

MERCY CENTER CORPORATION

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REPORT ON AUDIT OF  
FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

## CONTENTS

|                                       | PAGE   |
|---------------------------------------|--------|
| INDEPENDENT AUDITOR'S REPORT          | 1      |
| FINANCIAL STATEMENTS                  |        |
| STATEMENTS OF FINANCIAL POSITION      | 2      |
| STATEMENTS OF ACTIVITIES              | 3      |
| STATEMENTS OF CASH FLOWS              | 4      |
| STATEMENTS OF FUNCTIONAL EXPENDITURES | 5      |
| NOTES TO FINANCIAL STATEMENTS         | 6 - 17 |

## INDEPENDENT AUDITOR'S REPORT

October 17, 2019

To the Board of Trustees  
Mercy Center Corporation  
Asbury Park, New Jersey

We have audited the accompanying financial statements of Mercy Center Corporation which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, cash flows and functional expenditures for the years then ended, and the related notes to 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 positions of Mercy Center Corporation as of June 30, 2019 and 2018, 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.



MERCY CENTER CORPORATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2019 AND 2018

|   | <u>2019</u>                | <u>2018</u>                |
|---|----------------------------|----------------------------|
| <b>ASSETS</b>                           |                            |                            |
| Cash and cash equivalents               | \$ 97,278                  | \$ 222,531                 |
| Investments                             | 1,612,722                  | 1,403,332                  |
| Pledges receivable                      | 245,691                    | 220,885                    |
| Grant receivable                        | 41,196                     | 64,603                     |
| Other current assets                    | 12,783                     | 9,323                      |
| Fixed assets - Net                      | <u>3,564,257</u>           | <u>3,701,555</u>           |
| <b>TOTAL ASSETS</b>                     | <u><u>\$ 5,573,927</u></u> | <u><u>\$ 5,622,229</u></u> |
| <br><b>LIABILITIES AND NET ASSETS</b>   |                            |                            |
| Liabilities                             |                            |                            |
| Note payable                            | \$ 50,000                  | \$ 50,000                  |
| Accounts payable                        | 5,279                      | 14,658                     |
| Prepaid tuition                         | 12,902                     | 17,817                     |
| Accrued expenses                        | <u>27,059</u>              | <u>24,067</u>              |
| <b>Total Liabilities</b>                | 95,240                     | 106,542                    |
| <br>Net Assets                          |                            |                            |
| Without donor restrictions              | 5,101,345                  | 5,195,800                  |
| <br>With donor restrictions             |                            |                            |
| Purpose restrictions                    | 80,938                     | 55,037                     |
| Time restrictions                       | 246,404                    | 214,850                    |
| Perpetual in nature                     | <u>50,000</u>              | <u>50,000</u>              |
| <b>Total with donor restrictions</b>    | <u>377,342</u>             | <u>319,887</u>             |
| <b>Total Net Assets</b>                 | <u>5,478,687</u>           | <u>5,515,687</u>           |
| <b>TOTAL LIABILITIES AND NET ASSETS</b> | <u><u>\$ 5,573,927</u></u> | <u><u>\$ 5,622,229</u></u> |

The accompanying notes are an integral part of these financial statements.

