

Mercy Center, Inc.

Independent Auditor's Report and Financial Statements

June 30, 2020 and 2019



Mercy Center, Inc.
June 30, 2020 and 2019

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Independent Auditor's Report

Board of Directors
Mercy Center, Inc.
Bronx, New York

We have audited the accompanying financial statements of Mercy Center, Inc., which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years 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 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.

Board of Directors
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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 Center, Inc. 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.

BKD, LLP

New York, New York
November 30, 2020

Mercy Center, Inc.
Statements of Financial Position
June 30, 2020 and 2019

	2020	2019
Assets		
Cash	\$ 501,643	\$ 144,254
Investments	2,466,318	2,379,187
Contributions and grants receivable	662,472	415,687
Government support receivable	363,876	333,914
Prepaid expenses and other assets	81,940	57,530
Security deposit	54,167	54,167
Property and equipment, net	1,252,402	1,298,233
Total assets	\$ 5,382,818	\$ 4,682,972
 Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 134,278	\$ 54,980
Deferred revenue	-	73,378
Deferred rent	71,524	67,266
Deferred work allowance	134,262	159,836
Loan payable	411,680	-
Total liabilities	751,744	355,460
 Net Assets		
Without donor restrictions		
Operating	1,744,515	1,845,961
Board designated, building	192,439	192,439
Property and equipment	1,118,140	1,138,397
Total net assets without donor restrictions	3,055,094	3,176,797
With donor restrictions	1,575,980	1,150,715
Total net assets	4,631,074	4,327,512
Total liabilities and net assets	\$ 5,382,818	\$ 4,682,972

Mercy Center, Inc.
Statements of Activities
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						
Contributions and grants	\$ 788,559	\$ 1,121,179	\$ 1,909,738	\$ 586,987	\$ 584,901	\$ 1,171,888
Government support	1,459,852	-	1,459,852	1,329,457	-	1,329,457
Donations in-kind	112,699	-	112,699	97,746	-	97,746
Special events	\$ 119,415			\$ 433,083		
Direct cost of special events	(38,345)	-	81,070	(95,796)	-	337,287
Other revenue	34,343	-	34,343	42,101	-	42,101
Net assets released from restrictions	710,824	(710,824)	-	599,955	(599,955)	-
Total revenues and other support	<u>3,187,347</u>	<u>410,355</u>	<u>3,597,702</u>	<u>2,993,533</u>	<u>(15,054)</u>	<u>2,978,479</u>
Expenses						
Program services						
Adult education and workforce development	208,573	-	208,573	190,249	-	190,249
English for speakers of other languages and immigrant services	1,483,435	-	1,483,435	1,358,297	-	1,358,297
Family programs and social services	661,885	-	661,885	606,720	-	606,720
Youth programs	286,763	-	286,763	245,777	-	245,777
Personnel development and community education	48,514	-	48,514	54,139	-	54,139
Total program services	<u>2,689,170</u>	<u>-</u>	<u>2,689,170</u>	<u>2,455,182</u>	<u>-</u>	<u>2,455,182</u>
Supporting services						
Management and general	312,675	-	312,675	312,237	-	312,237
Fundraising	334,426	-	334,426	316,004	-	316,004
Total supporting services	<u>647,101</u>	<u>-</u>	<u>647,101</u>	<u>628,241</u>	<u>-</u>	<u>628,241</u>
Total expenses	<u>3,336,271</u>	<u>-</u>	<u>3,336,271</u>	<u>3,083,423</u>	<u>-</u>	<u>3,083,423</u>
Change in net assets before other changes	(148,924)	410,355	261,431	(89,890)	(15,054)	(104,944)
Investment return	27,221	14,910	42,131	65,534	42,409	107,943
Change in Net Assets	(121,703)	425,265	303,562	(24,356)	27,355	2,999
Net Assets, Beginning of Year	<u>3,176,797</u>	<u>1,150,715</u>	<u>4,327,512</u>	<u>3,201,153</u>	<u>1,123,360</u>	<u>4,324,513</u>
Net Assets, End of Year	<u>\$ 3,055,094</u>	<u>\$ 1,575,980</u>	<u>\$ 4,631,074</u>	<u>\$ 3,176,797</u>	<u>\$ 1,150,715</u>	<u>\$ 4,327,512</u>

