

**MISSION OF MERCY ARIZONA
HEALTH PARTNERSHIP FUND**

**YEARS ENDED
JUNE 30, 2020 AND 2019**



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

A Professional Corporation

MISSION OF MERCY ARIZONA HEALTH PARTNERSHIP FUND

YEARS ENDED JUNE 30, 2020 AND 2019

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Independent Auditor's Report

Board of Directors
Mission of Mercy Arizona Health Partnership Fund
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying financial statements of Mission of Mercy Arizona Health Partnership Fund (a nonprofit organization), which comprise the statements of financial position as of June 30, 2020 and 2019, 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 Mission of Mercy Arizona Health Partnership Fund as of June 30, 2020 and 2019, 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.

Brown Schultz Steindler & Fritz

Frederick, Maryland
November 3, 2020

MISSION OF MERCY ARIZONA HEALTH PARTNERSHIP FUND

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 25,767	\$ 6,774
Unconditional promises to give (less allowance for uncollectible promises of \$1,918 and \$311, respectively)	<u>14,647</u>	<u>2,004</u>
Total current assets	<u>40,414</u>	<u>8,778</u>
Other assets, unconditional promises to give (less allowance for uncollectible promises of \$3,227 and \$7,549, respectively)	<u>24,330</u>	<u>46,388</u>
Total assets	<u>\$ 64,744</u>	<u>\$ 55,166</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 112	\$ 616
Accrued expenses	<u>592</u>	<u>961</u>
Total current liabilities	<u>704</u>	<u>1,577</u>
Net assets:		
Without donor restrictions	25,063	5,197
With donor restrictions	<u>38,977</u>	<u>48,392</u>
Total net assets	<u>64,040</u>	<u>53,589</u>
Total liabilities and net assets	<u>\$ 64,744</u>	<u>\$ 55,166</u>

See notes to financial statements.

MISSION OF MERCY ARIZONA HEALTH PARTNERSHIP FUND

STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019		
	Without donor restrictions	With donor restrictions	Total	Without donor restrictions	With donor restrictions	Total
Support:						
Contributions	\$ 127,903	\$ 5,665	\$ 133,568	\$ 91,695	\$ 27,264	\$ 118,959
Donated services	4,000		4,000	3,000		3,000
Restrictions satisfied by payments	15,080	(15,080)	-	20,386	(20,386)	-
Total support	146,983	(9,415)	137,568	115,081	6,878	121,959
Expenses:						
Program service	97,467		97,467	83,093		83,093
Management and general	22,136		22,136	20,169		20,169
Fundraising	7,514		7,514	15,730		15,730
Total expenses	127,117		127,117	118,992		118,992
Change in net assets	19,866	(9,415)	10,451	(3,911)	6,878	2,967
Net assets, beginning of year	5,197	48,392	53,589	9,108	41,514	50,622
Net assets, end of year	\$ 25,063	\$ 38,977	\$ 64,040	\$ 5,197	\$ 48,392	\$ 53,589

See notes to financial statements.

MISSION OF MERCY ARIZONA HEALTH PARTNERSHIP FUND

STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2020 AND 2019

	2020			2019				
	Supporting services			Supporting services				
	Program service	Management and general	Fundraising	Totals	Program service	Management and general	Fundraising	Totals
Salaries		\$ 4,392	\$ 3,045	\$ 7,437		\$ 4,784	\$ 3,653	\$ 8,437
Employee benefits		494	517	1,011		1,222	66	1,288
Payroll taxes		331	229	560		518	221	739
Consultants			1,400	1,400				
Grants to supported organization	\$ 97,467			97,467	\$ 83,093			83,093
Insurance		885		885		885		885
Occupancy		3,048		3,048		3,031		3,031
Office expenses		3,586	1,000	4,586		2,390	2,357	4,747
Postage and printing			1,323	1,323			8,618	8,618
Professional fees		9,400		9,400		7,300	775	8,075
Travel and entertainment						39	40	79
Total expenses	\$ 97,467	\$ 22,136	\$ 7,514	\$ 127,117	\$ 83,093	\$ 20,169	\$ 15,730	\$ 118,992

See notes to financial statements.

