

MERCY'S GATE

FINANCIAL STATEMENTS

WITH

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

YEAR ENDED DECEMBER 31, 2019

OSBORNE, PARSONS & ROSACKER, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Directors
Mercy's Gate
Colorado Springs, Colorado

We have reviewed the accompanying financial statements of Mercy's Gate (Organization) (a nonprofit organization), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities, functional expense, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountants' Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the American Institute of Certified Public Accountants (AICPA). Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles general accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in the notes to the financial statements, in 2019 Mercy's Gate adopted Financial Accounting Standards Board Accounting Standards Updates (ASU) 2014-09, *Revenue from contracts with Customers* (Topic 606) and 2018-08, *Not-for-Profit Entities* (Topic 958) – *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. Our conclusion is not modified with respect to these matters.

Other Matter

Summarized Comparative Information

We previously reviewed the Organization's 2018 financial statements and in our conclusion dated June 28, 2019, stated that based on our review, we were not aware of any material modifications that should be made to the 2018 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. We are not aware of any material modifications that should be made to the summarized comparative information presented herein as of and for the year ended December 31, 2018, for it to be consistent with the reviewed financial statements from which it has been derived.

Osborne, Parsons & Norcia LLP

Colorado Springs, Colorado
June 1, 2020

MERCY'S GATE
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2019
With Comparative Totals for 2018

ASSETS

	2019	2018
Current Assets		
Cash	\$ 363,216	\$ 311,825
Accounts Receivable	-	975
Contributions Receivable	27,341	30,500
Inventory	2,698	801
Total Current Assets	393,255	344,101
Non-current Assets		
Lease Deposits	4,000	4,000
Fixed Assets, Net	58,452	61,501
Total Non-current Assets	62,452	65,501
 Total Assets	 \$ 455,707	 \$ 409,602

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts Payable	\$ 1,591	\$ 4,034
Accrued Expenses	11,260	8,238
Total Current Liabilities	12,851	12,272
 Net Assets		
Without Donor Restrictions	367,752	309,147
With Donor Restrictions	75,104	88,183
Total Net Assets	442,856	397,330
 Total Liabilities and Net Assets	 \$ 455,707	 \$ 409,602

See Independent Accountants' Review Report and Notes to the Financial Statements

MERCY'S GATE
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2019
With Comparative Totals for 2018

	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>	
	<u>Restrictions</u>	<u>Restrictions</u>	<u>2019</u>	<u>2018</u>
Revenue and Support				
Contributions and Grants	\$ 452,233	\$ 129,508	\$ 581,741	\$ 584,523
Energy Outreach Colorado Grant	-	-	-	15,750
In-kind Contributions	979,020	-	979,020	951,151
Interest Income	390	-	390	33
Other Income	3,545	-	3,545	2,404
Net Assets Released from Restrictions				
Satisfaction of Program Restrictions	112,087	(112,087)	-	-
Satisfaction of Time Restrictions	30,500	(30,500)	-	-
Total Revenue and Support	<u>1,577,775</u>	<u>(13,079)</u>	<u>1,564,696</u>	<u>1,553,861</u>
Expense				
Program	<u>1,311,468</u>	<u>-</u>	<u>1,311,468</u>	<u>1,263,656</u>
Support				
General and Administrative	122,360	-	122,360	108,536
Fundraising	85,342	-	85,342	67,498
Total Support	<u>207,702</u>	<u>-</u>	<u>207,702</u>	<u>176,034</u>
Total Expenses	<u>1,519,170</u>	<u>-</u>	<u>1,519,170</u>	<u>1,439,690</u>
Change in Net Assets	58,605	(13,079)	45,526	114,171
Beginning Net Assets	<u>309,147</u>	<u>88,183</u>	<u>397,330</u>	<u>283,159</u>
Ending Net Assets	<u>\$ 367,752</u>	<u>\$ 75,104</u>	<u>\$ 442,856</u>	<u>\$ 397,330</u>

See Independent Accountants' Review Report and Notes to the Financial Statements

MERCY'S GATE
STATEMENT OF FUNCTIONAL EXPENSE
YEAR ENDED DECEMBER 31, 2019
With Comparative Totals for 2018