MERCY CENTER CORPORATION

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

|  | 2019                          |                            |                     | 2018                          |                            |                     |
|--|-------------------------------|----------------------------|---------------------|-------------------------------|----------------------------|---------------------|
|  | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total               | Without Donor<br>Restrictions | With Donor<br>Restrictions | Total               |
| <b>REVENUES AND OTHER SUPPORT</b>  |                               |                            |                     |                               |                            |                     |
| Grants   | \$ 629,620                    | \$ 40,000                  | \$ 669,620          | \$ 686,513                    | \$ 35,000                  | \$ 721,513          |
| Contributions  | 820,359                       | 274,350                    | 1,094,709           | 782,396                       | 89,715                     | 872,111             |
| Contributed services   | 136,416                       | -                          | 136,416             | 92,316                        | -                          | 92,316              |
| Investment income  | 49,139                        | 2,790                      | 51,929              | 38,491                        | 5,522                      | 44,013              |
| Tuition  | 31,887                        | -                          | 31,887              | 38,762                        | -                          | 38,762              |
| Special events, net of expenses of \$16,387<br>and \$27,359 in 2019 and 2018, respectively | 43,564                        | -                          | 43,564              | 69,436                        | -                          | 69,436              |
| Other income   | 3,519                         | -                          | 3,519               | 568                           | -                          | 568                 |
| Satisfaction of program restrictions   | 87,600                        | (87,600)                   | -                   | 64,986                        | (64,986)                   | -                   |
| Satisfaction of time restrictions  | 169,295                       | (169,295)                  | -                   | 127,317                       | (127,317)                  | -                   |
| Endowment transfer   | 2,790                         | (2,790)                    | -                   | 5,522                         | (5,522)                    | -                   |
| <b>TOTAL REVENUES AND OTHER SUPPORT</b>  | <b>1,974,189</b>              | <b>57,455</b>              | <b>2,031,644</b>    | <b>1,906,307</b>              | <b>(67,588)</b>            | <b>1,838,719</b>    |
| <b>EXPENSES AND OTHER CHARGES</b>  |                               |                            |                     |                               |                            |                     |
| Program Expenses   |                               |                            |                     |                               |                            |                     |
| Elementary Education   | 1,060,964                     | -                          | 1,060,964           | 917,309                       | -                          | 917,309             |
| Aid to the Needy   | 696,132                       | -                          | 696,132             | 720,398                       | -                          | 720,398             |
| Total Program Expenses   | 1,757,096                     | -                          | 1,757,096           | 1,637,707                     | -                          | 1,637,707           |
| Management and General   | 223,076                       | -                          | 223,076             | 205,827                       | -                          | 205,827             |
| Development  | 88,472                        | -                          | 88,472              | 82,681                        | -                          | 82,681              |
| <b>TOTAL EXPENSES AND OTHER CHARGES</b>  | <b>2,068,644</b>              | <b>-</b>                   | <b>2,068,644</b>    | <b>1,926,215</b>              | <b>-</b>                   | <b>1,926,215</b>    |
| <b>(DECREASE) INCREASE IN NET ASSETS</b>   | <b>(94,455)</b>               | <b>57,455</b>              | <b>(37,000)</b>     | <b>(19,908)</b>               | <b>(67,588)</b>            | <b>(87,496)</b>     |
| <b>NET ASSETS - Beginning of Year</b>  | <b>5,195,800</b>              | <b>319,887</b>             | <b>5,515,687</b>    | <b>5,215,708</b>              | <b>387,475</b>             | <b>5,603,183</b>    |
| <b>NET ASSETS - End of Year</b>  | <b>\$ 5,101,345</b>           | <b>\$ 377,342</b>          | <b>\$ 5,478,687</b> | <b>\$ 5,195,800</b>           | <b>\$ 319,887</b>          | <b>\$ 5,515,687</b> |

The accompanying notes are an integral part of these financial statements.

MERCY CENTER CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

|   | <u>2019</u>      | <u>2018</u>       |
|---|------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                  |                   |
| Change in net assets  | \$ (37,000)      | \$ (87,496)       |
| Adjustment to reconcile change in net assets<br>to net cash provided by operating activities: |                  |                   |
| Depreciation  | 156,862          | 155,609           |
| Gain on investments   | (26,105)         | (29,483)          |
| Changes in operating assets and liabilities   |                  |                   |
| Decrease (Increase)   |                  |                   |
| Grant receivable  | 23,407           | 37,799            |
| Pledges receivable  | (24,806)         | 63,508            |
| Other current assets  | (3,460)          | 1,564             |
| (Decrease) Increase   |                  |                   |
| Accounts payable  | (9,379)          | 180               |
| Prepaid tuition   | (4,915)          | (3,393)           |
| Accrued expenses  | 2,992            | (1,105)           |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>  | <u>77,596</u>    | <u>137,183</u>    |
| <br><b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                  |                   |
| Purchase of fixed assets  | (19,564)         | (26,874)          |
| Sale of investments   | 98,596           | 361,533           |
| Purchase of investments   | (281,881)        | (840,010)         |
| <b>NET CASH USED BY INVESTING ACTIVITIES</b>  | <u>(202,849)</u> | <u>(505,351)</u>  |
| <br><b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>  | (125,253)        | (368,168)         |
| <b>CASH AND CASH EQUIVALENTS - Beginning of year</b>  | <u>222,531</u>   | <u>590,699</u>    |
| <b>CASH AND CASH EQUIVALENTS - End of year</b>  | <u>\$ 97,278</u> | <u>\$ 222,531</u> |
| <br><b>SUPPLEMENTAL INFORMATION</b>   |                  |                   |
| Interest paid   | <u>\$ -</u>      | <u>\$ -</u>       |
| Interest capitalized  | <u>\$ -</u>      | <u>\$ -</u>       |

The accompanying notes are an integral part of these financial statements.

