
MERCY CONFERENCE AND RETREAT CENTER
FINANCIAL STATEMENTS

JUNE 30, 2020



CPAs and Business Advisors

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Independent Auditor's Report

To the Board of Directors
Mercy Conference and Retreat Center
St. Louis, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of *Mercy Conference and Retreat Center* (a nonprofit organization) (the "Center"), which comprise the statement of financial position as of June 30, 2020, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements


Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls 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 audit. We conducted our audit 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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *Mercy Conference and Retreat Center* as of June 30, 2020 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Pink & Associates, P.C.

St. Louis, MO
February 3, 2021

MERCY CONFERENCE AND RETREAT CENTER

STATEMENT OF FINANCIAL POSITION**JUNE 30, 2020****Assets****Current Assets**

Cash and cash equivalents	\$	151,948
Contract assets		13,167
Promises to give		35,000
Inventory		9,048
Prepaid expenses		6,278
Total Current Assets		215,441

Furniture and Equipment, Net 46,823

Investments, at Fair Value 2,600,263

Total Assets \$ 2,862,527

Liabilities and Net Assets**Current Liabilities**

Accounts payable	\$	10,127
Due to related party		8,938
Accrued payroll and salary related expenses		43,063
Contract liabilities		50,756
Current portion of long-term debt		51,082
Total Current Liabilities		163,966

Long-Term Liabilities

Note payable, net of current portion	<u>81,922</u>
Total Long-Term Liabilities	<u>81,922</u>

Total Liabilities 245,888

Net Assets

Without donor restrictions	
Undesignated	55,966
Board designated	<u>2,509,412</u>
Total net assets without donor restrictions	2,565,378

With donor restrictions	<u>51,261</u>
Total Net Assets	<u>2,616,639</u>

Total Liabilities and Net Assets \$ 2,862,527

MERCY CONFERENCE AND RETREAT CENTER

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue:			
Program services:			
Hosted conferences/retreats	\$ 629,762	\$ -	\$ 629,762
CRM sponsored programs	42,755	-	42,755
Spiritual direction/private retreats	69,207	-	69,207
Gift shop and other	26,722	-	26,722
Less: Discounts	(27,062)	-	(27,062)
Total Program Services	<u>741,384</u>	<u>-</u>	<u>741,384</u>
Managed services revenue	7,880	-	7,880
Rental revenue	27,180	-	27,180
Contributions	62,796	35,260	98,056
In-kind rental contribution	3,600	-	3,600
Donated rent revenue	426,640	-	426,640
Special events, net of expenses of \$16,188	12,311	-	12,311
Net assets released from restrictions	42,355	(42,355)	-
Total Support and Revenue	<u>1,324,146</u>	<u>(7,095)</u>	<u>1,317,051</u>
Expenses:			
Program services:			
Hosted conferences/retreats	1,124,541	-	1,124,541
MCRC - sponsored programs	227,325	-	227,325
Spiritual direction/private retreats	189,596	-	189,596
Total Program Services	<u>1,541,462</u>	<u>-</u>	<u>1,541,462</u>
Supporting activities:			
Management and general	88,237	-	88,237
Fundraising	109,295	-	109,295
Total Supporting Activities	<u>197,532</u>	<u>-</u>	<u>197,532</u>
Total Expenses	<u>1,738,994</u>	<u>-</u>	<u>1,738,994</u>
Change in Net Assets Before			
Investment Income, Net	<u>(414,848)</u>	<u>(7,095)</u>	<u>(421,943)</u>
Investment Income, Net			
Interest and dividends	63,726	-	63,726
Unrealized losses on investments	(57,248)	-	(57,248)
Realized gains on investments	69,152	-	69,152
Investment fees	(12,575)	-	(12,575)
Total Investment Income, Net	<u>63,056</u>	<u>-</u>	<u>63,056</u>
Change in Net Assets	<u>(351,792)</u>	<u>(7,095)</u>	<u>(358,887)</u>
Net Assets, Beginning of Year	<u>2,917,170</u>	<u>58,356</u>	<u>2,975,526</u>
Net Assets, End of Year	<u>\$ 2,565,378</u>	<u>\$ 51,261</u>	<u>\$ 2,616,639</u>

