

**HOUSE OF MERCY, INC.**

**FINANCIAL STATEMENTS**

**As of and for the Year Ended June 30, 2021**

**And**

**Independent Accountant's Review Report**

**HOUSE OF MERCY, INC.**

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## INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors of  
House of Mercy, Inc.  
Belmont, North Carolina

I have reviewed the accompanying financial statements of House of Mercy, Inc. (a nonprofit corporation), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities and changes in net assets 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, I 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.

### **Accountant's Responsibility**

My 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 AICPA. Those standards require me to perform procedures to obtain limited assurance as a basis for reporting whether I am aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. I believe that the results of my procedures provide a reasonable basis for my conclusion.

### **Accountant's Conclusion**

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

### **Summarized Comparative Information**

I previously reviewed House of Mercy Inc's 2020 financial statements and in my conclusion dated November 18, 2020, stated that based on my review, I was not aware of any material modifications that should be made to the 2020 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America. I am not aware of any material modifications that should be made to the summarized comparative information presented herein as of and for the year ended June 30, 2020, for it to be consistent with the reviewed financial statements from which it has been derived.

*William L. Woody, Jr., CPA*

Gastonia, North Carolina  
January 14, 2022

# House of Mercy, Inc.

## Statement of Financial Position

June 30, 2021

(With Comparative Totals as of June 30, 2020)

(See Independent Accountant's Review Report)

	<u>2021</u>	<u>2020</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 416,313	\$381,024
Investments	1,616,446	1,240,769
Accounts receivable	31,000	33,441
Interest receivable	-	-
Prepaid expenses	10,706	2,899
<b>Total current assets</b>	<u>2,074,465</u>	<u>1,658,133</u>
<b>Property and equipment</b>		
Furniture and fixtures	48,935	48,935
Equipment	166,596	166,596
Vehicles	67,334	67,334
Building improvements	132,737	132,737
Total property and equipment	415,602	415,602
Less accumulated depreciation	(330,917)	(311,417)
<b>Net property and equipment</b>	<u>84,685</u>	<u>104,185</u>
<b>Other assets</b>	<u>5,000</u>	<u>5,000</u>
<b>Total assets</b>	<u>\$ 2,164,150</u>	<u>\$ 1,767,318</u>
<b>Liabilities and net assets</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 20,268	\$ 18,674
Accrued expenses	35,614	32,445
Deferred grant revenue	0	129,603
<b>Total current liabilities</b>	<u>55,882</u>	<u>180,722</u>
<b>Net assets</b>		
Without donor restrictions	2,078,850	1,586,596
With donor restrictions	29,418	-
<b>Total net assets</b>	<u>2,108,268</u>	<u>1,586,596</u>
<b>Total liabilities and net assets</b>	<u>\$ 2,164,150</u>	<u>\$ 1,767,318</u>

See accompanying footnotes to financial statements

## House of Mercy, Inc.

Statement of Activities and Changes in Net Assets  
Year Ended June 30, 2021  
(With Comparative Totals for the Year Ended June 30, 2020)  
(See Independent Accountant's Review Report)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Totals	Totals
<b>Support, revenue, and gains</b>				
Related party contributions	\$ 267,340	\$ -	\$ 267,340	\$ 267,340
Donations	102,914	-	102,914	95,274
Corporate and foundation grants	409,053	50,000	459,053	217,740
Resident fees	49,840	-	49,840	82,724
Special events	38,029	-	38,029	50,186
Resident service income	58,913	-	58,913	30,620
Donated facilities	47,446	-	47,446	46,064
Investment return	375,784	-	375,784	129,489
Other income	1,431	-	1,431	664
	<u>1,350,750</u>	<u>50,000</u>	<u>1,400,750</u>	<u>920,101</u>
Net assets released from restrictions-satisfaction of donor restrictions	20,582	(20,582)	-	-
<b>Total support, revenue, and gains</b>	<u>1,371,332</u>	<u>29,418</u>	<u>1,400,750</u>	<u>920,101</u>
<b>Expenses</b>				
Program expenses	642,569	-	642,569	644,749
Supporting services:				
Management and general	176,818	-	176,818	162,674
Fundraising	59,691	-	59,691	63,553
<b>Total expenses</b>	<u>879,078</u>	<u>-</u>	<u>879,078</u>	<u>870,976</u>
<b>Change in net assets</b>	492,254	29,418	521,672	49,125
<b>Net assets</b>				
Beginning of year	<u>1,586,596</u>	<u>-</u>	<u>1,586,596</u>	<u>1,537,471</u>
End of year	<u>\$ 2,078,850</u>	<u>\$ 29,418</u>	<u>\$ 2,108,268</u>	<u>\$ 1,586,596</u>