Mercy Center, Inc.
Statements of Functional Expenses
Years Ended June 30, 2020 and 2019

2020

	Program Services					Supporting Services				
	Adult Education and Workforce Development	English for Speakers of Other Languages and Immigrant Services	Family Programs and Social Services	Youth Programs	Personnel Development and Community Education	Total	Management and General	Fundraising	Total	Total
Salaries and wages	\$ 121,867	\$ 962,141	\$ 352,428	\$ 137,435	\$ 31,144	\$ 1,605,015	\$ 194,175	\$ 232,156	\$ 426,331	\$ 2,031,346
Payroll taxes and fringe benefits	13,625	128,515	54,772	21,780	5,602	224,294	27,501	29,027	56,528	280,822
Total salaries and related expenses	135,492	1,090,656	407,200	159,215	36,746	1,829,309	221,676	261,183	482,859	2,312,168
Professional fees and contracted services	10,289	69,931	164,309	30,493	3,877	278,899	19,137	14,807	33,944	312,843
Occupancy	49,562	131,674	6,940	251	144	188,571	32,859	6,610	39,469	228,040
Donated services	-	35,087	29,162	38,172	2,777	105,198	7,500	-	7,500	112,698
Telephone	2,728	10,708	2,574	1,273	271	17,554	4,704	1,203	5,907	23,461
Supplies expense	910	22,361	10,473	30,655	249	64,648	3,652	2,204	5,856	70,504
Insurance	2,053	10,131	4,513	2,744	533	19,974	3,196	1,871	5,067	25,041
Printing and postage	2,177	7,736	2,353	1,005	435	13,706	696	17,185	17,881	31,587
Publications, dues and subscriptions	13	36,602	120	396	-	37,131	3,065	3,645	6,710	43,841
Licenses and permits	362	3,116	2,376	334	83	6,271	2,152	411	2,563	8,834
Maintenance	640	3,063	703	345	75	4,826	890	331	1,221	6,047
Marketing	601	1,235	1,806	605	599	4,846	31	7	38	4,884
Travel, meetings and entertainment	168	945	3,179	6,780	35	11,107	5,391	47,640	53,031	64,138
Staff development	4	71	1,220	227	3	1,525	8	12	20	1,545
Depreciation and amortization	3,554	59,329	24,695	14,203	2,674	104,455	6,385	9,625	16,010	120,465
Bank charges and credit card fees	20	790	262	65	13	1,150	1,333	6,037	7,370	8,520
Total expenses	208,573	1,483,435	661,885	286,763	48,514	2,689,170	312,675	372,771	685,446	3,374,616
Less expenses deducted directly from revenues on the statements of activities										
Direct cost of special events	-	-	-	-	-	-	-	(38,345)	(38,345)	(38,345)
Total expenses reported by function	<u>\$ 208,573</u>	<u>\$ 1,483,435</u>	<u>\$ 661,885</u>	<u>\$ 286,763</u>	<u>\$ 48,514</u>	<u>\$ 2,689,170</u>	<u>\$ 312,675</u>	<u>\$ 334,426</u>	<u>\$ 647,101</u>	<u>\$ 3,336,271</u>

Mercy Center, Inc.
Statements of Functional Expenses (Continued)
Years Ended June 30, 2020 and 2019

