

HOUSE OF MERCY, INC.

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2019

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, 2019, 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 2018 financial statements and in my conclusion dated September 27, 2018, stated that based on my review, I was 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. 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, 2018, for it to be consistent with the reviewed financial statements from which it has been derived.

William L. Woody, Jr., CPA

Gastonia, North Carolina
October 3, 2019

House of Mercy, Inc.

Statement of Financial Position

June 30, 2019

(With Comparative Totals as of June 30, 2018)

(See Independent Accountant's Review Report)

	<u>2019</u>	<u>2018</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 223,340	\$ 203,693
Investments	1,214,287	1,127,411
Accounts receivable	28,174	41,470
Interest receivable	1,198	1,116
Prepaid expenses	9,539	20,061
Total current assets	<u>1,476,538</u>	<u>1,393,751</u>
Property and equipment		
Furniture and fixtures	45,510	44,741
Equipment	157,192	157,192
Vehicles	67,334	67,334
Building improvements	121,028	121,028
Total property and equipment	<u>391,064</u>	<u>390,295</u>
Less accumulated depreciation	<u>(293,794)</u>	<u>(270,836)</u>
Net property and equipment	<u>97,270</u>	<u>119,459</u>
Other assets	<u>5,000</u>	<u>5,000</u>
Total assets	<u>\$ 1,578,808</u>	<u>\$ 1,518,210</u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 6,698	\$ 5,620
Accrued expenses	34,639	51,078
Total current liabilities	<u>41,337</u>	<u>56,698</u>
Net assets		
Without donor restrictions	1,537,471	1,456,512
With donor restrictions	-	5,000
Total net assets	<u>1,537,471</u>	<u>1,461,512</u>
Total liabilities and net assets	<u>\$ 1,578,808</u>	<u>\$ 1,518,210</u>

House of Mercy, Inc.

Statement of Activities and Changes in Net Assets
Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)
(See Independent Accountant's Review Report)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Totals	Totals
Support, revenue, and gains				
Related party contributions	\$ 267,340	\$ -	\$ 267,340	\$ 267,340
Donations	90,836	-	90,836	92,993
Corporate and foundation grants	155,750	34,107	189,857	218,046
Resident fees	70,591	-	70,591	58,842
Special events	70,077	-	70,077	71,661
Resident service income	29,884	-	29,884	29,573
Donated facilities	44,723	-	44,723	44,188
Investment return	92,268	-	92,268	133,596
Other income	635	-	635	-
	<u>822,104</u>	<u>34,107</u>	<u>856,211</u>	<u>916,239</u>
Net assets released from restrictions-satisfaction of donor restrictions	39,107	(39,107)	-	-
Total support, revenue, and gains	<u>861,211</u>	<u>(5,000)</u>	<u>856,211</u>	<u>916,239</u>
Expenses				
Program expenses	576,096	-	576,096	554,760
Supporting services:				
Management and general	126,237	-	126,237	146,818
Fundraising	77,919	-	77,919	69,362
Total expenses	<u>780,252</u>	<u>-</u>	<u>780,252</u>	<u>770,940</u>
Change in net assets	80,959	(5,000)	75,959	145,299
Net assets				
Beginning of year	<u>1,456,512</u>	<u>5,000</u>	<u>1,461,512</u>	<u>1,316,213</u>
End of year	<u>\$ 1,537,471</u>	<u>\$ -</u>	<u>\$ 1,537,471</u>	<u>\$ 1,461,512</u>

House of Mercy, Inc.

Statement of Cash Flows
Year Ended June 30, 2019
(With Comparative Totals for the Year Ended June 30, 2018)
(See Independent Accountant's Review Report)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Change in net assets	\$ 75,959	\$ 145,299
Adjustments to reconcile change in net assets to net cash from operating activities		
Net realized and unrealized gain	(74,181)	(122,009)
Depreciation	26,308	25,861
Loss on disposal of asset	-	3,743
Changes in operating assets and liabilities:		
Accounts receivable	13,296	6,383
Interest receivable	(82)	(118)
Prepaid expenses	10,522	(3,806)
Accounts payable	1,078	2,003
Accrued expenses	(16,439)	(13,717)
Net cash from operating activities	<u>36,461</u>	<u>43,639</u>
Cash flows from investing activities		
Proceeds from sale of investments	1,047,010	1,943,813
Purchases of investments	(1,059,705)	(1,872,225)
Purchases of property and equipment	(4,119)	(51,856)
Net cash from (used in) investing activities	<u>(16,814)</u>	<u>19,732</u>
Net increase in cash and cash equivalents	19,647	63,371
Cash and cash equivalents		
Beginning of year	<u>203,693</u>	<u>140,322</u>
End of year	<u>\$ 223,340</u>	<u>\$ 203,693</u>

House of Mercy, Inc.