## House of Mercy, Inc.

Statement of Cash Flows  
Year Ended June 30, 2021  
(With Comparative Totals for the Year Ended June 30, 2020)  
(See Independent Accountant's Review Report)

	<u>2021</u>	<u>2020</u>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 521,672	\$ 49,125
Adjustments to reconcile change in net assets to net cash from operating activities		
Net realized and unrealized gain	(365,757)	(117,633)
Depreciation	19,498	25,624
Changes in operating assets and liabilities:		
Accounts receivable	2,441	(5,267)
Interest receivable	-	1,198
Prepaid expenses	(7,807)	6,640
Accounts payable	1,594	11,976
Accrued expenses	3,169	(2,194)
Deferred grant revenue	(129,603)	129,603
<b>Net cash from operating activities</b>	<u>45,207</u>	<u>99,072</u>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	1,079,315	1,223,225
Purchases of investments	(1,089,233)	(1,132,076)
Purchases of property and equipment	-	(32,537)
<b>Net cash from (used in) investing activities</b>	<u>(9,918)</u>	<u>58,612</u>
<b>Net increase in cash and cash equivalents</b>	35,289	157,684
<b>Cash and cash equivalents</b>		
Beginning of year	<u>381,024</u>	<u>223,340</u>
End of year	<u>\$ 416,313</u>	<u>\$ 381,024</u>

# House of Mercy, Inc.

Notes to Financial Statements  
As of and for the Year Ended June 30, 2021  
(See Independent Accountant's Review Report)

## Note 1 – Business activity and summary of significant accounting policies

*Nature of Operations* - House of Mercy, Inc. (the "Organization") is a non-profit corporation under the laws of North Carolina. The Organization provides housing and care for terminally ill persons affected with Acquired Immune Deficiency Syndrome. In conducting its activities, the Organization must comply with the approved ethical and religious directives for Catholic Healthcare Services of the National Conference of Catholic Bishops.

*Basis of presentation* - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The financial statements report amounts separately by net asset classification. A summary of these classifications follows:

*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 Organization. These net assets may be used at the discretion of the Organization's management and the Board of Directors. The Organization has chosen to provide further classification information about net assets without donor restrictions in the notes to the financial statements. The sub classifications are as follows:

*Board-Designated* – Represents resources set aside by the Board of Trustees to be used for specific activities within guidelines established by the Board of Directors.

*Undesignated* – Represents the cumulative net assets without donor restrictions excluding those net assets designated for specific activities.

*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 Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

At June 30, 2021, the Organization had no net assets with board-designations. The Organization had \$29,418 of donor-restricted net assets and no net assets with donor restrictions to be maintained in perpetuity at June 30, 2021.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Net assets released from restrictions during the year ended June 30, 2021 were for program services.

*Cash and cash equivalents* - The Organization considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. Certificates of deposit, regardless of maturity, are considered investments.