MERCY CENTER CORPORATION

STATEMENTS OF FUNCTIONAL EXPENDITURES

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

|                                  | 2019                    |                     |                     |                   |                  |                     | 2018                    |                     |                     |                   |                  |                     |
|----------------------------------|-------------------------|---------------------|---------------------|-------------------|------------------|---------------------|-------------------------|---------------------|---------------------|-------------------|------------------|---------------------|
|                                  | Program Expenses        |                     |                     | Management        |                  |                     | Program Expenses        |                     |                     | Management        |                  |                     |
|                                  | Elementary<br>Education | Aid to the<br>Needy | Total               | and<br>General    | Development      | Total               | Elementary<br>Education | Aid to the<br>Needy | Total               | and<br>General    | Development      | Total               |
| Salaries and wages               | \$ 618,922              | \$ 492,671          | \$ 1,111,593        | \$ 161,182        | \$ 70,000        | \$ 1,342,775        | \$ 506,470              | \$ 484,367          | \$ 990,837          | \$ 145,676        | \$ 60,000        | \$ 1,196,513        |
| Payroll taxes                    | 46,621                  | 42,090              | 88,711              | 8,735             | 5,355            | 102,801             | 42,627                  | 48,288              | 90,915              | 9,503             | 4,590            | 105,008             |
| Accounting and auditing          | 5,800                   | 4,974               | 10,774              | 1,826             | -                | 12,600              | 5,000                   | 6,574               | 11,574              | 1,026             | -                | 12,600              |
| Administrative fees              | 6,907                   | -                   | 6,907               | 10,778            | -                | 17,685              | 6,138                   | -                   | 6,138               | 8,166             | -                | 14,304              |
| Advertising                      | 624                     | 131                 | 755                 | 60                | -                | 815                 | 1,029                   | 4,016               | 5,045               | 535               | -                | 5,580               |
| Alarm system                     | 4,346                   | 1,090               | 5,436               | 256               | -                | 5,692               | 3,057                   | 731                 | 3,788               | 40                | -                | 3,828               |
| Auto expense                     | 149                     | 558                 | 707                 | 1,186             | -                | 1,893               | 109                     | 447                 | 556                 | 76                | -                | 632                 |
| Background verification          | -                       | 121                 | 121                 | 40                | -                | 161                 | 74                      | -                   | 74                  | -                 | -                | 74                  |
| Bus rental                       | 8,715                   | -                   | 8,715               | -                 | -                | 8,715               | 11,965                  | -                   | 11,965              | -                 | -                | 11,965              |
| Cleaning                         | 22,629                  | 3,737               | 26,366              | 3,468             | -                | 29,834              | 22,094                  | 3,639               | 25,733              | 5,358             | -                | 31,091              |
| Consultants                      | -                       | 6,141               | 6,141               | 11,233            | -                | 17,374              | -                       | 12,226              | 12,226              | 13,500            | -                | 25,726              |
| Depreciation                     | 129,204                 | 19,361              | 148,565             | 8,297             | -                | 156,862             | 129,239                 | 18,459              | 147,698             | 7,911             | -                | 155,609             |
| Educational association dues     | 2,790                   | -                   | 2,790               | -                 | -                | 2,790               | 1,912                   | -                   | 1,912               | -                 | -                | 1,912               |
| Employee benefits                | 25,706                  | 29,234              | 54,940              | (1,212)           | -                | 53,728              | 16,685                  | 21,130              | 37,815              | 3,412             | 8,001            | 49,228              |
| Equipment                        | 1,000                   | 2,000               | 3,000               | -                 | -                | 3,000               | 2,660                   | 81                  | 2,741               | 2,300             | -                | 5,041               |
| Extra curricular activities      | 17,034                  | -                   | 17,034              | -                 | -                | 17,034              | 8,469                   | 1,880               | 10,349              | -                 | -                | 10,349              |
| Fund raising                     | -                       | -                   | -                   | -                 | 13,117           | 13,117              | -                       | -                   | -                   | -                 | 10,090           | 10,090              |