MERCY CONFERENCE AND RETREAT CENTER

STATEMENT OF FUNCTIONAL EXPENSES FOR THE YEAR ENDED JUNE 30, 2020

	Program Services				Supporting Activities		
	Hosted Conferences/ Retreats	MCRC		Spiritual Direction/ Private Retreats	Management and		Total
		Sponsored Programs	Total Program Services		General	Fundraising	
Lay salaries	\$ 207,481	\$ 113,171	\$ 61,299	\$ 381,951	\$ 37,724	\$ 51,870	\$ 471,545
Sisters salaries	8,890	-	46,672	55,562	-	-	55,562
Lay benefits	59,153	32,265	17,477	108,895	10,754	14,788	134,437
Sisters benefits	622	-	3,267	3,889	-	-	3,889
Administrative	25,961	2,769	2,424	31,154	1,730	1,731	34,615
Chapel	4,031	127	85	4,243	-	-	4,243
Computer	18,851	2,011	1,759	22,621	1,257	1,257	25,135
CRM speaker fees	-	9,008	-	9,008	-	-	9,008
Depreciation	8,887	948	830	10,665	592	592	11,849
Dietary	235,934	7,451	4,967	248,352	-	-	248,352
Gift shop	1,627	542	-	2,169	-	-	2,169
Housekeeping	7,678	242	162	8,082	-	-	8,082
In-kind services	2,700	900	-	3,600	-	-	3,600
Insurance	15,311	1,633	1,429	18,373	1,020	1,021	20,414
Miscellaneous	-	-	-	-	-	2,875	2,875
Rent and purchased services	527,415	56,258	49,225	632,898	35,160	35,161	703,219
Total Functional Expenses	\$ 1,124,541	\$ 227,325	\$ 189,596	\$ 1,541,462	\$ 88,237	\$ 109,295	\$ 1,738,994

MERCY CONFERENCE AND RETREAT CENTER

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2020****Cash Flows from Operating Activities:**

Change in Net Assets	\$	(358,887)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation		11,849
Unrealized losses on investments		57,248
Realized gains on investments		(69,152)
Change in assets and liabilities:		
(Increase) decrease in contract assets		44,658
(Increase) decrease in inventory		(6,478)
(Increase) decrease in prepaid expenses		(3,019)
Increase (decrease) in accounts payable		4,355
Increase (decrease) in due to related party		(3,024)
Increase (decrease) in accrued payroll and salary related expenses		6,049
Increase (decrease) in contract liabilities		<u>(40,826)</u>
Net Cash Used in Operating Activities		<u>(357,227)</u>

Cash Flows from Investing Activities:

Proceeds from sale of investments	611,416
Purchase of investments	(236,416)
Purchase of investments from reinvested gains, net	(51,152)
Purchase of fixed assets	<u>(4,795)</u>
Net Cash Provided by Investing Activities	<u>319,053</u>

Cash Flows from Financing Activities:

Proceeds from Payroll Protection Program loan	<u>133,004</u>
Net Cash Provided by Financing Activities	<u>133,004</u>

Net Increase in Cash	94,830
Cash and Cash Equivalents - Beginning of Year	<u>57,118</u>
Cash and Cash Equivalents - End of Year	\$ <u><u>151,948</u></u>

MERCY CONFERENCE AND RETREAT CENTER

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

1. NATURE OF ORGANIZATION

Mercy Conference and Retreat Center (the “Center”) is a not-for-profit organization incorporated in Missouri on June 10, 2008. Situated on a 72 acre campus in St. Louis, Missouri, the Center operates a conference and retreat facility which serves both groups and individuals, and offers a spacious setting and supportive atmosphere for professional, educational, and spiritual activities.

From 1975 to 1991, the Center was owned and operated as a division of the Sisters of Mercy of the Union-United States, St. Louis Province, and from 1991 to 2008, as a division of the Sisters of Mercy of the Americas, St. Louis Regional Community. As part of an organizational restructuring in 2008, the St. Louis Regional Community combined with other communities to form the Sisters of Mercy of the Americas South Central Community (“Sisters of Mercy”), and the Center incorporated in 2008 as a separate legal entity. The Sisters of Mercy continue to exercise control over the Center’s operations under certain corporate governance powers reserved exclusively to the Sisters of Mercy under the Center’s by-laws, including approval of the Center’s Board of Directors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

The FASB issued new guidance for the presentation of financial statements of not-for-profits to enhance the understandability of the financial statements and provide more relevant information as presented under Accounting Standards Update 2016-14 (“ASU 2016-14”) – Not-for-Profit Entities: Presentation of Financial Statements for Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided by expenses and investment return. The Center has adjusted the presentation of these financial statements accordingly.

