

HOUSE OF MERCY, INC.

FINANCIAL STATEMENTS

As of and for the Year Ended June 30, 2017

And

Independent Accountant's Review Report

HOUSE OF MERCY, INC.

TABLE OF CONTENTS

| | <u>Page(s)</u> |
|--|----------------|
| Independent Accountant's Review Report..... | 1 |
| Statement of Financial Position | 2 |
| Statement of Activities and Changes in Net Assets..... | 3 |
| Statement of Cash Flows..... | 4 |
| Notes to Financial Statements..... | 5-11 |

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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, 2017, 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 2016 financial statements and in my conclusion dated September 28, 2016, stated that based on my review, I was not aware of any material modifications that should be made to the 2016 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, 2016, for it to be consistent with the reviewed financial statements from which it has been derived.

William L. Woody, Jr., CPA

Gastonia, North Carolina
September 15, 2017

House of Mercy, Inc.

Statement of Financial Position June 30, 2017

(With Comparative Totals as of June 30, 2016)
(See Independent Accountant's Review Report)

| | 2017 | | | 2016 |
|---|---------------------|---------------------------|---------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Totals | Totals |
| Assets | | | | |
| Current assets | | | | |
| Cash and cash equivalents | \$ 125,322 | \$ 15,000 | \$ 140,322 | \$ 53,996 |
| Investments | 1,076,992 | - | 1,076,992 | 1,017,580 |
| Accounts receivable | 47,853 | - | 47,853 | 33,775 |
| Interest receivable | 998 | - | 998 | 876 |
| Prepaid expenses | 16,255 | - | 16,255 | 16,140 |
| Total current assets | 1,267,420 | 15,000 | 1,282,420 | 1,122,367 |
| Property and equipment | | | | |
| Furniture and fixtures | 44,741 | - | 44,741 | 44,741 |
| Equipment | 155,233 | - | 155,233 | 147,650 |
| Vehicles | 77,839 | - | 77,839 | 77,839 |
| Building improvements | 114,578 | - | 114,578 | 101,184 |
| Total property and equipment | 392,391 | - | 392,391 | 371,414 |
| Less accumulated depreciation | (295,186) | - | (295,186) | (273,539) |
| Net property and equipment | 97,205 | - | 97,205 | 97,875 |
| Other assets | 5,000 | - | 5,000 | 5,000 |
| Total assets | \$ 1,369,625 | \$ 15,000 | \$ 1,384,625 | \$ 1,225,242 |
| Liabilities and net assets | | | | |
| Current liabilities | | | | |
| Accounts payable | \$ 3,617 | \$ - | \$ 3,617 | \$ 6,452 |
| Accrued expenses | 64,795 | - | 64,795 | 50,777 |
| Total current liabilities | 68,412 | - | 68,412 | 57,229 |
| Net assets | | | | |
| Unrestricted | 1,301,213 | - | 1,301,213 | 1,168,013 |
| Temporarily restricted | - | 15,000 | 15,000 | - |
| Total net assets | 1,301,213 | 15,000 | 1,316,213 | 1,168,013 |
| Total liabilities and net assets | \$ 1,369,625 | \$ 15,000 | \$ 1,384,625 | \$ 1,225,242 |

House of Mercy, Inc.

Statement of Activities and Changes in Net Assets
Year Ended June 30, 2017
(With Comparative Totals for the Year Ended June 30, 2016)
(See Independent Accountant's Review Report)

| | 2017 | | | 2016 |
|--|---------------------|---------------------------|---------------------|---------------------|
| | Unrestricted | Temporarily Restricted | Totals | Totals |
| Support, revenue, and gains | | | | |
| Related party contributions | \$ 269,340 | \$ - | \$ 269,340 | \$ 267,340 |
| Donations | 76,925 | 150 | 77,075 | 55,274 |
| Corporate and foundation grants | 146,000 | 68,316 | 214,316 | 221,830 |
| Resident fees | 65,579 | - | 65,579 | 56,096 |
| Special events | 76,852 | - | 76,852 | 68,300 |
| Resident service income | 27,388 | - | 27,388 | 26,615 |
| Donated facilities | 42,155 | - | 42,155 | 40,928 |
| Investment return | 115,911 | - | 115,911 | 4,105 |
| Other income | 2,455 | - | 2,455 | - |
| | <u>822,605</u> | <u>68,466</u> | <u>891,071</u> | <u>740,488</u> |
| Net assets released from restrictions-satisfaction of donor restrictions | 53,466 | (53,466) | - | - |
| Total support, revenue, and | <u>876,071</u> | <u>15,000</u> | <u>891,071</u> | <u>740,488</u> |
| Expenses | | | | |
| Salaries, related benefits and contract services | 579,106 | - | 579,106 | 596,149 |
| Resident care | 32,979 | - | 32,979 | 33,859 |
| Depreciation | 21,647 | - | 21,647 | 19,356 |
| Fundraising | 9,118 | - | 9,118 | 10,379 |
| Office | 3,395 | - | 3,395 | 4,556 |
| Occupancy | 42,155 | - | 42,155 | 40,928 |
| Insurance | 21,954 | - | 21,954 | 19,356 |
| Utilities and telephone | 10,942 | - | 10,942 | 11,838 |
| Other | 21,575 | - | 21,575 | 23,440 |
| Total expenses | <u>742,871</u> | <u>-</u> | <u>742,871</u> | <u>759,861</u> |
| Change in net assets | 133,200 | 15,000 | 148,200 | (19,373) |
| Net assets | | | | |
| Beginning of year | <u>1,168,013</u> | <u>-</u> | <u>1,168,013</u> | <u>1,187,386</u> |
| End of year | <u>\$ 1,301,213</u> | <u>\$ 15,000</u> | <u>\$ 1,316,213</u> | <u>\$ 1,168,013</u> |