	Support			Total	
	Program	General and Administrative	Fundraising	2019	2018
Salaries	\$ 90,959	\$ 59,321	\$ 47,457	\$ 197,737	\$ 164,413
Payroll Taxes and Benefits	14,121	9,209	7,367	30,697	16,020
	<u>105,080</u>	<u>68,530</u>	<u>54,824</u>	<u>228,434</u>	<u>180,433</u>
Occupancy	42,581	11,355	2,839	56,775	56,340
Rental Assistance	64,778	-	-	64,778	67,160
Energy Outreach Colorado	-	-	-	-	15,471
Health Assistance	40,148	-	-	40,148	31,331
Repairs and Maintenance	-	3,137	-	3,137	16,317
Office Expense	6,389	5,750	16,738	28,877	23,576
Depreciation	10,751	2,867	717	14,335	11,722
Professional Fees	-	17,657	-	17,657	15,119
Food Assistance	22,788	-	-	22,788	6,098
Transportation Assistance	9,521	-	-	9,521	9,471
Insurance	4,666	1,244	311	6,221	7,008
Other Program Assistance	17,387	-	-	17,387	9,768
Technology	6,177	4,324	3,022	13,523	9,304
Telephone and Internet	3,515	1,465	879	5,859	4,825
Postage and Shipping	418	186	1,044	1,648	1,732
Miscellaneous	4,382	1,169	292	5,843	9,929
Marketing and Promotion	-	-	-	-	235
Volunteer Training	432	-	-	432	2,000
Contracted Services	-	4,676	4,676	9,352	10,700
	<u>233,933</u>	<u>53,830</u>	<u>30,518</u>	<u>318,281</u>	<u>308,106</u>
Total Before In-kind Expenses	<u>339,013</u>	<u>122,360</u>	<u>85,342</u>	<u>546,715</u>	<u>488,539</u>
In-kind					
Volunteer Income Tax Assistance	353,250	-	-	353,250	360,000
Food Pantry	268,515	-	-	268,515	261,365
Utilities (COPE)	209,354	-	-	209,354	192,224
Donated Rent	14,400	-	-	14,400	14,400
Other Goods and Services	32,676	-	-	32,676	34,350
Pastoral Nurse	44,164	-	-	44,164	44,164
Cothing Vouchers	15,505	-	-	15,505	13,835
Holiday Baskets	34,591	-	-	34,591	30,813
Total In-kind	<u>972,455</u>	<u>-</u>	<u>-</u>	<u>972,455</u>	<u>951,151</u>
Total - 2019	<u>\$ 1,311,468</u>	<u>\$ 122,360</u>	<u>\$ 85,342</u>	<u>\$ 1,519,170</u>	
Percent of Total Expense - 2019	<u>86.33%</u>	<u>8.05%</u>	<u>5.62%</u>	<u>100.00%</u>	
Total - 2018	<u>\$ 1,263,656</u>	<u>\$ 108,536</u>	<u>\$ 67,498</u>		<u>\$ 1,439,690</u>
Percent of Total Expense - 2018	<u>87.77%</u>	<u>7.54%</u>	<u>4.69%</u>		<u>100.00%</u>

See Independent Accountants' Review Report and Notes to the Financial Statements

MERCY'S GATE
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2019
With Comparative Totals for 2018

	2019	2018
Cash Flows from Operating Activities		
Change in Net Assets	\$ 45,526	\$ 114,171
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities		
Depreciation Expense	14,335	11,772
Changes in Operating Assets and Liabilities		
Accounts Receivable	975	(975)
Contributions Receivable	3,159	2,000
Inventory	(1,897)	2,266
Accounts Payable	(2,443)	(1,846)
Accrued Expenses	3,022	164
Net Cash Provided by Operations	62,677	127,552
Cash Flows from Investing Activities		
Purchase of Fixed Assets	(11,286)	(3,589)
Net Cash Used by Investing Activities	(11,286)	(3,589)
Change in Cash	51,391	123,913
Beginning Cash	311,825	187,912
Ending Cash	\$ 363,216	\$ 311,825