| Hospitality                      | 5,094                   | 73                  | 5,167               | 5,296             | -                | 10,463              | 2,765                   | 100                 | 2,865               | 5,322             | -                | 8,187               |
| Insurance                        | 32,275                  | 17,066              | 49,341              | 4,877             | -                | 54,218              | 33,692                  | 9,053               | 42,745              | 8,606             | -                | 51,351              |
| Internet and computer technology | 5,182                   | 576                 | 5,758               | 559               | -                | 6,317               | 5,981                   | 60                  | 6,041               | 802               | -                | 6,843               |
| Marketing/Outreach               | 1,922                   | 2,150               | 4,072               | 7,803             | -                | 11,875              | 6,213                   | 7,694               | 13,907              | 3,253             | -                | 17,160              |
| Meals                            | 24,545                  | -                   | 24,545              | -                 | -                | 24,545              | 25,609                  | 780                 | 26,389              | -                 | -                | 26,389              |
| Office supplies                  | 7,673                   | 5,546               | 13,219              | 2,483             | -                | 15,702              | 8,463                   | 9,872               | 18,335              | 3,567             | -                | 21,902              |
| Overhead allocation              | -                       | 18,568              | 18,568              | (18,568)          | -                | -                   | -                       | 34,022              | 34,022              | (34,022)          | -                | -                   |
| Pest Control                     | 825                     | 1,140               | 1,965               | -                 | -                | 1,965               | 825                     | 1,093               | 1,918               | 48                | -                | 1,966               |
| Postage                          | 777                     | 972                 | 1,749               | 618               | -                | 2,367               | 1,463                   | 798                 | 2,261               | 648               | -                | 2,909               |
| Printing                         | 1,523                   | 763                 | 2,286               | 1,085             | -                | 3,371               | 560                     | 4,847               | 5,407               | 71                | -                | 5,478               |
| Rent                             | -                       | -                   | -                   | -                 | -                | -                   | 1,009                   | -                   | 1,009               | -                 | -                | 1,009               |
| Repairs and maintenance          | 30,146                  | 3,186               | 33,332              | 1,991             | -                | 35,323              | 13,363                  | 4,774               | 18,137              | 4,859             | -                | 22,996              |
| Scholarship                      | 11,725                  | -                   | 11,725              | -                 | -                | 11,725              | 9,911                   | -                   | 9,911               | -                 | -                | 9,911               |
| Specific assistance to clients   | -                       | 24,744              | 24,744              | 3,057             | -                | 27,801              | -                       | 18,834              | 18,834              | 5,014             | -                | 23,848              |
| Teaching supplies                | 3,933                   | -                   | 3,933               | 18                | -                | 3,951               | 8,768                   | -                   | 8,768               | -                 | -                | 8,768               |
| Telephone                        | 7,176                   | 5,959               | 13,135              | 1,649             | -                | 14,784              | 5,943                   | 5,126               | 11,069              | 2,236             | -                | 13,305              |
| Textbooks                        | 876                     | -                   | 876                 | -                 | -                | 876                 | 2,465                   | -                   | 2,465               | -                 | -                | 2,465               |
| Training and conferences         | 490                     | 2,114               | 2,604               | 126               | -                | 2,730               | 100                     | 4,713               | 4,813               | -                 | -                | 4,813               |
| Travel                           | -                       | 2,977               | 2,977               | 759               | -                | 3,736               | -                       | 2,801               | 2,801               | -                 | -                | 2,801               |
| Utilities                        | 36,355                  | 8,190               | 44,545              | 5,474             | -                | 50,019              | 32,651                  | 13,993              | 46,644              | 7,920             | -                | 54,564              |
|                                  | <u>\$ 1,060,964</u>     | <u>\$ 696,132</u>   | <u>\$ 1,757,096</u> | <u>\$ 223,076</u> | <u>\$ 88,472</u> | <u>\$ 2,068,644</u> | <u>\$ 917,309</u>       | <u>\$ 720,398</u>   | <u>\$ 1,637,707</u> | <u>\$ 205,827</u> | <u>\$ 82,681</u> | <u>\$ 1,926,215</u> |

The accompanying notes are an integral part of these financial statements.