# House of Mercy, Inc.

Notes to Financial Statements  
As of and for the Year Ended June 30, 2021  
(See Independent Accountant's Review Report)

## **Note 1 – Business activity and summary of significant accounting policies (continued)**

*Receivables* – Receivables consist principally of grants, donations, interest, and related party amounts and are stated less an allowance for doubtful accounts, if applicable. Management's determination of the allowance for doubtful accounts is based on an evaluation of the accounts receivable, past experience, current economic conditions and other risks inherent in the accounts receivable portfolio. Management does not believe any allowance for doubtful accounts is necessary as of June 30, 2021. Interest receivable represents accrued interest earned on certificates of deposits.

*Investments* - Investments include certificates of deposit, marketable securities with readily determinable fair value, and all investments in debt securities are valued in the accompanying statement of financial position at their fair value. Fair value for certificates of deposit approximates cost. Fair value for marketable securities is determined by reference to exchange or dealer-quoted market prices. Changes in the fair value of investments are reflected as investment return in the accompanying statement of activities and changes in net assets.

*Property and equipment* - Property and equipment are stated at cost for purchased items and at estimated fair value at the date received for donated items. Depreciation is computed on the straight-line method over the estimated useful lives of the assets ranging from 10-20 years for building improvements, 5-10 years for furniture and fixtures, and 3-5 years for automobiles and equipment. The costs of major improvements are capitalized, while the costs of maintenance and repairs, which do not improve or extend the life of the respective assets, are expensed. The cost and accumulated depreciation of property are eliminated from the accounts upon disposal, and any resulting gain or loss is included in other income in the accompanying statement of activities and changes in net assets. Long-lived assets held and used by the Organization are reviewed for impairment whenever changes in circumstances indicate the carrying value of an asset may not be recoverable.

*Income taxes* - The Organization is exempt from federal income tax and applicable state statutes under the provisions of Section 501(c)(3) of the Internal Revenue Code ("IRC"). In accordance with IRC regulations, the Organization is taxed on unrelated business income, which consists of earnings from activities not related to the exempt purpose of the Organization. The Organization accounts for tax uncertainties based on a more likely than not recognition threshold whereby tax benefits are only recognized when the Organization believes that they have a greater than 50% likelihood of being sustained upon examination by taxing authorities. The Organization has evaluated all of its tax positions and determined that it had no uncertain income tax positions as of June 30, 2021.

*Donated services* - The Organization records contributed services if the services received create or enhance long-lived assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by the donation. A number of unpaid individuals, who serve in the capacity of Board members and other volunteers, have made significant contributions of their time in the furtherance of the Organization's programs. The value of this contributed time is not reflected in these financial statements since it does not meet the above recognition criteria.



# House of Mercy, Inc.

Notes to Financial Statements  
As of and for the Year Ended June 30, 2021  
(See Independent Accountant's Review Report)

## **Note 1 – Business activity and summary of significant accounting policies (continued)**

*Donated materials* - The Organization receives materials which are donated by members of the community to carry out the Organization's objective. During the year ended June 30, 2021, the Organization received \$9,888 in donated materials. This amount is included in donations and expenses in the accompanying statement of activities and changes in net assets.

*Functional Expenses* – The costs of providing the various programs and other activities of the Organization have been summarized on a functional basis in the statement of activities and changes in net assets. The schedule of functional expenses in Note 7 presents the natural classification detail of expenses by function. Direct identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to the various programs and supporting services based on time and effort.

*Use of estimates* - The preparation of financial statements in conformity with GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Recently Issued Accounting Pronouncements Adopted* – On May 28, 2014, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle is that an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Organization retrospectively adopted the provisions of this standard during the year ended June 30, 2021. There was no material impact on the Organization's financial position and results of operations upon adoption of the new standard.

*Recently Issued Accounting Pronouncements Not Yet Adopted* – In September 2020, FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires presentation of contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. It also requires a disclosure of disaggregated contributions of nonfinancial assets by category that depicts the type of contributed nonfinancial assets. This distinction will increase transparency of contributions recognized. This standard will be effective for fiscal years beginning after June 15, 2021. The Organization is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

*Concentrations* – The Organization places its cash and cash equivalents on deposit with financial institutions in the United States of America. The Federal Deposit Insurance Corporation ("FDIC") provides insurance up to \$250,000 on substantially all depository accounts. The Organization from time to time may have amounts on deposit in excess of insured limits.