Under this revised guidance, the Center adopted the following presentations:

- Net asset classifications are shown as both “without donor restrictions” and “with donor restrictions.” The Center has presented these two classes of net assets on the financial statements.

Net assets without donor restrictions are net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Center. These net assets may be used at the discretion of management and the Board of Directors.

Net assets with donor restrictions are net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by the actions of the Center or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity.

- Investment returns, if applicable, are reported net of external and direct internal investment expenses.

MERCY CONFERENCE AND RETREAT CENTER

NOTES TO FINANCIAL STATEMENTS (*CONTINUED*)

JUNE 30, 2020

- The Center presents their expenses by both their natural classification and their functional classification on the statement of functional expenses. The method used to allocate costs among programs and supporting activities is disclosed in the notes to the financial statements.
- New disclosures related to liquidity and availability of resources is presented in the notes to the financial statements, including qualitative information that discloses how the Center manages its liquid resources to meet its cash flow needs and quantitative information regarding the availability of financial assets to meet these needs.

Use of Estimates

The Center uses estimates and assumptions in the preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Center considers all checking accounts, which are available for the Center's needs, to be cash equivalents.

Concentration of Credit Risk

The Center maintains cash deposits in a financial institution. The account balances are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per financial institution. At various times throughout the year ended June 30, 2020, balances may have exceeded these insured limits. The Center has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Contract Assets and Allowance for Doubtful Accounts

Management considers contract assets to be fully collectible; accordingly, no allowance for doubtful accounts is provided. If amounts become uncollectible, they will be charged to operations when that determination is made. Bad debt expense totaled \$0 for the year ended June 30, 2020.

Inventory

Inventory consists of gift shop merchandise recorded at cost on a first-in-first-out basis, which is materially the same as if the inventory were recorded at net realizable value.

Furniture and Equipment

The Center capitalizes all furniture and equipment expenditures with a cost of \$5,000 or more and having estimated useful lives of more than one year. Maintenance and repairs which are not considered to extend useful lives of assets are charged to operations as incurred. Upon sale or retirement, the cost of assets and related allowances are removed from the accounts and any resulting gains or losses are included in income (expense) for the year. Donations of equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose.

Depreciation is calculated with the straight-line method over the estimated useful lives of the assets, which is 3-7 years for furniture and equipment.

MERCY CONFERENCE AND RETREAT CENTER

NOTES TO FINANCIAL STATEMENTS (*CONTINUED*)

JUNE 30, 2020

Investments

Investments are reported at fair value. Gains and losses on sales of investments are determined on a specific cost identification method. Unrealized gains and losses are based on year-end reported fair values.

Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

Revenue and Revenue Recognition

➤ Donations and Grants

The Center recognizes donations and grants when cash, securities or other assets, an unconditional promise to give, or a notification of a beneficial interest is received. Conditional promises to give – that is, those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met.

➤ Conference/Retreat/Programs

The Center recognizes revenues from conferences, retreats and various programs when control of the products and services are transferred to customers in an amount that reflects the consideration the Center expects to be entitled to in exchange for those products and services. The Center does not provide any significant financing components as payment is received during or shortly after the services are completed.

Promises to Give

Unconditional promises to give are recognized as support in the period in which such promises are received. Conditional promises, which depend upon the specified future and uncertain events, are recognized as support when the conditions upon which they depend are substantially met. Promises to give are reported at the amount management expects to collect on balances outstanding at year end, and promises to give are expected to be collected within one year.

The Sisters of Mercy provide funding for the Center's activities. During 2020, the Sisters of Mercy notified the Center it would receive \$35,000 of funding during fiscal year 2021. The Center recorded this amount as a promise to give and restricted contribution as of June 30, 2020.