MERCY CENTER CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

Mercy Center Corporation, (the "Corporation"), a not-for-profit organization, conducts social supportive services for the working poor, outreach services for the mentally ill, behavioral health services for families and children, and mentoring programs for juveniles, and operates an educational program for young girls of elementary school age. The objectives of the Corporation's programs are funded by volunteer services, contributions, and grants-in-aid. The Corporation is sponsored by the Sisters of Mercy of the Americas, Mid-Atlantic Community, Inc. (SOM), which is the sole member of the Corporation. The Corporation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code; accordingly, there is no income tax applicable to its activities.

The Corporation operates the Family Resource Center, which served of 6,029 individuals during fiscal year 2019. These services included 1,198 program sessions, 1,168 individual counseling sessions, 2,156 contacts (intakes, assessments, office and home visits), 715 referrals to partner agencies, and 792 services provided by Community Victim Witness Advocates to victims and survivors of crimes. Additionally, emergency services were provided to 3,375 people, including 1,536 families receiving food, 289 Thanksgiving baskets to feed 1,578 people, and 261 Christmas toys donated to children.

The Corporation also operates Sisters Academy of New Jersey, which helps underserved and economically disadvantaged girls in grades five through eight. The Academy enjoys tremendous success with its girls, where all of the 8th graders go on to graduate from high school. The Academy is supported by the Alumnae Association.

The Corporation's charitable activities are supported by 53 volunteers who donated over 5,500 hours of time to the Corporation during the fiscal year 2019.

1 Summary of Significant Accounting Policies

The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Accrual Basis -- The financial statements of the Corporation have been prepared on the accrual basis.

Cash and Cash Equivalents -- For the statements of cash flows, the Corporation includes cash on deposit, cash on hand and money market funds.

Investments -- Investments are reported in the financial statements at fair value. Investments include certificates of deposit and multi-asset mutual funds.



MERCY CENTER CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

1 Summary of Significant Accounting Policies (Continued)

Land, Building and Equipment -- The Corporation capitalized fixed assets at cost and donated assets at their fair value. The Corporation's policy is to capitalize major improvements to buildings and grounds with a cost of \$2,500 or more and equipment with a unit cost of \$1,000 or more. Depreciation is calculated on the straight-line method based on the estimated useful lives of the assets set forth below:

|                               |               |
|-------------------------------|---------------|
| Buildings and improvements    | 10 - 39 years |
| Other furniture and equipment | 3 - 7 years   |

Contributions -- The Corporation records contributions of cash and other assets when an unconditional promise to give such assets is received from a donor. Contributions are recorded at the fair value of the assets received and are classified as either without donor restriction or with donor restriction, depending on whether the donor has imposed a restriction on the use of such assets.

Advertising -- The Corporation follows the policy of charging the costs of advertising to expense as incurred.

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

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

Net Assets With Donor Restrictions - Net assets subject to donor or grantor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period when the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported on the statement of activities as net assets released from restrictions.

MERCY CENTER CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

1 Summary of Significant Accounting Policies (Continued)

Use of Estimates -- The preparation of financial statements in conformity with generally accepted accounting principles 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.

Income taxes -- The Corporation is exempt from income tax under IRC section 501(c)(3), though it is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Code. The Corporation has processes presently in place to ensure the maintenance of its tax-exempt status; to identify and report unrelated income; to determine its filing and tax obligations; and to identify and evaluate other matters that may be considered tax positions. The Corporation has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements.

Fair Value Measurements -- Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This guidance establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

*Level 1* - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

*Level 2* - Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the same term as the financial instrument. Alternative investments' fair value are based on their net asset value per unit as reported by their managers.

*Level 3* - Inputs to the valuation methodology are unobservable.

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

MERCY CENTER CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

1 Summary of Significant Accounting Policies (Continued)

Assets and liabilities that are measured at fair value are based on one or more of the three valuation techniques that follow:

*Market approach* - Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

*Cost approach* - Amount that would be required to replace the service capacity of an asset (i.e., replacement cost).