See Independent Accountants' Review Report and Notes to the Financial Statements

MERCY'S GATE
NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities - Mercy's Gate (Organization), formerly Northern Churches Care, a Colorado nonprofit corporation, is a faith-based organization supported by churches and charitable organizations to provide tangible and intangible resources (physical, financial, and spiritual) to enable those in need of short-term assistance to become physically and financially self-sufficient. Resource assistance provided by the Organization includes, but is not limited to, food, personal hygiene items, household products, and financial assistance through the means of vouchers or organization check disbursements on behalf of the individual in need.

Income Taxes - The Organization is exempt under Section 501(c)(3) of the Internal Revenue Code from tax on income derived from donations, income generated by activities carried on in furtherance of its exempt purpose and certain other specified income and, in addition, is qualified to receive tax deductible contributions. The Organization has been determined to be a publicly supported organization and not to be a private foundation.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents - For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Contributions Receivable - Contributions receivable are reported at the amount the Organization expects to collect on balances outstanding at year-end. Management closely monitors outstanding balances and establishes an allowance for doubtful accounts, as necessary.

Inventory - Inventory consists of donated gift cards recorded at cash value.

Fixed Assets and Depreciation - The Organization capitalizes property and equipment over \$500. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies net assets with restrictions to net assets without restrictions at that time. Property and equipment are depreciated using the straight-line method over estimated useful lives ranging from three to ten years.

Net Assets - Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

MERCY'S GATE
NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets with Donor Restrictions – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue and Revenue Recognition – Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Contributions – Contributions received are recorded as with donor restrictions or without donor restrictions depending on the existence or nature of any donor restrictions.

Donated Services and Facilities - The value of donated services is recorded if the services received create or enhance a non-financial asset or require specialized skills that would typically need to be purchased if not provided by donation. Donated services meeting the above criteria, as well as donated facilities, and other items are reflected as contributions in-kind in the accompanying statements at the estimated fair values at the date of receipt.

Functional Allocation of Expenses – The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Reclassifications – Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

MERCY'S GATE
NOTES TO FINANCIAL STATEMENTS

New Accounting Pronouncement – On May 28, 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). This guidance supersedes or replaces nearly all GAAP revenue recognition guidance. These standards establish a new contract and control-based revenue recognition model, change the basis for deciding when revenue is recognized over time or at a point in time, and expand disclosures about revenue. We have analyzed the provisions of Topic 606 and have concluded that no changes are necessary to conform with the new standard.

In June 2018, FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958) – *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The update assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. The adoption of this new guidance did not have a material impact on the Organization's financial statements.

NOTE 1 – AVAILABILITY AND LIQUIDITY

The Organization has \$390,557 of financial assets available, within one year of the balance sheet date, consisting of cash, in the amount of \$363,216, and contributions receivable, in the amount of \$27,341. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. The contributions receivable are subject to time restrictions but will be collected within one year. The Organization has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 180 days of normal operating expenses, which are, on average, approximately \$270,000.

NOTE 2 – CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the Organization's deposits may not be returned to it. The Organization has not adopted a deposit policy for custodial credit risk. At December 31, 2019, \$87,021 of the Organization's deposits were exposed to credit risk.

At December 31, 2019, the Organization's cash deposits had bank balances of \$337,021 and carrying balances of \$330,074.

NOTE 3 – COMPARATIVE INFORMATION

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended **December 31, 2018**, from which the summarized information was derived.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of the Organization's financial instruments approximates their fair values.

MERCY'S GATE
NOTES TO FINANCIAL STATEMENTS

NOTE 5 – ACCOUNTS, CONTRIBUTIONS AND GRANTS RECEIVABLE

All accounts, contributions and grants receivable are due within one year. Management expects full collection of all outstanding receivables; therefore, no allowance for doubtful accounts has been established.