Contract Liabilities

Contract liabilities consist of deposits received from groups and individuals for future conferences, retreats, or programs which are hosted or conducted by the Center, and such amounts are recorded as revenue in the period when the applicable conference, retreat, or program occurs.

MERCY CONFERENCE AND RETREAT CENTER

NOTES TO FINANCIAL STATEMENTS (*CONTINUED*)

JUNE 30, 2020

Support and Revenue with or without Donor Restrictions

Contributions and grants received are recorded as either with donor restrictions or without donor restrictions depending on the existence and/or nature of any donor restrictions. The Center reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, restricted net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. As permitted under FASB ASC 958-205 and ASU 2016-14, the Center reports contributions and grants with donor restrictions as support and revenue without donor restrictions in the current year when the Center meets the donor restrictions in the same period. Noncash donations for special events are recorded as contributions at their fair values at the date of donation.

Donated Services and Facilities

Contributions of donated services that create or enhance non-financial assets, or that require specialized skills, are provided by individuals possessing those skills and typically would need to be purchased, if not provided by donation, are recorded at their fair values in the period received. The Center recorded in-kind service revenue and expense of \$3,600 for the year ended June 30, 2020.

The Center recognizes in-kind rental contribution revenue and expense in the statement of activities for the excess of the fair value of rent over the rent amount charged and paid by the Center under the terms of its lease agreement with Sisters of Mercy. During the year ended June 30, 2020, donated rent was \$426,640.

The Center receives a significant amount of donated services from unpaid volunteers who assist in fund-raising and special projects. No amounts have been recognized in the statement of activities because the criteria for recognition under FASB ASC 958-605 have not been satisfied.

Description of Program Services and Supporting Activities

The following program services and supporting activities are included in the accompanying financial statements:

Program – Includes those expenditures that enable the Center to operate its conference and retreat programs:

Hosted Conferences/Retreats – Day and overnight events held at the Center which are sponsored by independent groups (community, faith-based, and nonprofit). The Center provides housing, meals/food services, meeting rooms and conference planning services.

MCRC Sponsored Programs – Day and overnight events sponsored by the Center, including: retreats, days of reflection, workshops, musical experiences, and spiritually based yoga classes. The Center provides housing, meals/food services, meeting rooms, and secures presenters. All programs are promoted through mailing, on the web, via e-blasts, and other social media.

Spiritual Direction/Private Retreats – The Center offers programs for individuals who stay for one or more days of private reflection or individually directed retreats (which includes provision of housing and meals). Spiritual direction is provided (whether by the Center's staff or through rent paid by adjunct spiritual directors) as well as healing touch and therapeutic massage/bodywork (through rent paid by adjunct RSMs and others).

MERCY CONFERENCE AND RETREAT CENTER

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2020

Revenues earned from the Center's programs are reflected in the statement of activities net of the charitable, courtesy, professional and other discounts which are regularly provided to groups utilizing the Center's facilities. For the year ended June 30, 2020, these discounts totaled \$27,062.

Management and General - Includes the functions necessary to maintain an equitable employment program; ensure an adequate working environment; provide coordination and articulation of the Center's program strategy; secure proper administrative functioning of the Board; and manage the financial and budgetary responsibilities of the Center.

Fundraising - Provides the structure necessary to encourage and secure private financial support from individuals, corporations, and foundations in the form of gifts, as well as through fundraising events.

Program and Supporting Activities - Functional Expense Allocation

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The functional expenses are allocated to programs, management and general, and fundraising by management's level of effort in each program. Their estimate portrays a realistic assessment of how much time and funding is utilized in each functional area.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Lay salaries	Effort allocation by management
Sisters salaries	Effort allocation by management
Lay benefits	Effort allocation by management
Sisters benefits	Effort allocation by management
Administrative	Effort allocation by management
Chapel	Effort allocation by management
Computer	Effort allocation by management
CRM speaker fees	Effort allocation by management
Depreciation	Effort allocation by management
Dietary	Effort allocation by management
Gift shop	Effort allocation by management
Housekeeping	Effort allocation by management
In-kind services	Effort allocation by management
Insurance	Effort allocation by management
Miscellaneous	Effort allocation by management
Rent and purchased services	Effort allocation by management

Income Taxes

The Center is recognized by the Internal Revenue Service as an exempt organization under Section 501(c)(3) of the Internal Revenue Code and classified as a public charity. Therefore, the Center is exempt from Federal and State income taxes.