*Income approach* - Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques and option-pricing models).

New Accounting Pronouncement -- During the year ended June 30, 2019, the Academy adopted the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14—Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016- 14). This Update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the type of information provided about expenses and investment return for not-for-profit entities. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity has also been added. The accompanying information from the 2018 financial statements has been restated to conform to the 2019 presentation and disclosure requirements of ASU 2016-14.

2 Concentration of Risk

The Corporation maintains its cash and cash equivalents in bank deposit accounts, which, at times, may exceed federally insured limits. The Corporation has not experienced any losses in such accounts. Management believes the Corporation is not exposed to any significant credit risk related to cash and cash equivalents.

MERCY CENTER CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

3 Change in Accounting Policy

In accordance with ASU 2016-14, the Corporation has reclassified certain long lived fixed assets which had been previously capitalized as net assets with donor restrictions (temporarily restricted net assets), and restated the statement of activities for the year ended June 30, 2018 as set forth below:

|   | <u>As Reclassified<br/>/ Restated</u> | <u>As Previously<br/>Reported</u> | <u>Adjustment</u> |
|---|---------------------------------------|-----------------------------------|-------------------|
| Net assets without donor restrictions<br>as of July 1, 2017       | \$ 5,215,708                          | \$ 2,436,725                      | \$ 2,778,983      |
| Net assets with donor restrictions<br>as of July 1, 2017          | 387,475                               | 3,166,458                         | (2,778,983)       |
| Satisfaction of time restrictions<br>- without donor restrictions | 127,317                               | 217,802                           | (90,485)          |
| Satisfaction of time restrictions<br>- with donor restrictions    | (127,317)                             | (217,802)                         | 90,485            |

4 Liquidity

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  | \$ 97,278           |
| Investments  | 1,612,722           |
| Pledges receivable   | 245,691             |
| Grants receivable  | <u>41,196</u>       |
| Total financial assets   | 1,996,887           |
| Less amounts not available to be used within one year:                     |                     |
| Endowment funds with liquidity horizons greater than one year              | 50,000              |
| Pledges receivable   | <u>142,212</u>      |
| Financial assets not available to be used within one year                  | <u>192,212</u>      |
| Financial assets available to meet general expenditures<br>within one year | <u>\$ 1,804,675</u> |

MERCY CENTER CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

4 Liquidity (Continued)

The Corporation has certain donor-restricted assets limited to use which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information above for financial assets to meet general expenditures within one year. The Corporation has other donor-restricted assets that are not available for general expenditure within one year in the normal course of operations. These assets limited to use, which are more fully described in Notes 11 and 12 are not available for general expenditure within the next year.

5 Related Party Transactions

Payments to SOM

A total of \$156,920 and \$164,883 was paid to SOM for the services of Sisters who are assigned to the Corporation for the years ended June 30, 2019 and 2018, respectively.

Donations from SOM

SOM donated \$15,000 to the Corporation during each of the years ended June 30, 2019 and 2018.

6 Investments

The following table sets forth by level, within the fair value hierarchy, the Center's investments as of June 30, 2019:

|  | <u>Investments at Fair Values as of June 30, 2019</u> |                |                |                     |
|--|---|----------------|----------------|---------------------|
|  | <u>Level 1</u>  | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>        |
| Mercy Investment Services - Multi Asset Mutual Funds 80/20 | \$ 743,270  | \$ -           | \$ -           | \$ 743,270          |
| Certificates of deposit                                    | <u>869,452</u>  | <u>-</u>       | <u>-</u>       | <u>869,452</u>      |
|  | <u>\$ 1,612,722</u>                                   | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ 1,612,722</u> |

MERCY CENTER CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

6 Investments (Continued)

The following table sets forth by level, within the fair value hierarchy, the Center's investments as of June 30, 2018:

|  | <u>Investments at Fair Values as of June 30, 2018</u> |                |                |                     |
|--|---|----------------|----------------|---------------------|
|  | <u>Level 1</u>  | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>        |
| Mercy Investment Services - Multi Asset Mutual Funds | \$ 712,388  | \$ -           | \$ -           | \$ 712,388          |
| Certificates of deposit                              | 596,648   | -              | -              | 596,648             |
| Treasury bills                                       | 94,296  | -              | -              | 94,296              |
|  | <u>\$ 1,403,332</u>                                   | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ 1,403,332</u> |