NOTE 6 – INVENTORY

Inventory consists of:

Gift Cards	<u>\$ 2,698</u>
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NOTE 7 – FIXED ASSETS

Fixed assets consist of:

		<u>Estimated Useful Lives</u>
Leasehold Improvements	\$ 87,824	10 Years
Fixtures and Equipment	11,795	3-5 Years
Donated Vehicles	6,564	5 Years
Less Accumulated Depreciation	<u>(47,731)</u>	
	<u>\$ 58,452</u>	

Depreciation expense for 2019 was \$14,335.

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restriction activity is:

<u>Description</u>	<u>Beginning Balance</u>	<u>Received</u>	<u>Satisfied</u>	<u>Ending Balance</u>
Capital Campaign	\$ 1,650	\$ -	\$ -	\$ 1,650
Direct Services	7,500	-	(7,500)	-
Legal Liability Insurance	790	-	(790)	-
Utilities Assistance	341	-	-	341
Rent Assistance	38,508	42,758	(50,028)	31,238
Pantry	-	13,870	(11,817)	2,053
Medical Assistance	4,453	41,698	(37,681)	8,470
Thanksgiving Program	676	2,750	(2,579)	847
School Supplies	3,765	1,091	(1,692)	3,164
Time Restricted	30,500	27,341	(30,500)	27,341
	<u>\$ 88,183</u>	<u>\$ 129,508</u>	<u>\$ (142,587)</u>	<u>\$ 75,104</u>

MERCY'S GATE
NOTES TO FINANCIAL STATEMENTS

NOTE 9 – CONTRIBUTED SERVICES

During 2019, the Organization recorded the following contributed services:

<u>Description</u>	<u>Amount</u>
Pastoral Nurse	\$ 44,164
Volunteer Income Tax Assistance	353,250
Total Contributed Services	<u>\$ 397,414</u>

The Organization utilized rent-free space for some operations. The estimated fair value of the annual rent for the donated space is \$14,400. In addition, volunteers, whose time did not qualify for recording in these financial statements, donated approximately 10,600 hours of time with an estimated value of \$270,500.

NOTE 10 – OPERATING LEASES

The Organization leased office space for \$4,150 per month from January to September 2019 and \$4,250 per month from October to December 2019. Rent expense for the year ended December 31, 2019 totaled \$50,100.

Future minimum payments for the office space lease are:

<u>Year</u>	<u>Amount</u>
2020	\$ 51,000
2021	38,250
	<u>\$ 89,250</u>

NOTE 11 – RELATED PARTIES

The Organization's Board members contributed \$5,270 to the Organization during 2019.

NOTE 12 – INFORMATION RETURNS

The Organization's information returns are subject to examination by taxing authorities for a period of three years from the date they are filed. As of December 31, 2019, the information returns for three prior years are considered open for Internal Revenue Service examination.

NOTE 13 – ALLOCATION OF FUNCTIONAL EXPENSE

The financial statements report certain categories of expense that are attributable to one or more program or supporting functions of the Organization. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, occupancy, office expenses, and depreciation on the basis of usage of time, physical space, or materials, as appropriate.

MERCY'S GATE
NOTES TO FINANCIAL STATEMENTS

NOTE 14 – CONTINGENCIES

During 2019 the Organization was aware of a prior employee who filed a lawsuit against the Organization. The Organization has retained legal counsel, but as of the date of the financial statements a potential liability relating to any outcome has not been estimated by management. The Organization has insurance that will cover any potential losses and the financial impact on the Organization would be limited to any deductibles.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 1, 2020, the date on which the financial statements were available to be issued.

Coronavirus (COVID-19) Pandemic

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to a number of other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, several states in the U.S., have declared a state of emergency.

Potential impacts to the Organization include disruptions or restrictions on our ability to provide tangible and intangible resources (physical, financial, and spiritual) to enable those in need of short-term assistance to become physically and financially self-sufficient. We cannot anticipate all of the ways in which health pandemics such as COVID-19 could adversely impact Mercy's Gate. Although we are continuing to monitor and assess the effects of the COVID-19 pandemic on Mercy's Gate, the ultimate impact of the COVID-19 outbreak or a similar health pandemic is highly uncertain and subject to change.