MERCY CONFERENCE AND RETREAT CENTER

NOTES TO FINANCIAL STATEMENTS (*CONTINUED*)

JUNE 30, 2020

Fair Value Measurements

Financial Accounting Standards Board ("FASB") *Accounting Standards Codification* ("ASC") 820, *Fair Value Measurements and Disclosures*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 Fair Value Measurements

Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Center has the ability to access.

Level 2 Fair Value Measurements

Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Fair Value Measurements

Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. See Note 7 regarding the Center's investments and the appropriate classification according to this fair value hierarchy.

The carrying amounts of cash and cash equivalents, contract assets, promises to give, accounts payable, accrued payroll and salary related expenses, and contract liabilities approximate fair value due to the short period to maturity.

Recent Accounting Pronouncements

Lease Accounting and Presentation

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*. Under ASU 2016-02, a lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. When measuring assets and liabilities arising from a lease, a lessee should include payments to be made in optional periods only if the lessee is reasonably certain to exercise an option to extend the lease or not to exercise an option to terminate the lease. Similarly, optional payments to purchase the underlying asset should be included in the measurement of lease assets and lease liabilities only if the lessee is reasonably certain to exercise that purchase option.

MERCY CONFERENCE AND RETREAT CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

Under ASU 2016-02, leases will continue to be differentiated between finance leases and operating leases. However, the principal difference from previous guidance is that the lease assets and lease liabilities arising from operating leases should be recognized in the statement of financial position.

For finance leases, a lessee is required to do the following:

1. Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position.
2. Recognize interest on the lease liability separately from amortization of the right-of-use asset in the statement of activities.
3. Classify repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows.

For operating leases, a lessee is required to do the following:

1. Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position.
2. Recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis.
3. Classify all cash payments within operating activities within the statement of cash flows.

For leases with a term of twelve months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term.

ASU 2016-02 is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted. Upon adoption, a modified retrospective approach shall be applied to all periods presented. Management is currently evaluating the impact ASU 2016-02 will have on the financial statements.

Subsequent Events

Management has evaluated the impact on the financial statements, if any, of subsequent events through February 3, 2021, which is the date the financial statements were available to be issued.

3. ADOPTION OF NEW ACCOUNTING STANDARDS

Accounting Standards Update 2014-09, "Revenue from Contracts with Customers (Topic 606)"

In May 2014, The Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)". The ASU and all subsequently issued clarifying ASUs replaced most existing revenue recognition guidance in U.S. GAAP. The ASU also required expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Center adopted the new standard effective July 1, 2019, the first day of the Center's fiscal year using the modified retrospective approach.

MERCY CONFERENCE AND RETREAT CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

As a part of the adoption of the ASU, the Center elected the following transition practical expedients: (i) to reflect the aggregate of all contract modifications that occurred prior to the date of initial application when identifying satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price; and (ii) to apply the standard only to contracts that are not completed at the initial date of application. Because contract modifications are minimal, there is not a significant impact as a result of electing these practical expedients. The adoption resulted in no change in net assets as of July 1, 2019.

Accounting Standards Update 2018-08, "Not-for-Profit Entities (Topic 958) – Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made"

In the current reporting year, the Center adopted the Accounting Standards Update ("ASU") No. 2018-08, "Not-for-Profit Entities (Topic 958) - Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made." The ASU clarifies and improves the scope and the accounting guidance for contributions received and contributions made. The amendments in this update should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, "Not-for-Profit Entities," or as exchange (reciprocal transactions) subject to other guidance and (2) determining whether a contribution is conditional. The adoption was on a modified prospective method and this ASU resulted in no change in net assets as of July 1, 2019.

4. DISAGGREGATION OF REVENUE FROM CONTRACTS WITH CUSTOMERS

The Center's revenue for the year ending June 30, 2020 is solely based on performance obligations at a point in time. Revenue consists of contracts with various entities and individuals for hosting conferences, providing accommodations and food and beverage services. Management recognizes no material revenue from performance obligations satisfied over time.

The Center participates in an industry that is highly competitive. The Center's revenues, results of operations, and cash flows are affected by a wide variety of factors, including general economic conditions, the geographical regions of its clients, and the type of client.