	2019									
	Program Services					Supporting Services				
	Adult Education and Workforce Development	English for Speakers of Other Languages and Immigrant Services	Family Programs and Social Services	Youth Programs	Personnel Development and Community Education	Total	Management and General	Fundraising	Total	Total
Salaries and wages	\$ 112,329	\$ 778,397	\$ 332,771	\$ 111,359	\$ 31,470	\$ 1,366,326	\$ 221,288	\$ 171,557	\$ 392,845	\$ 1,759,171
Payroll taxes and fringe benefits	13,911	109,097	54,277	25,716	6,960	209,961	22,609	23,732	46,341	256,302
Total salaries and related expenses	126,240	887,494	387,048	137,075	38,430	1,576,287	243,897	195,289	439,186	2,015,473
Professional fees and contracted services	6,866	114,903	144,723	32,216	5,199	303,907	26,434	61,462	87,896	391,803
Occupancy	41,416	147,424	11,461	2,316	990	203,607	7,822	8,250	16,072	219,679
Donated services	-	45,762	13,424	34,943	3,617	97,746	-	-	-	97,746
Telephone	2,031	13,325	2,568	916	390	19,230	546	1,247	1,793	21,023
Supplies expense	2,141	41,393	10,968	17,130	1,142	72,774	1,955	1,582	3,537	76,311
Insurance	1,104	12,245	4,445	2,078	758	20,630	1,058	1,798	2,856	23,486
Printing and postage	2,093	2,049	1,561	572	369	6,644	212	17,400	17,612	24,256
Publications, dues and subscriptions	35	35,405	-	277	-	35,717	3,354	3,476	6,830	42,547
Licenses and permits	12	224	1,582	37	14	1,869	4,771	34	4,805	6,674
Maintenance	1,092	9,373	2,506	953	407	14,331	518	1,088	1,606	15,937
Marketing	596	1,354	1,825	613	598	4,986	15	190	205	5,191
Travel, meetings and entertainment	611	2,669	3,914	10,307	192	17,693	3,926	96,786	100,712	118,405
Staff development	-	-	1,522	269	-	1,791	-	60	60	1,851
Depreciation and amortization	5,979	43,848	18,934	5,979	1,993	76,733	12,956	9,966	22,922	99,655
Bank charges and credit card fees	33	829	239	96	40	1,237	2,543	11,554	14,097	15,334
Miscellaneous	-	-	-	-	-	-	2,230	1,618	3,848	3,848
Total expenses	190,249	1,358,297	606,720	245,777	54,139	2,455,182	312,237	411,800	724,037	3,179,219
Less expenses deducted directly from revenues on the statements of activities										
Direct cost of special events	-	-	-	-	-	-	-	(95,796)	(95,796)	(95,796)
Total expenses reported by function	<u>\$ 190,249</u>	<u>\$ 1,358,297</u>	<u>\$ 606,720</u>	<u>\$ 245,777</u>	<u>\$ 54,139</u>	<u>\$ 2,455,182</u>	<u>\$ 312,237</u>	<u>\$ 316,004</u>	<u>\$ 628,241</u>	<u>\$ 3,083,423</u>

Mercy Center, Inc.
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Operating Activities		
Change in net assets	\$ 303,562	\$ 2,999
Items not requiring (providing) operating cash flows		
Depreciation and amortization	120,465	99,655
Realized and unrealized gains on investments	(502)	(54,362)
Changes in		
Contributions and grants receivable	(246,785)	(30,187)
Government support receivable	(29,962)	(24,658)
Prepaid expenses and other assets	(24,410)	17,739
Accounts payable and accrued expenses	79,298	(32,909)
Deferred revenue	(73,378)	36,273
Deferred rent	4,258	9,573
Deferred work allowance	(25,574)	(25,574)
	106,972	(1,451)
Net cash provided by (used in) operating activities		
Investing Activities		
Purchase of property and equipment	(74,634)	(94,441)
Proceeds from sale of investments	948,371	1,036,420
Purchase of investments	(1,035,000)	(920,000)
	(161,263)	21,979
Net cash (used in) provided by investing activities		
Financing Activities		
Proceeds from loan payable	411,680	-
	411,680	-
Net cash provided by financing activities		
Increase in Cash	357,389	20,528
Cash, Beginning of Year	144,254	123,726
Cash, End of Year	\$ 501,643	\$ 144,254

Mercy Center, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Mercy Center, Inc. (the Center) is a not-for-profit organization, located in the Bronx, NY. The Center was incorporated in January 1995 for the purpose of providing supportive services to women, parents and families. The Center conducts classes, workshops and support groups and provides individual counseling for participants in order to help them reach their full potential, lead meaningful lives and be agents of change in families and communities. The Center's primary sources of support are contributions and grants, government support and special events.