# House of Mercy, Inc.

Notes to Financial Statements  
As of and for the Year Ended June 30, 2021  
(See Independent Accountant's Review Report)

## **Note 1 – Business activity and summary of significant accounting policies (continued)**

The Organization depends largely upon contributions, including cash contributions from the Sisters of Mercy of North Carolina Foundation, Inc. (the "Foundation") and a contribution for the use of facilities from the Sisters of Mercy of the Americas, South Central Community (the "South Central Community"). During the years ended June 30, 2020 and 2021, the Organization received \$105,000 and \$128,400 per year, respectively, in funding from the Carolinas Care Partnership for the Housing Opportunities for Persons with AIDS (HOPWA) grant. As a result, the Organization's ability to maintain its operations could be adversely affected should such contributions from these entities decline significantly. It is anticipated that for the year ended June 30, 2022, the Organization will continue to receive similar contributions from the Foundation, the South Central Community, and Carolinas Care Partnership.

In addition, a significant amount of the Organization's support is generated through grants and donor contributions in the Belmont, North Carolina and surrounding area. As a result, the Organization is directly affected by economic conditions prevalent in this area or in the contributor's region of operations, if different.

*Fair value measurements* - Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date;

Level 2 – Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies; and

Level 3 – Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The Organization believes its valuation methods are appropriate and consistent with other market participants; however, 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.

# House of Mercy, Inc.

Notes to Financial Statements  
As of and for the Year Ended June 30, 2021  
(See Independent Accountant's Review Report)

## Note 2 – Prior year summarized information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. The summarized information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for year ended June 30, 2020, from which the summarized information was derived.

## Note 3 – Liquidity and availability of resources

The table below represents financial assets available for general expenditures within one year at June 30, 2021:

Financial assets at year-end:	
Cash and cash equivalents	\$ 416,313
Investments	1,616,446
Accounts receivable	31,000
Financial assets available to meet general expenditures within one year	<u>\$ 2,063,759</u>

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while striving to maximize the investment of and return on available funds. The Organization has various sources of liquidity at its disposal, including cash and cash equivalents and investments. For purposes of analyzing resources available to meet general expenditures over a 12-month period, the Organization considers all expenditures related to its ongoing activities as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets availability to meet general expenditure over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor-restricted resources.

## Note 4 – Related party transactions

The Organization receives cash contributions from the Foundation, as described in Note 1. In addition, the Organization occupies facilities owned by the South Central Community. During the year ended June 30, 2021, the South Central Community donated \$47,446 of rent which was due under operating lease agreements described in Note 9. This amount is included in donated facilities in the accompanying statement of activities and changes in net assets and occupancy in the schedule of expenses by function in Note 7. Donations received from the Foundation and the South Central Community (including the \$47,446 donated rent) totaled \$314,786 for the year ended June 30, 2021.

## House of Mercy, Inc.

Notes to Financial Statements  
As of and for the Year Ended June 30, 2021  
(See Independent Accountant's Review Report)

### Note 5 – Investments

A summary of investments measured at fair value on a recurring basis as of June 30, 2021 is as follows:

	Level 1	Level 2	Level 3	Total Fair Value
Money market funds	\$ 26,621	\$ -	\$ -	\$ 26,621
Fixed income:				
U.S. Treasury securities	-	33,237	-	33,237
Government bonds	-	105,961	-	105,961
Corporate bonds	-	296,687	-	296,687
Common stocks	1,153,940	-	-	1,153,940
	\$ 1,180,561	\$ 435,885	\$ -	\$ 1,616,446

A summary of the Organization's investment return for the year ended June 30, 2021, is as follows:

Interest and dividend income	\$ 17,596
Net realized and unrealized gain	365,757
Less: investment expenses	(7,569)
	\$ 375,784