Investment income consists of the following:

|                        | <u>2019</u>      | <u>2018</u>      |
|------------------------|------------------|------------------|
| Interest and dividends | \$ 29,419        | \$ 17,067        |
| Gain on investments    | 26,105           | 29,483           |
| Investment fees        | <u>(3,595)</u>   | <u>(2,537)</u>   |
|                        | <u>\$ 51,929</u> | <u>\$ 44,013</u> |

7 Grants Receivable

In general, grants-in-aid are made available to the Corporation through applications and agreements with funding agencies which might base their payments upon reimbursement of reported eligible expenses or limitations dictated by their own budget restraints. As of June 30, 2019 and 2018, amounts due to the Corporation in connection with such agreements totaled \$41,196 and \$64,603, respectively. Management expects the receivables to be collected prior to September 30, 2019.

8 Pledges Receivable

The Corporation has received gifts in the form of pledges to be paid in installments. The pledges have been reported at their net present value utilizing a discount rate of 3.5%. Administration has made a provision for pledges doubtful of collection in the amount of \$51,860. The pledge receivable balance was \$245,691 at June 30, 2019.

MERCY CENTER CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

8 Pledges Receivable (Continued)

The pledges are expected to be received as follows:

|   |                   |
|---|-------------------|
| 2020  | \$ 163,505        |
| 2021  | 69,615            |
| 2022  | 42,330            |
| 2023  | 29,350            |
| 2024  | 917               |
|   | <u>305,717</u>    |
| Less provision for pledges doubtful of collection | (51,860)          |
| Less present value adjustment                     | (8,166)           |
|   | <u>\$ 245,691</u> |

9 Fixed Assets

Below is a summary of fixed assets as of June 30, 2019 and 2018:

|                                | <u>2019</u>         | <u>2018</u>         |
|--------------------------------|---------------------|---------------------|
| Land/land improvements         | \$ 325,236          | \$ 325,236          |
| Building and improvements      | 4,699,567           | 4,695,777           |
| Other furniture and equipment  | 590,352             | 574,578             |
|                                | <u>5,615,155</u>    | <u>5,595,591</u>    |
| Less: accumulated depreciation | (2,050,898)         | (1,894,036)         |
|                                | <u>\$ 3,564,257</u> | <u>\$ 3,701,555</u> |

Depreciation expense was \$156,862 and \$155,609 for the years ended June 30, 2019 and 2018, respectively.

10 Notes Payable

The Corporation was indebted to the Diocese of Trenton, New Jersey in the amount of \$50,000 for each of the years ended June 30, 2019 and 2018 on an unsecured promissory note payable on demand. The note is non-interest bearing.

MERCY CENTER CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

11 Net Assets with Donor Restrictions

Net assets with donor restriction are available for the following purposes as of June 30, 2019 and 2018:

|                                      | <u>2019</u>       | <u>2018</u>       |
|--------------------------------------|-------------------|-------------------|
| Passage of Time                      |                   |                   |
| Circle of Mercy campaign             | 246,404           | 214,850           |
| Specified Purpose                    |                   |                   |
| Academy tuition                      | 15,000            | 25,000            |
| Fatherhood Empowerment program       | 24,514            | 28,886            |
| Resiliency program                   | 6,186             | 1,151             |
| Youth with a purpose                 | 20,238            | -                 |
| Academy operations                   | <u>15,000</u>     | <u>-</u>          |
|                                      | 80,938            | 55,037            |
| Endowments                           |                   |                   |
| Subject to endowment spending policy | <u>50,000</u>     | <u>50,000</u>     |
| Total donor assets with restrictions | <u>\$ 377,342</u> | <u>\$ 319,887</u> |