The Center is tax-exempt under Section 501(c)(3) of the Internal Revenue Code and, accordingly, is not subject to federal income taxes.

Cash

Uninvested cash and cash equivalents included in investment accounts, including endowment accounts, are not considered to be cash and cash equivalents.

At June 30, 2020, the Center's cash accounts exceeded federally insured limits by approximately \$217,000.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Investments and Investment Return

Investments in money market mutual funds having a readily determinable fair value are carried at fair value. Pooled investments are recorded at net asset value (NAV) as a practical expedient.

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external investment expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Investment return is reflected in the statements of activities with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions.

Government Support Receivable

The Center records government support receivable based on established contracts with funding agencies. A receivable is recorded when expenses incurred under the terms of the contract exceed cash received.

Mercy Center, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

Allowance for Doubtful Accounts

Receivables are charged to bad debt expense when they are determined to be uncollectible based upon a periodic review of the accounts by management. Factors used to determine whether an allowance should be recorded include the age of the receivables, a review of payments subsequent to year-end, historical information and other factors. Management has determined that an allowance for doubtful accounts was not necessary as of June 30, 2020 and 2019.

Property and Equipment

Property and equipment are recorded at cost or, if donated, estimated fair value. Items with a cost in excess of \$1,000 and a useful life of greater than one year are capitalized. Depreciation and amortization is recorded on the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements is recorded over the term of the lease or the estimated life of the asset, whichever is shorter.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Leasehold improvements	10 years
Building and improvements	39 years
Equipment, furniture and software	5-7 years

Long-Lived Asset Impairment

The Center evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during 2020 and 2019.

Deferred Revenue

Deferred revenue represents payments received in advance from government agencies for future periods and that have not yet been earned by the Center, which are recorded as liabilities until earned.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor restrictions.

Net assets without donor restrictions are available for use in general operations and not subject to donor or certain grantor restrictions.

Net assets with donor restrictions are subject to donor or certain grantor restrictions. Some restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor.

Mercy Center, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

Contributions and Grants

Contributions and grants are provided to the Center either with or without restrictions placed on the gift by the donor. Revenues and net assets are separately reported to reflect the nature of those gifts – with or without donor restrictions. The value recorded for each contribution is recognized as follows:

Nature of the Gift	Value Recognized
<i>Conditional gifts, with or without restriction</i>	
Gifts that depend on the Center overcoming a donor-imposed barrier to be entitled to the funds	Not recognized until the gift becomes unconditional, <i>i.e.</i> , the donor-imposed barrier is met
<i>Unconditional gifts, with or without restriction</i>	
Received at date of gift – cash and other assets	Fair value
Received at date of gift – property, equipment and long-lived assets	Estimated fair value
Expected to be collected within one year	Net realizable value
Collected in future years	Initially reported at fair value determined using the discounted present value of estimated future cash flows technique

In addition to the amount initially recognized, revenue for unconditional gifts to be collected in future years is also recognized each year as the present-value discount is amortized using the level-yield method.

When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Absent explicit donor stipulations for the period of time that long-lived assets must be held, expirations of restrictions for gifts of land, buildings, equipment and other long-lived assets are reported when those assets are placed in service.

Gifts and investment income that are originally restricted by the donor and for which the restriction is met in the same time period are recorded as revenue with donor restrictions and then released from restriction.

Conditional contributions having donor stipulations which are satisfied in the period the gift is received are recorded as revenue with donor restrictions and then released from restrictions.

Mercy Center, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

Special Events

The Center conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. All proceeds received are recorded as special events revenues in the accompanying statements of activities.

Donated Services

Donated services are recognized as contributions if the services create or enhance nonfinancial assets or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Center. Contributed services include information technology services and legal services as well as salaries for part-time computer teachers, part-time ESL (English as a Second Language) teachers, a full-time community worker, and a part-time social worker. Donated services of \$112,699 and \$97,746 were recognized during the years ended June 30, 2020 and 2019, respectively.

