

HOUSE OF MERCY, INC.

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2020

And

Independent Accountant's Review Report

HOUSE OF MERCY, INC.

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William L. Woody, Jr., CPA
226 Wilmot Drive
P.O. Box 550351
Gastonia, NC 28055
(704) 869-8520

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, 2020, 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 2019 financial statements and in my conclusion dated October 3, 2019, stated that based on my review, I was not aware of any material modifications that should be made to the 2019 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, 2019, for it to be consistent with the reviewed financial statements from which it has been derived.

William L. Woody, Jr., CPA

Gastonia, North Carolina
November 18, 2020

House of Mercy, Inc.

Statement of Financial Position June 30, 2020

(With Comparative Totals as of June 30, 2019)
(See Independent Accountant's Review Report)

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 381,024 | \$ 223,340 |
| Investments | 1,240,769 | 1,214,287 |
| Accounts receivable | 33,441 | 28,174 |
| Interest receivable | - | 1,198 |
| Prepaid expenses | 2,899 | 9,539 |
| Total current assets | <u>1,658,133</u> | <u>1,476,538</u> |
| Property and equipment | | |
| Furniture and fixtures | 48,935 | 45,510 |
| Equipment | 166,596 | 157,192 |
| Vehicles | 67,334 | 67,334 |
| Building improvements | 132,737 | 121,028 |
| Total property and equipment | <u>415,602</u> | <u>391,064</u> |
| Less accumulated depreciation | <u>(311,417)</u> | <u>(293,794)</u> |
| Net property and equipment | <u>104,185</u> | <u>97,270</u> |
| Other assets | <u>5,000</u> | <u>5,000</u> |
| Total assets | <u>\$ 1,767,318</u> | <u>\$ 1,578,808</u> |
| Liabilities and net assets | | |
| Current liabilities | | |
| Accounts payable | \$ 18,674 | \$ 6,698 |
| Accrued expenses | 32,445 | 34,639 |
| Deferred grant revenue | 129,603 | - |
| Total current liabilities | <u>180,722</u> | <u>41,337</u> |
| Net assets | | |
| Without donor restrictions | 1,586,596 | 1,537,471 |
| With donor restrictions | - | - |
| Total net assets | <u>1,586,596</u> | <u>1,537,471</u> |
| Total liabilities and net assets | <u>\$ 1,767,318</u> | <u>\$ 1,578,808</u> |

House of Mercy, Inc.

Statement of Activities and Changes in Net Assets
Year Ended June 30, 2020
(With Comparative Totals for the Year Ended June 30, 2019)
(See Independent Accountant's Review Report)

| | 2020 | | | 2019 |
|--|-------------------------------|----------------------------|---------------------|---------------------|
| | Without Donor Restrictions | With Donor Restrictions | Totals | Totals |
| Support, revenue, and gains | | | | |
| Related party contributions | \$ 267,340 | \$ - | \$ 267,340 | \$ 267,340 |
| Donations | 95,274 | - | 95,274 | 90,836 |
| Corporate and foundation grants | 173,240 | 44,500 | 217,740 | 189,857 |
| Resident fees | 82,724 | - | 82,724 | 70,591 |
| Special events | 50,186 | - | 50,186 | 70,077 |
| Resident service income | 30,620 | - | 30,620 | 29,884 |
| Donated facilities | 46,064 | - | 46,064 | 44,723 |
| Investment return | 129,489 | - | 129,489 | 92,268 |
| Other income | 664 | - | 664 | 635 |
| | <u>875,601</u> | <u>44,500</u> | <u>920,101</u> | <u>856,211</u> |
| Net assets released from restrictions-satisfaction of donor restrictions | 44,500 | (44,500) | - | - |
| Total support, revenue, and gains | <u>920,101</u> | <u>-</u> | <u>920,101</u> | <u>856,211</u> |
| Expenses | | | | |
| Program expenses | 644,749 | - | 644,749 | 576,096 |
| Supporting services: | | | | |
| Management and general | 162,674 | - | 162,674 | 126,237 |
| Fundraising | 63,553 | - | 63,553 | 77,919 |
| Total expenses | <u>870,976</u> | <u>-</u> | <u>870,976</u> | <u>780,252</u> |
| Change in net assets | 49,125 | - | 49,125 | 75,959 |
| Net assets | | | | |
| Beginning of year | <u>1,537,471</u> | <u>-</u> | <u>1,537,471</u> | <u>1,461,512</u> |
| End of year | <u>\$ 1,586,596</u> | <u>-</u> | <u>\$ 1,586,596</u> | <u>\$ 1,537,471</u> |

House of Mercy, Inc.