House of Mercy, Inc.

Statement of Cash Flows
Year Ended June 30, 2017
(With Comparative Totals for the Year Ended June 30, 2016)
(See Independent Accountant's Review Report)

| | <u>2017</u> | <u>2016</u> |
|--|-------------------|------------------|
| Cash flows from operating activities | | |
| Change in net assets | \$ 148,200 | \$ (19,373) |
| Adjustments to reconcile change in net assets to net cash from operating activities | | |
| Net realized and unrealized loss | (94,204) | 16,684 |
| Depreciation | 21,647 | 19,356 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (14,078) | (29,017) |
| Interest receivable | (122) | 260 |
| Prepaid expenses | (115) | (1,142) |
| Accounts payable | (2,835) | 2,609 |
| Accrued expenses | 14,018 | (20,692) |
| Net cash from operating activities | <u>72,511</u> | <u>(31,315)</u> |
| Cash flows from investing activities | | |
| Proceeds from sale of investments | 54,724 | 4,460 |
| Purchases of investments | (19,932) | (18,698) |
| Purchases of property and equipment | (20,977) | (33,322) |
| Net cash from investing activities | <u>13,815</u> | <u>(47,560)</u> |
| Net increase (decrease) in cash and cash equivalents | 86,326 | (78,875) |
| Cash and cash equivalents | | |
| Beginning of year | <u>53,996</u> | <u>132,871</u> |
| End of year | <u>\$ 140,322</u> | <u>\$ 53,996</u> |

House of Mercy, Inc.

Notes to Financial Statements
As of and for the Year Ended June 30, 2017
(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 accounting - The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

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

Unrestricted net assets - Unrestricted net assets are net assets that are available for use in the day-to-day operations of the Organization and those resources invested in property and equipment. From time-to-time, the Board of Directors may designate certain amounts to be utilized or invested to meet the specific objectives of the Organization. Such amounts would be reflected as unrestricted designated net assets.

Temporarily restricted net assets - Net assets subject to donor-imposed restrictions that may, or will, be met either by actions of the Organization or the passage of time are classified as temporarily restricted net assets. When a restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities and changes in net assets as net assets released from restrictions. If a restriction is fulfilled in the same time period in which the contribution is received, the contribution is reported as unrestricted.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization classify as permanently restricted net assets. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

At June 30, 2017, the Organization had no unrestricted designated net assets or permanently restricted net assets. The Organization had \$15,000 in temporarily restricted net assets that were restricted for use in the 2017-2018 year.

Net assets released from restrictions during the year ended June 30, 2017 were for program services and for the purchase and upgrade of property and equipment.

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, 2017
(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. 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, 2017. Interest receivable represents accrued interest earned on certificates of deposits.

Investments - Investments include certificates of deposit and pooled investment funds and are valued in the accompanying statement of financial position at their fair value. Fair value for certificates of deposit approximates cost. Pooled investment funds are carried at fair value based upon financial information provided by external investment partners because market quotations for these pooled investment funds are not readily available. The estimated value is based upon the readily determinable market values of these underlying investments. 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, 2017.

House of Mercy, Inc.

Notes to Financial Statements
As of and for the Year Ended June 30, 2017
(See Independent Accountant's Review Report)

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

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.

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, 2017, the Organization received \$12,160 in donated materials. This amount is included in donations and other expenses in the accompanying statement of activities and changes in net assets.

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.

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.

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, 2016 and 2017, the Organization received \$85,000 per year 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, 2018, 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.

