

MERCY CENTER CORPORATION

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2020 AND 2019

CONTENTS

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

INDEPENDENT AUDITOR'S REPORT

September 22, 2020

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, 2020 and 2019, and the related statements of activities, functional expenditures and cash flows 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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



MERCY CENTER CORPORATION

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
Cash and cash equivalents	\$ 626,455	\$ 97,278
Investments	1,433,193	1,612,722
Pledges receivable	296,506	245,691
Grants receivable	22,810	41,196
Other current assets	4,827	12,783
Fixed assets - net	<u>3,473,113</u>	<u>3,564,257</u>
TOTAL ASSETS	<u><u>\$ 5,856,904</u></u>	<u><u>\$ 5,573,927</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 7,199	\$ 5,279
Accrued expenses	34,746	27,059
Prepaid tuition	-	12,902
Loan payable	50,000	50,000
Loan payable - Paycheck Protection Program	<u>153,776</u>	<u>-</u>
Total Liabilities	245,721	95,240
Net Assets		
Without donor restrictions	5,087,905	5,101,345
With donor restrictions		
Purpose restrictions	176,059	80,938
Time restrictions	297,219	246,404
Perpetual in nature	<u>50,000</u>	<u>50,000</u>
Total with donor restrictions	<u>523,278</u>	<u>377,342</u>
Total Net Assets	<u>5,611,183</u>	<u>5,478,687</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 5,856,904</u></u>	<u><u>\$ 5,573,927</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, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT						
Grants	\$ 609,585	\$ 40,000	\$ 649,585	\$ 629,620	\$ 40,000	\$ 669,620
Contributions	949,054	455,633	1,404,687	820,359	274,350	1,094,709
Contributed services	140,263	-	140,263	136,416	-	136,416
Investment income	24,349	215	24,564	49,139	2,790	51,929
Tuition	24,146	-	24,146	31,887	-	31,887
Special events, net of expenses of \$7,830 and \$16,387 in 2020 and 2019, respectively	24,573	-	24,573	43,564	-	43,564
Other income	1,211	-	1,211	3,519	-	3,519
Satisfaction of program restrictions	179,878	(179,878)	-	87,600	(87,600)	-
Satisfaction of time restrictions	169,819	(169,819)	-	169,295	(169,295)	-
Endowment transfer	215	(215)	-	2,790	(2,790)	-
TOTAL REVENUES AND OTHER SUPPORT	2,123,093	145,936	2,269,029	1,974,189	57,455	2,031,644
EXPENSES AND OTHER CHARGES						
Program Expenses						
Elementary Education	1,092,204	-	1,092,204	1,060,964	-	1,060,964
Aid to the Needy	682,406	-	682,406	696,132	-	696,132
Total Program Expenses	1,774,610	-	1,774,610	1,757,096	-	1,757,096
Management and General	251,057	-	251,057	223,076	-	223,076
Development	110,866	-	110,866	88,472	-	88,472
TOTAL EXPENSES AND OTHER CHARGES	2,136,533	-	2,136,533	2,068,644	-	2,068,644
(DECREASE) INCREASE IN NET ASSETS	(13,440)	145,936	132,496	(94,455)	57,455	(37,000)
NET ASSETS - Beginning of Year	5,101,345	377,342	5,478,687	5,195,800	319,887	5,515,687
NET ASSETS - End of Year	\$ 5,087,905	\$ 523,278	\$ 5,611,183	\$ 5,101,345	\$ 377,342	\$ 5,478,687