### Note 6—SBA Paycheck Protection Program and Deferred grant revenue

Due to the COVID-19 pandemic, Congress authorized the SBA to make loans to small businesses and not-for-profits with the express intent of keeping employees on the payroll during the crisis. This program is the Paycheck Protection Program and the Organization applied for and received \$129,603 during the year ended June 30, 2020. The loan is fully forgivable if the proceeds are used to maintain compensation costs and employee headcount and cover other qualifying expenses, such as interest on mortgages, rent, and utilities. At least 60% of the forgiven amount must be used to cover payroll expenses. The Organization anticipated that this loan will be fully forgiven and has therefore, recognized the entire amount as deferred grant revenue at June 30, 2020. For the year ended June 30, 2021, the Organization has applied for and received full forgiveness of the PPP loan. The forgiven amount has been recognized as government grant revenue for the year ended June 30, 2021.

## House of Mercy, Inc.

Notes to Financial Statements  
As of and for the Year Ended June 30, 2021  
(See Independent Accountant's Review Report)

### Note 7 – Functional expenses

A breakdown of expenses by function is as follows for the year ended June 30, 2021:

	Program Expenses	Supporting Services		Totals
		Management and General	Fundraising	
Salaries, related benefits and contract services	\$ 511,769	\$ 140,623	\$ 53,237	\$ 705,629
Resident care	34,221	1,388	-	35,609
Depreciation	19,498	-	-	19,498
Fundraising	-	-	5,704	5,704
Office	-	3,126	-	3,126
Occupancy	30,605	16,841	-	47,446
Insurance	25,852	-	-	25,852
Utilities and telephone	8,573	2,728	-	11,301
Other	12,051	12,112	750	24,913
Total expenses	<u>\$ 642,569</u>	<u>\$ 176,818</u>	<u>\$ 59,691</u>	<u>\$ 879,078</u>

### Note 8 – Pension and retirement benefits

The Organization has a 403(b) retirement plan whereby it will match eligible employees' contributions at the rate of \$.50 to each \$1 contributed, up to a maximum of 2 percent of gross annual salary. The plan also allows for employer's discretionary contributions of an additional 3 percent of an employee's salary. The amount of contributions by the Organization amounted to \$16,611 for the year ended June 30, 2021.

### Note 9 – Commitments and contingencies

The Organization may, in the ordinary course of business, become a party to malpractice litigation. Currently, the Organization is not involved in any pending litigation; however, incidents occurring through June 30, 2021, including previous years, may result in the assertion of claims. Management believes if claims are asserted they would be settled within the limits of coverage. As of June 30, 2021, the Organization maintains professional liability insurance coverage with per incident limits and limits in the aggregate in such amounts as management believes are adequate.

The Organization has entered into two operating lease agreements with the South Central Community which were effective July 1, 2020 for certain facilities and office space. The leases require monthly payments of \$3,954 through June 30, 2021. The payments for the leases were donated by the South Central Community for the year ended June 30, 2021, as described in Note 4. The lease for office space which began July 1, 2021, requires monthly payments of \$4,072 through June 30, 2022. Minimum lease payments under these non-cancelable operating leases are \$48,864 for the year ending June 30, 2022. Future rental payments are expected to be donated to the Organization by the South Central Community.

## **House of Mercy, Inc.**

Notes to Financial Statements  
As of and for the Year Ended June 30, 2021  
(See Independent Accountant's Review Report)

### **Note 9 – Commitments and contingencies (continued)**

The Organization's operations may be affected by the recent and ongoing outbreak of the coronavirus disease 2019 which was declared a pandemic by the World Health Organization in March 2020. The ultimate disruption which may be caused by the outbreak is uncertain; however, it may negatively impact the Organization's financial position, changes in net assets, and cash flows.

### **Note 10 – Subsequent events**

The Organization has evaluated subsequent events through January 14, 2022, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.