MISSION OF MERCY ARIZONA HEALTH PARTNERSHIP FUND

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Inflows, receipts from contributions	<u>\$ 142,983</u>	<u>\$ 112,081</u>
Outflows:		
Payments to:		
Employees	7,806	8,428
Suppliers	18,717	24,206
Grants to supported organization	<u>97,467</u>	<u>83,093</u>
	<u>123,990</u>	<u>115,727</u>
Net cash provided (used) by operating activities	<u>18,993</u>	<u>(3,646)</u>
Net increase (decrease) in cash and cash equivalents	18,993	(3,646)
Cash and cash equivalents:		
Beginning of year	<u>6,774</u>	<u>10,420</u>
End of year	<u>\$ 25,767</u>	<u>\$ 6,774</u>

See notes to financial statements.

MISSION OF MERCY ARIZONA HEALTH PARTNERSHIP FUND

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2020 AND 2019

1. Summary of accounting policies:

Nature of activities:

Mission of Mercy Arizona Health Partnership Fund (the Organization) is a nonprofit organization, which operates exclusively for the benefit of its parent organization, Mission of Mercy, Inc. The Organization was established as of August 2, 2016, and the Internal Revenue Service recognized the Organization as a public charity as of that date. Contributions to the Organization qualify for the Credit for Contributions to Qualifying Charitable Organizations for Arizona personal income tax purposes.

Basis of accounting:

The financial statements of the Organization have been prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables and other liabilities.

Cash and cash equivalents:

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

Unconditional promises to give:

Contributions are recognized at their fair value when the donor makes a promise to give to the Organization that is, in substance, unconditional. Gains and losses from changes in fair value are included in the contributions line of the statements of activities. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of their future cash flows, as management believes that this is the most accurate method of reporting the receivables and related revenues. The effect of the change in the market interest rate and historical trends of collection and the corresponding changes in fair value of unconditional promises to give resulted in an increase in contributions revenue of \$2,241 and \$1,782 for the years ended June 30, 2020 and 2019, respectively.

Contributions:

Support is recorded as net assets without donor restrictions or net assets with donor restrictions depending on the existence and/or nature of any donor restrictions.

MISSION OF MERCY ARIZONA HEALTH PARTNERSHIP FUND

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2020 AND 2019

1. Summary of accounting policies (continued):

Contributions:

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor restrictions support that increases the applicable net asset class. However, if a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as net assets without donor restrictions.

All other donor-restricted support is 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 restrictions satisfied by payment.

Management has determined the Organization's contributions are considered nonexchange transactions, and therefore, are recognized when a promise to give becomes unconditional.

Donated services:

Donated services are recognized as contributions if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Organization. For the years ended June 30, 2020 and 2019, the Organization recognized donated professional services valued at \$4,000 and \$3,000, respectively. The Organization valued these services using the specific charitable write-downs from professional services invoices.

Net assets:

The Organization reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions are resources available to support operations.

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Resources may also be received with donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction, nor by the passage of time.

MISSION OF MERCY ARIZONA HEALTH PARTNERSHIP FUND

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2020 AND 2019

1. Summary of accounting policies (continued):

Functional expenses:

The costs of providing the various program and supporting services have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification of expenses by function. Accordingly, certain costs have been allocated among the supporting services. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Organization.

Advertising:

The Organization follows the policy of charging costs of advertising to expense as incurred. For the years ended June 30, 2020 and 2019, advertising expense, presented in office expenses, totaled \$1,000 and \$2,357, respectively.

Tax-exempt status:

The Organization is incorporated under the laws of the State of Arizona as a nonprofit organization. The Organization has elected under provisions of Internal Revenue Code (IRC) Section 501(c)(3) and state income tax statutes to be excluded from taxes on exempt function income. Therefore, no provision is made for taxes on income.

The Organization is a Type I supporting organization under IRC Section 509(a)(3), and is operated, supervised and controlled by its parent organization, Mission of Mercy, Inc.

Estimates:

Management uses estimates and assumptions in preparing the financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Reclassifications:

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

MISSION OF MERCY ARIZONA HEALTH PARTNERSHIP FUND

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2020 AND 2019

2. New accounting pronouncements adopted:

The Organization adopted the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-18, *Statement of Cash Flows (Topic 230)*, as of July 1, 2019. The objective of this standard is to unify presentation requirements of restricted cash and restricted cash equivalents in the statements of cash flows. Amounts described as restricted cash and restricted cash equivalents are included with cash and cash equivalents when presented on the statements of cash flows. The Organization applied the standard retrospectively to the year ended June 30, 2019 with no changes to financial statement presentation or disclosure.

Effective July 1, 2019, the Organization adopted the requirements of FASB ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which assists entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and determining whether a contribution is conditional. The Organization applied the standard on a modified prospective basis to agreements that were not completed as of July 1, 2019 or entered into after July 1, 2019, with no changes to financial statement presentation or disclosure.