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

MERCY CENTER CORPORATION

STATEMENTS OF FUNCTIONAL EXPENDITURES

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020						2019					
	Program Expenses			Management and			Program Expenses			Management and		
	Elementary Education	Aid to the Needy	Total	General	Development	Total	Elementary Education	Aid to the Needy	Total	General	Development	Total
Salaries and wages	\$ 623,540	\$ 477,125	\$ 1,100,665	\$ 169,579	\$ 72,000	\$ 1,342,244	\$ 618,922	\$ 492,671	\$ 1,111,593	\$ 161,182	\$ 70,000	\$ 1,342,775
Payroll taxes	44,310	38,960	83,270	9,307	5,508	98,085	46,621	42,090	88,711	8,735	5,355	102,801
Accounting and auditing	4,340	4,580	8,920	4,580	-	13,500	5,800	4,974	10,774	1,826	-	12,600
Administrative fees	13,737	-	13,737	26,234	-	39,971	6,907	-	6,907	10,778	-	17,685
Advertising	1,856	656	2,512	75	-	2,587	624	131	755	60	-	815
Alarm system	4,171	1,682	5,853	237	-	6,090	4,346	1,090	5,436	256	-	5,692
Auto expense	101	1,061	1,162	229	-	1,391	149	558	707	1,186	-	1,893
Background verification	79	-	79	-	-	79	-	121	121	40	-	161
Bus rental	6,874	-	6,874	-	-	6,874	8,715	-	8,715	-	-	8,715
Cleaning	39,368	4,857	44,225	6,100	-	50,325	22,629	3,737	26,366	3,468	-	29,834
Consultants	-	5,267	5,267	4,883	-	10,150	-	6,141	6,141	11,233	-	17,374
Depreciation	125,608	19,339	144,947	8,288	-	153,235	129,204	19,361	148,565	8,297	-	156,862
Educational association dues	2,904	-	2,904	-	-	2,904	2,790	-	2,790	-	-	2,790
Employee benefits	37,870	28,489	66,359	(1,474)	-	64,885	25,706	29,234	54,940	(1,212)	-	53,728
Equipment	34,495	985	35,480	-	-	35,480	1,000	2,000	3,000	-	-	3,000
Extracurricular activities	(71)	-	(71)	-	-	(71)	17,034	-	17,034	-	-	17,034
Fundraising	-	-	-	-	33,358	33,358	-	-	-	-	13,117	13,117
Hospitality	4,520	109	4,629	4,282	-	8,911	5,094	73	5,167	5,296	-	10,463
Insurance	33,417	12,737	46,154	9,095	-	55,249	32,275	17,066	49,341	4,877	-	54,218
Interest	-	-	-	236	-	236	-	-	-	-	-	-
Internet and computer technology	6,942	3,182	10,124	815	-	10,939	5,182	576	5,758	559	-	6,317
Marketing/Outreach	15,655	2,243	17,898	3,048	-	20,946	1,922	2,150	4,072	7,803	-	11,875
Meals	13,509	-	13,509	-	-	13,509	24,545	-	24,545	-	-	24,545
Office supplies	6,254	5,487	11,741	4,244	-	15,985	7,673	5,546	13,219	2,483	-	15,702
Overhead allocation	-	15,600	15,600	(15,600)	-	-	-	18,568	18,568	(18,568)	-	-
Pest control	675	1,140	1,815	-	-	1,815	825	1,140	1,965	-	-	1,965
Postage	1,966	598	2,564	304	-	2,868	777	972	1,749	618	-	2,367
Printing	1,828	1,841	3,669	2,177	-	5,846	1,523	763	2,286	1,085	-	3,371
Rent	-	-	-	-	-	-	-	-	-	-	-	-
Repairs and maintenance	16,948	6,268	23,216	3,638	-	26,854	30,146	3,186	33,332	1,991	-	35,323
Scholarship	5,905	-	5,905	-	-	5,905	11,725	-	11,725	-	-	11,725
Specific assistance to clients	-	31,821	31,821	1,906	-	33,727	-	24,744	24,744	3,057	-	27,801
Teaching supplies	4,457	-	4,457	-	-	4,457	3,933	-	3,933	18	-	3,951
Telephone	7,323	6,541	13,864	2,392	-	16,256	7,176	5,959	13,135	1,649	-	14,784
Textbooks	242	-	242	-	-	242	876	-	876	-	-	876
Training and conferences	269	1,151	1,420	119	-	1,539	490	2,114	2,604	126	-	2,730
Travel	-	2,338	2,338	(740)	-	1,598	-	2,977	2,977	759	-	3,736
Utilities	33,112	8,349	41,461	7,103	-	48,564	36,355	8,190	44,545	5,474	-	50,019
	<u>\$ 1,092,204</u>	<u>\$ 682,406</u>	<u>\$ 1,774,610</u>	<u>\$ 251,057</u>	<u>\$ 110,866</u>	<u>\$ 2,136,533</u>	<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>

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

MERCY CENTER CORPORATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 132,496	\$ (37,000)
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	153,235	156,862
Loss (Gain) on investments	2,160	(26,105)
Accrued interest - Paycheck Protection Program	236	-
Changes in operating assets and liabilities		
Decrease (Increase)		
Pledges receivable	(50,815)	(24,806)
Grants receivable	18,386	23,407
Other current assets	7,956	(3,460)
(Decrease) Increase		
Accounts payable	1,920	(9,379)
Accrued expenses	7,687	2,992
Prepaid tuition	(12,902)	(4,915)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>260,359</u>	<u>77,596</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(62,091)	(19,564)
Sale of investments	189,701	98,596
Purchase of investments	(12,332)	(281,881)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>115,278</u>	<u>(202,849)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from loan - Paycheck Protection Program	153,540	-
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES	<u>153,540</u>	<u>-</u>
NET INCREASE (DECREASE)IN CASH AND CASH EQUIVALENTS	529,177	(125,253)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>97,278</u>	<u>222,531</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 626,455</u>	<u>\$ 97,278</u>
SUPPLEMENTAL INFORMATION		
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

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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, 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 205 individuals during fiscal year 2020. These services included 711 program sessions, 1,236 individual counseling sessions, 1,481 contacts (intakes, assessments, office and home visits), 651 referrals to partner agencies, and 826 services provided by Community Victim Witness Advocates to victims and survivors of crimes. Additionally, emergency services were provided to 1,040 people, including 642 families receiving food, 300 Thanksgiving baskets to feed 1,275 people, and 250 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 59 volunteers who donated over 5,725 hours of time to the Corporation during the fiscal year 2020.