Notes to Financial Statements
As of and for the Year Ended June 30, 2019
(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, 2019, 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, 2019 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, 2019
(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, 2019. 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, 2019.

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, 2019
(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, 2019, the Organization received \$13,867 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 6 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.

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

Future Pronouncements – In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09. This update creates Topic 606, Revenue from Contracts with Customers, and supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. In addition, the amendments supersede the cost guidance in Subtopic 605-35, Revenue Recognition – Construction-Type and Production-Type Contracts, and create new Subtopic 340-40, Other Assets and Deferred Costs – Contracts with Customers. The core principle of Topic 606 is that an entity recognizes revenue to depict the transfer of 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. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of the ASU 2014-09 one year, making it effective for fiscal reporting periods beginning after December 15, 2018.

Management is currently evaluating the impact of this standard on the Organization's 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, 2019
(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, 2018 and 2019, the Organization received \$117,546 and \$100,000 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, 2020, 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, 2019
(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, 2018, 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, 2019:

Financial assets at year-end:	
Cash and cash equivalents	\$ 223,340
Investments	1,214,287
Accounts receivable	28,174
Interest receivable	1,198
Financial assets available to meet general expenditures within one year	<u>\$ 1,466,999</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, 2019, the South Central Community donated \$44,723 of rent which was due under operating lease agreements described in Note 8. This amount is included in both donated facilities and occupancy in the accompanying statement of activities and changes in net assets. Donations received from the Foundation and the South Central Community (including the \$44,723 donated rent) totaled \$312,063 for the year then ended June 30, 2019.

House of Mercy, Inc.

Notes to Financial Statements
As of and for the Year Ended June 30, 2019
(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, 2019 is as follows:

	Level 1	Level 2	Level 3	Total Fair Value
Money market funds	\$ 24,576	\$ -	\$ -	\$ 24,576
Fixed income:				
U.S. Treasury securities	-	51,127	-	51,127
Government bonds	-	32,854	-	32,854
Corporate bonds	-	224,474	-	224,474
Common stocks	781,256	-	-	781,256
Certificates of deposit	-	100,000	-	100,000
	<u>\$ 805,832</u>	<u>\$ 408,455</u>	<u>\$ -</u>	<u>\$ 1,214,287</u>

A summary of the Organization's investment return for the year ended June 30, 2019, is as follows:

Interest and dividend income	\$ 22,476
Net realized and unrealized gain	74,181
Less: investment expenses	(4,389)
	<u>\$ 92,268</u>

Note 6 – Functional expenses

A breakdown of expenses by function is as follows for the year ended June 30, 2019:

	Program Expenses	Supporting Services		Totals
		Management and General	Fundraising	
Salaries, related benefits and contract services	\$ 441,552	\$ 88,081	\$ 66,091	\$ 595,724
Resident care	37,292	1,951	127	39,370
Depreciation	26,308	-	-	26,308
Fundraising	3,428	-	11,701	15,129
Office	-	4,249	-	4,249
Occupancy	28,848	15,875	-	44,723
Insurance	20,571	-	-	20,571
Utilities and telephone	8,910	2,235	-	11,145
Other	9,187	13,846	-	23,033
Total expenses	<u>\$ 576,096</u>	<u>\$ 126,237</u>	<u>\$ 77,919</u>	<u>\$ 780,252</u>

House of Mercy, Inc.

Notes to Financial Statements
As of and for the Year Ended June 30, 2019
(See Independent Accountant's Review Report)

Note 7 – 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 \$17,484 for the year ended June 30, 2019.

Note 8 – 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, 2019, 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, 2019, 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, 2018, for certain facilities and office space. The leases require monthly payments of \$3,727 through June 30, 2019. The payments for the leases were donated by the South Central Community for the year ended June 30, 2019, as described in Note 4. The lease for office space which began July 1, 2019, requires monthly payments of \$3,839 through June 30, 2020. Minimum lease payments under these non-cancelable operating leases are \$46,064 for the year ending June 30, 2020. Future rental payments are expected to be donated to the Organization by the South Central Community.

Note 9 – Subsequent events

The Organization has evaluated subsequent events through October 3, 2019, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.