3. Cash and cash equivalents:

The Organization maintains its cash deposits in a financial institution. Cash deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2020, the Organization had no amounts in excess of insured limits.

4. Financial assets and liquidity resources:

The following reflects the Organization's financial assets, reduced by amounts not available for general use because of donor-imposed restrictions within one year of June 30:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 25,767	\$ 6,774
Unconditional promises to give, current portion	<u>14,647</u>	<u>2,004</u>
	40,414	8,778
Less those unavailable for general expenditures within one year, due to contractual or donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	<u>14,647</u>	<u>2,004</u>
	<u>\$ 25,767</u>	<u>\$ 6,774</u>

MISSION OF MERCY ARIZONA HEALTH PARTNERSHIP FUND

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2020 AND 2019

4. Financial assets and liquidity resources (continued):

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

5. Unconditional promises to give:

The Organization uses a fundraising model that has resulted in receiving unconditional promises to give over time to benefit the Organization. As of June 30, 2020, collections were expected pertaining to multi-year commitments as follows:

Less than one year	\$ 16,565
One to five years	<u>27,862</u>
	44,427
Less:	
Discounts to net present value (see Note 7)	305
Allowance for uncollectible promises receivable (see Note 7)	<u>5,145</u>
Net unconditional promises to give	<u><u>\$ 38,977</u></u>

6. Net assets with donor restrictions:

As of June 30, 2020 and 2019, net assets with donor restrictions were \$38,977 and \$48,392, respectively. The restrictions are in place because these are net unconditional promises to give, and although the funds are not restricted for a specific purpose, they cannot be spent until the Organization receives the donations.

7. Fair value measurements:

The Organization uses a framework for measuring fair value that prioritizes the inputs to valuation techniques used to measure fair value using a fair value hierarchy. The following are the major categories of assets measured at fair value on a recurring basis during the years ended June 30, 2020 and 2019: those using quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2) and significant unobservable inputs (Level 3). The Organization has no assets categorized as Level 1 or Level 3.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs

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NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2020 AND 2019

7. Fair value measurements (continued):

The Organization values unconditional promises to give using the income approach, which utilizes valuation techniques (the present value method, a Level 2 measurement) to convert future amounts to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. The Organization discounts future cash flows by the risk-free interest rate of 0.66 % and 2.02% as of June 30, 2020 and 2019, respectively, to determine the net present value of the promises to give. The carrying amount of these unconditional promises to give is reduced by an additional valuation allowance that reflects the Organization's best estimate of collectability, determined principally on the basis of Mission of Mercy, Inc.'s historical experience while also recognizing the good faith and reliability of its donors. As of June 30, 2020 and 2019, unconditional promises to give to the Organization were discounted by an additional 11.58% and 13.43%, respectively.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

8. Related party transactions:

As disclosed in Note 1, the Organization operates exclusively for the benefit of its parent organization, Mission of Mercy, Inc. The Organization's Board of Directors is appointed by the Board of Directors of Mission of Mercy, Inc. Employees of Mission of Mercy, Inc. provide services to the operations of the Organization, and Mission of Mercy, Inc. allocates a portion of certain expenses that relate to the Organization's operations. In both cases, Mission of Mercy, Inc. initially pays the expense, and the Organization reimburses Mission of Mercy, Inc. For the years ended June 30, 2020 and 2019, the total reimbursed to Mission of Mercy, Inc. for expenses was \$22,433 and \$30,453, respectively.

For the years ended June 30, 2020 and 2019, the total contributed to Mission of Mercy, Inc. was \$97,467 and \$83,093, respectively, and was recorded as a grant to supported organization.

9. Risks and uncertainties:

During the COVID-19 pandemic, the Organization's services have generally been considered essential in nature and have not been materially interrupted. As the situation continues to evolve, the Organization is closely monitoring the impact of the COVID-19 pandemic on all aspects of our business, including how it impacts our community, vendors and employees. We believe the ultimate impact of the COVID-19 pandemic on the Organization's operating results, cash flows and financial condition is likely to be determined by factors which are uncertain, unpredictable and outside of its control. The situation surrounding COVID-19 remains fluid, and if disruptions do arise, they could materially and financially adversely impact the Organization's business.

MISSION OF MERCY ARIZONA HEALTH PARTNERSHIP FUND

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2020 AND 2019

10. Subsequent events:

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 3, 2020, the date the financial statements were available to be issued.