Performance Obligations

Performance obligations for the Center are solely based on the needs of each customer and are satisfied at one point in time based on standard costs and hourly or daily billing rates.

Variable Consideration

The nature of the Center's business gives rise to variable consideration including allowances and discounts, and change orders that may increase or decrease the transaction price which has a similar effect on revenue. These variable amounts are generally based on the expectation of the work needed to satisfy the customer's needs.

Variable consideration is estimated at the most likely amount that is expected for the change in transaction price. Estimated amounts are not included in the transaction price as they are often not foreseen.

MERCY CONFERENCE AND RETREAT CENTER
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2020

5. CONTRACT ASSETS AND LIABILITIES

Contract assets consist of contract receivables for the year ended June 30, 2020 in the amount of \$13,167. Contract liabilities consist of deferred revenues as of June 30, 2020 in the amount of \$50,756.

6. FURNITURE AND EQUIPMENT

Furniture and equipment consist of the following at June 30, 2020:

Furniture and equipment	\$ 91,762
Sub-total	91,762
Less: Accumulated depreciation	44,939
Furniture and equipment, net	\$ 46,823

For the year ended June 30, 2020, depreciation charged to expense totaled \$11,849.

7. INVESTMENTS, AT FAIR VALUE AND BOARD DESIGNATED ENDOWMENT

Investments at fair value consist of the following at June 30, 2020:

	<u>Units</u>	<u>Amount</u>
70/30 Sponsored Ministry Fund	625,469	\$ 1,264,114
60/40 Sponsored Ministry Fund	652,541	1,261,400
Cash Fund	71,615	74,749
		\$ 2,600,263

The sponsored ministry funds are balanced funds which target holdings in equities and holdings in bonds and fixed income securities. Withdrawals from the investment funds are limited to \$100,000 per day and require one business day's notification for each \$100,000 requested. At June 30, 2020, fair value was \$2,600,263 and cost was \$2,657,511, resulting in a cumulative unrealized loss of \$57,248.

All investments are classified within Level 1 and Level 2 of the fair value hierarchy as the unit values of the funds are based on the unit values calculated for the pooled funds. The calculated unit values are based on aggregation of values for the individual securities comprising the pools, which are based on quoted prices in active markets for identical or similar assets.

The Board of Directors has designated these investments as an endowment, and has adopted investment and spending policies that attempt to provide a predictable stream of funding to operations and programs while seeking to maintain the purchasing power and long-term growth of the investments. The Board restricts the use of the endowment to 7% or less of the investment balance as of April 1 each year to fund the Center's operations, unless the Board approves additional appropriations. As of April 1, 2020, the fair value of the endowment investments was \$2,310,869, and therefore, the Center was limited to \$161,761 for use during fiscal year 2020 for operations.

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However, in 2017 the Board approved additional appropriations for staffing and resources necessary to continue growing the ministry of which \$304,091 remained available for use during fiscal year 2020. These additional funds adjusted the Board approved appropriations for fiscal year 2020 to \$465,852. During the 2020 fiscal year, actual net expenditures of endowment assets were \$375,000, resulting in an additional \$90,852 available for disbursement in fiscal year 2021. Under this spending policy, Board designated net assets represent \$2,509,412 of the total investment balance of \$2,600,263 as of June 30, 2020.

Changes in endowment net assets for the year ended June 30, 2020 are as follows:

Board designated endowment net assets - July 1, 2019	\$ 2,608,117
Investment income, net	63,056
Appropriation of endowment assets for expenditure	<u>(161,761)</u>
Board designated endowment net assets - June 30, 2020	\$ <u>2,509,412</u>

In the current year there was a reclassification between undesignated and board designated net assets of \$234,814 to correct board designated endowment net assets as of July 1, 2019.

8. NOTE PAYABLE

The Center applied for and was granted an SBA Payroll Protection Program loan in the amount of \$133,004 in May 2020 to provide payroll relief as part of the CARES Act. The loan is unsecured and if the loan forgiveness is not granted, eighteen monthly installments of principal and interest of \$7,484 will be due beginning in December 2020 with an interest rate of 1% per annum and a maturity date of May 2022.