Net assets were reduced from donor restriction by incurring expenses satisfying the restricted purpose or by occurrences of other events specified by donors as follows:

|                                  | <u>2019</u>       | <u>2018</u>       |
|----------------------------------|-------------------|-------------------|
| Purpose Restriction Accomplished |                   |                   |
| Academy tuition                  | \$ 25,000         | \$ 24,892         |
| Academy Operations               | -                 | 15,000            |
| Fatherhood Empowerment program   | 44,373            | 6,114             |
| Resiliency Program               | 12,465            | 13,348            |
| Teacher development              | -                 | 1,961             |
| Youth With a Purpose             | <u>5,762</u>      | <u>3,671</u>      |
|                                  | <u>\$ 87,600</u>  | <u>\$ 64,986</u>  |
| Passage of Time Accomplished     |                   |                   |
| Depreciation                     | \$ -              | \$ 90,380         |
| Academy operations               | <u>169,295</u>    | <u>127,317</u>    |
|                                  | <u>\$ 169,295</u> | <u>\$ 217,697</u> |



MERCY CENTER CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

12 Endowment

The Corporation has adopted a total return investment policy in accordance with state law. The primary investment objective is to maximize long-term return through a combination of income and capital appreciation achieved in a prudent manner. Therefore, the financial objective is to earn a total return (net of all fees and expenses) equal to or exceeding the spending rate plus the inflation rate as measured by the Consumer Price Index. The investment policy of the Corporation will be carried out by means of investment strategies that reflect continuous evaluation of changing investment environments, management judgment regarding the allocation of assets among different kinds of asset classes, identification of appropriate investment vehicles, and the making of specific investment decisions.

The Corporation's investments consists of multi-asset mutual funds. The Corporation has adopted a policy of spending all income earned on the investments. The Corporation's goal is to preserve the purchasing power of the endowed assets. The distribution or spending of the aggregate amount is first guided by the individual endowment agreements. In the absence of individual endowment agreements, the distribution or spending is determined by the Corporation's Board.

The Corporation's endowment consists of one fund established primarily to support general operations. The endowment includes only donor restricted endowment funds. As required by accounting standards generally accepted in the United States of America, net assets associated with endowment funds, including board designated funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Trustees of the Corporation has interpreted the New Jersey state law as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent of explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) enhancements or diminishments of the fund from investment income, loss, and spending allowance. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as unrestricted net assets since the interest and dividends are to be used to support general operations in a manner consistent with New Jersey law.

Return Objectives and Risk Parameters

The Center has adopted investment and spending policies for endowment assets that attempt to provide a relatively predictable and growing stream of annual distributions in support of the institution while preserving the long-term, real purchasing power of assets.

MERCY CENTER CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

12 Endowment (Continued)

Strategies Employed for Achieving Objectives

Beginning in the fiscal year ending June 30, 2016, to satisfy its long-term rate-of-return objectives, the Corporation will rely on a total return strategy in which investment returns will be achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends) by investing in multi-asset mutual funds.

The Corporation's endowment net assets had the following activity for the years ended June 30, 2019 and 2018:

|   | <u>2019</u>      | <u>2018</u>      |
|---|------------------|------------------|
| Endowment net assets, beginning of year | \$ 50,000        | \$ 50,000        |
| Investment income                       | 2,790            | 5,522            |
| Spending allowance                      | <u>(2,790)</u>   | <u>(5,522)</u>   |
| Changes in net assets                   | <u>-</u>         | <u>-</u>         |
| Endowment net assets, end of year       | <u>\$ 50,000</u> | <u>\$ 50,000</u> |

13 Compensated Absences

Employees of the Corporation are entitled to paid vacations, sick days and other time off depending on length of services and other factors. It is impractical to estimate the amount of compensation for future absences and, accordingly, no liability has been recorded in the accompanying financial statements. The Corporation's policy is to recognize the costs of compensated absences when paid to employees.

14 Contributed Services

The Corporation received volunteer tutoring and Mercy Center support services, valued utilizing the average hourly rate for various positions in the Northeastern United States of \$24.50.

Below is a schedule of contributed services at June 30, 2019 and 2018:

|                             | <u>2019</u>       | <u>2018</u>      |
|-----------------------------|-------------------|------------------|
| Tutoring at Sisters Academy | \$ 91,091         | \$ 47,040        |
| Mercy Center                | <u>45,325</u>     | <u>45,276</u>    |
|                             | <u>\$ 136,416</u> | <u>\$ 92,316</u> |

MERCY CENTER CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

15 Reclassification

Certain prior year numbers have been reclassified to conform to the current year's presentation.

16 Subsequent Event

The Corporation has evaluated all subsequent events through October 17, 2019, the date the financial statements were available to be issued.