The Corporation's revenues come primarily through grants and contributions.

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 statement 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, 2020 AND 2019

1 Summary of Significant Accounting Policies (Continued)

Grants Receivable -- Grants receivable, less an appropriate allowance, are reported at their net present value. The Corporation provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts.

Pledges Receivable -- These amounts, less an appropriate allowance, are reported at their present value.

Deferred Revenue -- Deferred revenue represents payments received prior to the start of the academic term to which they apply and is reported on the statement of financial position as "Prepaid tuition". The following table depicts activities for deferred revenue related to tuition revenue.

	<u>Balance at June 30, 2019</u>	<u>Deferred revenue recognized during the year ended June 30, 2020</u>	<u>Cash received in advance of performance</u>	<u>Balance at June 30, 2020</u>
Student deposits and advanced payments	\$ 12,902	\$ (12,902)	\$ -	\$ -

There was no prepaid tuition at June 30, 2020 to recognize as revenue over the academic term beginning on or after July 1, 2020.

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

MERCY CENTER CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

1 Summary of Significant Accounting Policies (Continued)

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.

Functional Allocation of Expenses -- The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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.

MERCY CENTER CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

1 Summary of Significant Accounting Policies (Continued)

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.

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).

MERCY CENTER CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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.

3 Liquidity

The table below represents financial assets available for general expenditures within one year at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 626,455	\$ 97,278
Investments	1,433,193	1,612,722
Pledges receivable	296,506	245,691
Grants receivable	<u>22,810</u>	<u>41,196</u>
Total financial assets	2,378,964	1,996,887
Less amounts not available to be used within one year:		
Endowment funds with liquidity horizons greater than one year	50,000	50,000
Pledges receivable	<u>226,461</u>	<u>142,212</u>
Financial assets not available to be used within one year	<u>276,461</u>	<u>192,212</u>
Financial assets available to meet general expenditures within one year	<u>\$ 2,102,503</u>	<u>\$ 1,804,675</u>

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.

MERCY CENTER CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

4 Related Party Transactions

Payments to SOM

A total of \$167,754 and \$156,920 was paid to SOM for the services of Sisters who are assigned to the Corporation for the years ended June 30, 2020 and 2019, respectively.

Donations from SOM

SOM donated \$25,000 and \$15,000 to the Corporation during the years ended June 30, 2020 and 2019, respectively.

5 Investments

The following table sets forth by level, within the fair value hierarchy, the Center's investments as of June 30, 2020:

	<u>Investments at Fair Values as of June 30, 2020</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	\$ 745,646	\$ -	\$ -	\$ 745,646
Certificates of deposit	<u>687,547</u>	<u>-</u>	<u>-</u>	<u>687,547</u>
	<u>\$ 1,433,193</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,433,193</u>

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, 2020 AND 2019

5 Investments (Continued)

Investment income consists of the following:

	<u>2020</u>	<u>2019</u>
Interest and dividends	\$ 30,301	\$ 29,419
(Loss) Gain on investments	(2,160)	26,105
Investment fees	<u>(3,577)</u>	<u>(3,595)</u>
	<u>\$ 24,564</u>	<u>\$ 51,929</u>

6 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, 2020 and 2019, amounts due to the Corporation in connection with such agreements totaled \$22,810 and \$41,196, respectively. Management expects the receivables to be collected prior to September 30, 2020.

7 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 \$81,219. The pledge receivable balance was \$296,506 at June 30, 2020.

The pledges are expected to be received as follows:

2021	\$ 167,099
2022	82,687
2023	71,740
2024	43,215
2025	22,069
Thereafter	<u>6,750</u>
	393,560
Less provision for pledges doubtful of collection	(81,219)
Less present value adjustment	<u>(15,835)</u>
	<u>\$ 296,506</u>

MERCY CENTER CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

8 Fixed Assets

Below is a summary of fixed assets as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Land/land improvements	\$ 325,236	\$ 325,236
Building and improvements	4,759,450	4,699,567
Other furniture and equipment	<u>592,561</u>	<u>590,352</u>
	5,677,247	5,615,155
Less: accumulated depreciation	<u>(2,204,134)</u>	<u>(2,050,898)</u>
	<u>\$ 3,473,113</u>	<u>\$ 3,564,257</u>

Depreciation expense was \$153,235 and \$156,862 for the years ended June 30, 2020 and 2019, respectively.

