net assets with donor restrictions	<u>\$ 1,072,617</u>	<u>\$ 1,013,526</u>

The working capital fund held in perpetuity represents donations received for the Ministry's working capital fund. The intent of this fund is to allow the Ministry to have a permanent source of short term capital that eliminates the need for a line of credit. Accordingly, the Ministry uses these funds throughout the year when there are fluctuations in cash flow. The Ministry replenishes the cash balance when cash flow is available. Given the permanent nature of this arrangement, the ministry reconciles this cash balance monthly and segregates these funds on the statements of financial position as a portion of the cash designated or restricted for long term purposes.

MERCY MULTIPLIED AMERICA, INC.
Notes to Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

NOTE 11 - NET ASSETS (CONTINUED)

Net assets released from restrictions included the following for the year ended December 31:

	2018	2017
Sacramento in-kind lease	\$ 434,076	\$ 387,432
Nashville kitchen remodel	182,837	48,516
Florida home	130,469	68,150
Home operations	102,284	73,746
Christmas funds	72,285	73,395
Home projects	71,684	-
St. Louis home furnishings	45,258	-
Nashville phone system	40,000	-
Information technology equipment	26,701	23,585
Monroe kitchen remodel	15,000	-
Nashville bathroom renovation	11,719	-
Accounting system	11,138	-
Leadership training	6,828	-
Sacramento home furnishings and equipment	6,289	-
Educational scholarship fund	6,000	-
Transitional care	5,916	34,354
New staffing program	1,250	-
Resident database	1,000	200
Residents	665	1,988
Nashville home education	292	277
Outreach	-	15,725
Monroe home furnishings and equipment	-	10,343
Nashville home furnishings and equipment	-	6,470
Baby showers	-	456
Graduation rings	-	295
Bibles	-	271
	<u>\$ 1,171,691</u>	<u>\$ 745,203</u>

NOTE 12 - RELATED PARTY TRANSACTIONS

MMI was created as a separate not-for-profit organization, maintaining a separate board of directors and organizational structure from the Ministry. MMI is not reported on a consolidated basis with the Ministry.

The Ministry maintains a close working relationship with MMI with which it shares equipment, office facilities, supplies, personnel and some common members on their boards of directors. Contributions made to MMI totaled \$491,693 and \$359,790 in 2018 and 2017, respectively which includes cash contributions and reimbursement of expenses. Included in these contributions are administrative related fees charged to MMI totaling \$77,616 and \$76,515 in 2018 and 2017, respectively.

Consistent with historical giving, the Ministry made donations totaling \$25,000 in 2018 and 2017, respectively to another Christian ministry for which a member of the MMI board of directors is employed.

MERCY MULTIPLIED AMERICA, INC.
Notes to Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

NOTE 12 - RELATED PARTY TRANSACTIONS (CONTINUED)

The Ministry made donations to one of the other MMI affiliates totaling \$47,500 and \$50,500 in 2018 and 2017, respectively.

NOTE 13 - SUPPLEMENTAL DISCLOSURE OF CASH FLOWS STATEMENTS INFORMATION

	Year ending December 31,	
	2018	2017
Cash paid for interest during the year	<u>\$ 26,515</u>	<u>\$ 31,561</u>
Non-cash capital lease acquisition of property and equipment	<u>\$ 25,418</u>	<u>\$ -</u>

NOTE 14 - IN-KIND CONTRIBUTIONS

The following in-kind contributions have been included in revenues and expenses in the financial statements for the years ended December 31:

	2018	2017
Contributions with donor restrictions/expenses		
Facility rent	<u>\$ 434,076</u>	<u>\$ 434,076</u>
Contributions without donor restrictions/expenses or assets		
Property taxes	41,880	41,880
Household supplies	32,553	25,422
Special events	28,157	34,558
Professional services	16,442	16,546
Other	-	8,000
	<u>119,032</u>	<u>126,406</u>
	<u>\$ 553,108</u>	<u>\$ 560,482</u>

NOTE 15 - RECENT ACCOUNTING PRONOUNCEMENTS

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires recognition of rights and obligations arising from lease contracts, including existing and new arrangements, as assets and liabilities on the balance sheet. ASU 2016-02 is effective for annual reporting periods beginning after December 15, 2018. The Ministry's adoption of the new standard in 2019 will require quantitative and qualitative financial statement disclosures regarding the Ministry's lease arrangements and balance sheet presentation of right of use assets and lease liabilities representative of the Ministry's discounted future lease payments. The Ministry is currently evaluating the effect that implementation of the new standard will have on its financial statements in the subsequent years.

MERCY MULTIPLIED AMERICA, INC.
Notes to Financial Statements (Continued)
Years Ended December 31, 2018 and 2017

NOTE 16 - EVALUATION OF SUBSEQUENT EVENTS

The Ministry has evaluated subsequent events through May 31, 2019 which is the date the financial statements were available to be issued.

On January 1, 2019, the Ministry adopted a 401(k) retirement plan for its employees which allows the Ministry to make discretionary, matching contributions on behalf of the participating employees.