House of Mercy, Inc.

Notes to Financial Statements
As of and for the Year Ended June 30, 2017
(See Independent Accountant's Review Report)

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

Fair value measurements (continued) - 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 following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

Certificates of deposit - Certificates of deposit are promissory notes issued by a financial institution. Certificates of deposit bear interest at a specified rate through a maturity date. Certificates of deposit funds are classified within level 2 of the valuation hierarchy.

MIS: Mercy Funds –This investment is a public investment vehicle valued using Net Asset Value ("NAV") provided by the administrator of the fund. This investment is based on the NAV per unit, a Level 2 input. The NAV is an estimate based on information provided by the fund manager in the absence of readily determinable market values of the units. The NAV is calculated based on the fair values of the underlying investments of the Funds.

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.

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, 2016, from which the summarized information was derived.

House of Mercy, Inc.

Notes to Financial Statements
As of and for the Year Ended June 30, 2017
(See Independent Accountant's Review Report)

Note 3 – 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, 2017, the South Central Community donated \$42,155 of rent which was due under operating lease agreements described in Note 7. 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 \$42,155 donated rent) totaled \$311,495 for the year then ended June 30, 2017.

The Organization entered into a contract on June 14, 2016 with Catherine's House, a related party, in which House of Mercy, Inc. will make available a current employee to serve as the President of Catherine's House. The agreement provides that Catherine's House will make monthly payments of \$7,606 to House of Mercy, Inc. as well as pay 50% of any increases in base pay for the President. For the year ended June 30, 2017, Catherine's House paid House of Mercy, Inc. a total of \$93,036 related to the contract.

The Organization also receives monthly payments from Catherine's House for the administrative hours a House of Mercy employee spends on Catherine's House. Amounts paid to House of Mercy, Inc. for administrative assistance for the year ended June 30, 2017 amounted to \$741.

Note 4 – Investments

A summary of investments measured at fair value on a recurring basis as of June 30, 2017 is as follows:

| | Level 1 | Level 2 | Level 3 | Total Fair Value |
|-------------------------|-------------|---------------------|-------------|---------------------|
| MIS: Mercy Funds | \$ - | \$ 901,992 | \$ - | \$ 901,992 |
| Certificates of deposit | - | 175,000 | - | 175,000 |
| | <u>\$ -</u> | <u>\$ 1,076,992</u> | <u>\$ -</u> | <u>\$ 1,076,992</u> |

The Organization invests in MIS-Mercy Fund's 70/30 Fund. The 70/30 Fund invests in approximately 70% equities and approximately 30% fixed-income securities.

The Funds have daily redemption limits for participants of \$100,000 and require a one-day redemption notice period for each \$100,000 redemption. At its discretion, MIS can allow complete withdrawals from the programs subject to a discretionary holdback of 10% to cover earnings and expense allocations for the month of the withdrawal.

The earnings of the Funds, including all realized and unrealized gains and losses, are allocated monthly on a pro rata basis based on the number of units held. Investment income is recognized as income when earned, with realized and unrealized gains and losses included in the statement of activities and changes in net assets.

House of Mercy, Inc.

Notes to Financial Statements
As of and for the Year Ended June 30, 2017
(See Independent Accountant's Review Report)

Note 4 – Investments (continued)

A summary of the Organization's investment return for the year ended June 30, 2017, is as follows:

| | |
|----------------------------------|-------------------|
| Interest and dividend income | \$ 21,707 |
| Net realized and unrealized loss | 94,204 |
| | <u>\$ 115,911</u> |

Note 5 – Functional expenses

A summary of functional expenses for the year ended June 30, 2017, are as follows:

| | |
|----------------------------|-------------------|
| Program services | \$ 526,768 |
| General and administrative | 143,710 |
| Development | 72,393 |
| | <u>\$ 742,871</u> |

Note 6 – 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 \$21,840 for the year ended June 30, 2017.

Note 7 – 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, 2017, 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, 2017, 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, 2016, for certain facilities and office space. The leases require monthly payments of \$3,513 through June 30, 2017. The payments for the leases were donated by the South Central Community for the year ended June 30, 2017, as described in Note 3. The lease for office space which began July 1, 2017, requires monthly payments of \$3,682 through June 30, 2018. Minimum lease payments under these non-cancelable operating leases are \$44,188 for the year ending June 30, 2018. Future rental payments are expected to be donated to the Organization by the South Central Community.

House of Mercy, Inc.

Notes to Financial Statements
As of and for the Year Ended June 30, 2017
(See Independent Accountant's Review Report)

Note 8 – Subsequent events

The Organization has evaluated subsequent events through September 15, 2017, in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.