9 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, 2020 and 2019 on an unsecured promissory note payable on demand. The note is non-interest bearing.

10 Loan Payable - Paycheck Protection Program

The Corporation received a \$153,540 loan through the U.S. Small Business Administration's Paycheck Protection Program (PPP Loan) on May 1, 2020. The PPP Loan program was authorized as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which was signed into law on March 27, 2020. Small businesses and eligible not-for-profit organizations were encouraged to apply for the PPP loan to help retain their current employees and their salary levels during the COVID-19 pandemic. The PPP loan and accrued interest are eligible to be forgiven if the Corporation maintains its employee count and salary level; and uses the fund for payroll and payroll related costs, interest on mortgages, rent, and utilities; and if 60% of the loan proceeds are used for payroll and payroll related costs.

The terms of the PPP loan indicate the Corporation must utilize the proceeds for previously mentioned qualifying expenses during a period not to exceed twenty-four weeks from the time the funds were received (May 4, 2020). The PPP loan agreement also states that the Corporation must repay any unforgiven portion of the PPP loan principal, plus interest accruing at the rate of 1% per annum, over the course of two years from the date of receipt. In accordance with the CARES Act, all principal and interest payments were deferred for six months.

MERCY CENTER CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

10 Loan Payable - Paycheck Protection Program (Continued)

The Corporation has elected to account for the PPP loan as a financial liability in accordance with FASB ASC 470. Management believes the Corporation fulfilled the forgiveness requirements under the PPP loan terms subsequent to June 30, 2020, but prior to the date of this report. FASB ASC 470 prohibits the Corporation from recognizing forgiveness of the loan and gain on extinguishment until they are released as the primary obligator. Management estimates the entire loan and accrued interest to be forgiven and extinguished during the year ended June 30, 2021.

Loan payable - Paycheck Protection Program consisted of the following as of June 30, 2020:

Loan balance	\$ 153,540
Accrued interest	<u>236</u>
	<u>\$ 153,776</u>

11 Net Assets with Donor Restrictions

Net assets with donor restriction are available for the following purposes as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Passage of Time		
Circle of Mercy campaign	\$ 297,219	\$ 246,404
Specified Purpose		
Academy tuition	90,000	15,000
Fatherhood Empowerment program	33,600	24,514
Resiliency program	19,922	6,186
Youth With A Purpose	26,942	20,238
Academy repairs/improvements	5,595	
Academy operations	<u>-</u>	<u>15,000</u>
	176,059	80,938
Endowments		
Subject to endowment spending policy	<u>50,000</u>	<u>50,000</u>
Total donor assets with restrictions	<u>\$ 523,278</u>	<u>\$ 377,342</u>

MERCY CENTER CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

11 Net Assets with Donor Restrictions (Continued)

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>2020</u>	<u>2019</u>
Purpose Restriction Accomplished		
Academy tuition	\$ 15,000	\$ 25,000
Academy operations	15,000	-
Fatherhood Empowerment program	33,914	44,373
Resiliency program	6,264	12,465
Academy repairs/improvements	101,405	-
Youth With A Purpose	<u>8,295</u>	<u>5,762</u>
	<u>\$ 179,878</u>	<u>\$ 87,600</u>
Passage of Time Accomplished		
Academy operations	<u>\$ 169,819</u>	<u>\$ 169,295</u>
	<u>\$ 169,819</u>	<u>\$ 169,295</u>

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.

MERCY CENTER CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

12 Endowment (Continued)

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 net assets with donor restrictions - perpetual in nature (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 diminishment of the fund from investment income, loss, and spending allowance. The remaining portion of the donor-restricted endowment fund that is not classified as net assets with donor restrictions - perpetual in nature is classified as net assets without donor restrictions 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.

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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Endowment net assets, beginning of year	\$ 50,000	\$ 50,000
Investment income	215	2,790
Spending allowance	<u>(215)</u>	<u>(2,790)</u>
Changes in net assets	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 50,000</u>	<u>\$ 50,000</u>

MERCY CENTER CORPORATION

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

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 of \$24.50 for various positions in the Northeastern United States.

Below is a schedule of contributed services at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Tutoring at Sisters Academy	\$ 93,100	\$ 91,091
Mercy Center	<u>47,163</u>	<u>45,325</u>
	<u>\$ 140,263</u>	<u>\$ 136,416</u>

15 Uncertainties

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen which are likely to negatively impact the Corporation's change in net assets. Other financial impact could occur, though such potential impact is unknown at this time.

15 Subsequent Event

The Corporation has evaluated all subsequent events through September 22, 2020, the date the financial statements were available to be issued.