Statement of Cash Flows
Year Ended June 30, 2020
(With Comparative Totals for the Year Ended June 30, 2019)
(See Independent Accountant's Review Report)

| | <u>2020</u> | <u>2019</u> |
|--|-------------------|-------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 49,125 | \$ 75,959 |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Net realized and unrealized gain | (117,633) | (74,181) |
| Depreciation | 25,624 | 26,308 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (5,267) | 13,296 |
| Interest receivable | 1,198 | (82) |
| Prepaid expenses | 6,640 | 10,522 |
| Accounts payable | 11,976 | 1,078 |
| Accrued expenses | (2,194) | (16,439) |
| Deferred grant revenue | 129,603 | - |
| Net cash from operating activities | <u>99,072</u> | <u>36,461</u> |
| Cash flows from investing activities | | |
| Proceeds from sale of investments | 1,223,225 | 1,047,010 |
| Purchases of investments | (1,132,076) | (1,059,705) |
| Purchases of property and equipment | (32,537) | (4,119) |
| Net cash from (used in) investing activities | <u>58,612</u> | <u>(16,814)</u> |
| Net increase in cash and cash equivalents | 157,684 | 19,647 |
| Cash and cash equivalents | | |
| Beginning of year | <u>223,340</u> | <u>203,693</u> |
| End of year | <u>\$ 381,024</u> | <u>\$ 223,340</u> |

House of Mercy, Inc.

Notes to Financial Statements
As of and for the Year Ended June 30, 2020
(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, 2020, the Organization had no net assets with board-designations or net assets with donor restrictions.

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, 2020 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, 2020
(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, 2020. 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, 2020.

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, 2020
(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, 2020, the Organization received \$7,758 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.

Future Pronouncements - On May 28, 2014, 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. This standard will be effective for the Organization’s year ending June 30, 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, 2020
(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, 2019 and 2020, the Organization received \$100,000 and \$105,000 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, 2021, 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, 2020
(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, 2019, 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, 2020:

| | |
|---|---------------------|
| Financial assets at year-end: | |
| Cash and cash equivalents | \$ 381,024 |
| Investments | 1,240,769 |
| Accounts receivable | 33,441 |
| Financial assets available to meet general expenditures within one year | <u>\$ 1,655,234</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, 2020, the South Central Community donated \$46,064 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 \$46,064 donated rent) totaled \$313,404 for the year then ended June 30, 2020.

House of Mercy, Inc.

Notes to Financial Statements
As of and for the Year Ended June 30, 2020
(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, 2020 is as follows:

| | Level 1 | Level 2 | Level 3 | Total Fair Value |
|--------------------------|-------------------|-------------------|-------------|---------------------|
| Money market funds | \$ 25,271 | \$ - | \$ - | \$ 25,271 |
| Fixed income: | | | | |
| U.S. Treasury securities | - | 56,880 | - | 56,880 |
| Government bonds | - | 49,009 | - | 49,009 |
| Corporate bonds | - | 244,025 | - | 244,025 |
| Common stocks | 865,584 | - | - | 865,584 |
| | <u>\$ 890,855</u> | <u>\$ 349,914</u> | <u>\$ -</u> | <u>\$ 1,240,769</u> |

A summary of the Organization's investment return for the year ended June 30, 2020, is as follows:

| | |
|----------------------------------|-------------------|
| Interest and dividend income | \$ 17,982 |
| Net realized and unrealized gain | 117,633 |
| Less: investment expenses | (6,126) |
| | <u>\$ 129,489</u> |

Note 6—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 anticipates that this loan will be fully forgiven during fiscal year ending June 30, 2021 and, has therefore, recognized the entire amount as deferred grant revenue at June 30, 2020. As of June 30, 2020, the bank had yet to accept applications for loan forgiveness. When confirmation of loan forgiveness is received, the Organization will record the forgiven amount as federal grant revenue.

House of Mercy, Inc.

Notes to Financial Statements
As of and for the Year Ended June 30, 2020
(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, 2020:

| | Program Expenses | Supporting Services | | Totals |
|--|-------------------|------------------------|------------------|-------------------|
| | | Management and General | Fundraising | |
| Salaries, related benefits and contract services | \$ 513,943 | \$ 128,425 | \$ 52,361 | \$ 694,729 |
| Resident care | 37,472 | 1,752 | 230 | 39,454 |
| Depreciation | 25,624 | - | - | 25,624 |
| Fundraising | - | - | 10,196 | 10,196 |
| Office | - | 5,870 | - | 5,870 |
| Occupancy | 29,713 | 16,351 | - | 46,064 |
| Insurance | 23,158 | - | - | 23,158 |
| Utilities and telephone | 8,646 | 2,512 | - | 11,158 |
| Other | 6,193 | 7,764 | 766 | 14,723 |
| Total expenses | <u>\$ 644,749</u> | <u>\$ 162,674</u> | <u>\$ 63,553</u> | <u>\$ 870,976</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 \$19,118 for the year ended June 30, 2020.

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, 2020, 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, 2020, 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, 2019, for certain facilities and office space. The leases require monthly payments of \$3,839 through June 30, 2020. The payments for the leases were donated by the South Central Community for the year ended June 30, 2020, as described in Note 4. The lease for office space which began July 1, 2020, requires monthly payments of \$3,954 through June 30, 2021. Minimum lease payments under these non-cancelable operating leases are \$47,446 for the year ending June 30, 2021. 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, 2020
(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 November 18, 2020, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.