Maturities of long-term debt over the next five years are as follows:

2021	\$ 51,082
2022	<u>81,922</u>
	\$ <u>133,004</u>

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are subject to the following donor-imposed time and purpose restrictions as of June 30, 2020:

Time restricted - Sisters of Mercy	\$ 35,000
Purpose restricted:	
DOCFSL Fund	205
EAP Fund	2,500
Miriam Nolan Scholarship Fund	3,814
Duchesne Fund	<u>9,742</u>
	\$ <u>51,261</u>

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Net assets were released from donor restrictions during fiscal year 2020 as follows:

Time restricted - Sisters of Mercy	\$ 35,000
Purpose restricted:	
Miriam Nolan Scholarship Fund	1,097
Duchesne Fund	6,258
	<u>\$ 42,355</u>

10. RETIREMENT PLAN

The Center established a 403(b) retirement plan, a defined contribution plan, on November 25, 2008, covering all employees. Employees become eligible immediately upon hire. The Center matches 100% of each participant's contributions to the plan up to 3% of the participant's compensation. Employer discretionary contributions are allowed. The Center's contributions to the 403(b) plan were \$13,163 during fiscal year 2020.

11. LEASES

The Center's facilities are currently being leased from the Sisters of Mercy, a related party, under an amended and restated lease agreement dated June 18, 2019. Contractual rent expense under this operating agreement for the period ended June 30, 2020 totaled \$624,600. However, of this amount, \$426,640 was forgiven by the Sisters of Mercy and shown as in-kind rental contribution by the Center. This in-kind rental contribution represents the difference of the fair value of rent, as determined by an independent appraisal, and the amount charged to and paid by the Center for the year ended June 30, 2020.

Future minimum lease payments are as follows:

	<u>Fiscal</u>		<u>Market Rate</u>		<u>Annual</u>		<u>Minimum</u>
	<u>Year</u>		<u>Rent</u>		<u>Forgiveness</u>		<u>Lease</u>
							<u>Payment</u>
2020-2021	\$	<u>664,880</u>	\$	<u>(388,175)</u>	\$	<u>276,705</u>	

12. RELATED PARTIES

The Sisters of Mercy exercise control over the Center's operations under certain corporate governance powers reserved exclusively to the Sisters of Mercy under the Center's by-laws, including approval of the Center's Board of Directors. During fiscal year 2020, the Sisters of Mercy made cash contributions of \$35,000 to the Center, and the Center purchased dietary and housekeeping services from the Sisters of Mercy totaling \$77,937 under a Purchased Services Agreement. Outstanding amounts payable to the Sisters of Mercy totaled \$8,938 as of June 30, 2020.

MIA-USA Fundraising, Inc. is a related party by virtue of common control. Transactions with MIA-USA Fundraising, Inc. during fiscal year 2020 consisted of managed services revenue of \$7,880 and rental revenue of \$27,180.

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JUNE 30, 2020

Mercy Investment Services, Inc. is a related party by virtue of common control. Transactions with Mercy Investment Services, Inc. during fiscal year 2020 consisted of investment fees expensed and paid of \$12,575.

13. LIQUIDITY AND AVAILABILITY OF RESOURCES

The following reflects the Center's financial assets as of the balance sheet date, reduced by the amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date. Amounts not available include amounts set aside for the following:

Financial assets at year end:

Cash and cash equivalents	\$ 151,948
Contract assets	13,167
Investments	<u>2,600,263</u>
Total financial assets	<u>2,765,378</u>

Less those unavailable for general expenditure within one year:

Donor restricted net assets	51,261
Board designated net assets	<u>2,509,412</u>
Total unavailable	<u>2,560,673</u>

Financial assets available to meet cash needs

for general expenditures within one year	\$ <u>204,705</u>
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As disclosed in Note 7, the Board restricts the use of the investment endowment to 7% or less of the investment balance as of April 1st of each year. These funds would increase the financial assets available to meet cash needs for general expenditures within one year. This amount is undeterminable at this time.

The Center's goal is generally to maintain financial assets to meet operating expenses in the near term. As part of its liquidity plan, excess cash, as it becomes available, is invested into the investment vehicle managed by a related party. In the event that additional funds are needed to fund operations, the Center would draw upon the investment vehicle for short term needs.