Operating Lease

Rent expense has been recorded on the straight-line basis over the term of the lease. Deferred rent has been recorded for the difference between the fixed payment and rent expense. Deferred work allowance (lease incentive) is amortized on the straight-line basis over the term of the lease.

Functional Expenses

The costs of providing the Center's programs and other activities have been classified on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on the actual usage, square footage and other methods.

Change in Accounting Principle

ASU 2018-08 – Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

During 2020, the Center adopted the Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2018-08 (Topic 958), *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The core guidance in ASU 2018-08 is to clarify existing guidance on determining whether a transaction with a resource provider, *e.g.*, the receipt of funds under a government grant or contract, is a contribution or an exchange transaction. The adoption had no impact on net assets and change in net assets.

Mercy Center, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

Note 2: Grant Reimbursements Receivable and Future Commitments

The Center receives its grant support through periodic claims filed with the respective funding sources, not to exceed a limit specified in the funding agreement. Since the financial statements of the Center are prepared on the accrual basis, all earned portions of the grants not yet received as of June 30, 2020, have been recorded as receivables. The following are the grant commitments that extend beyond June 30, 2020:

Grant	Term	Grant Amount	Earned Through 2020	Funding Available
Office for New Americans ONA Opportunity Center	5/1/2020-4/30/2021	\$ 80,800	\$ 12,866	\$ 67,934
Department of Youth and Community Development (DYCD) #810110B	7/1/2020-6/30/2021	79,128	-	79,128
Department of Youth and Community Development (DYCD) #77191B	7/1/2020-6/30/2021	56,423	-	56,423
Department of Youth and Community Development (DYCD) #77194B	7/1/2020-6/30/2021	51,161	-	51,161

Note 3: Fair Value Measurements and Disclosures

Fair Value Measurements

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Mercy Center, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of June 30, 2020:

	Level 1	Total
Investments reported on the fair value hierarchy		
Money market mutual funds	\$ 860,827	\$ 860,827
Investments reported using NAV as a practical expedient (A)		
Pooled investments		1,605,491
Total investments		\$ 2,466,318

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of June 30, 2019:

	Level 1	Total
Investments reported on the fair value hierarchy		
Money market mutual funds	\$ 802,989	\$ 802,989
Investments reported using NAV as a practical expedient (A)		
Pooled investments		1,576,198
Total investments		\$ 2,379,187

(A) Certain investments that are measured at fair value using NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

The following table summarizes investments measured at fair value using NAV as a practical expedient:

Investment	Fair Value		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
	2020	2019			
Pooled investments	\$ 1,605,491	\$ 1,576,198	\$ -	\$100,000 increments and limited to one increment per day	None for the 1st increment of the day; one day notice for any additional increments

Mercy Center, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statement of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended June 30, 2020.

Money market mutual funds: Valued at NAV of shares held by the Center at year-end.

Pooled investments: Valued at NAV of shares held at year-end as determined by the investment managers and/or similar market prices.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Center believes its valuation methods are appropriate and consistent with other market participants, 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.

Pooled Investments

Pooled investments are held by Mercy Investment Services (MIS), which is a diverse institutional investment program for participating communities and organizations of the Sisters of Mercy. It offers a limited number of equity and fixed income mutual funds with varying investment styles, all of which pass through socially responsible investment screens, so that participating organizations can construct well-diversified portfolios to meet their investment needs. The Center's pooled investments consist of equity (70 percent) funds and debt (30 percent) funds. The policy of the Board of Directors is to allocate a portion of investment income to general operations.

Note 4: Contributions and Grants Receivable

Contributions and grants receivable consisted of the following:

	With Donor Restrictions	
	2020	2019
Due within one year	\$ 537,472	\$ 409,687
Due in one to five years	125,000	6,000
	\$ 662,472	\$ 415,687

Mercy Center, Inc.
Notes to Financial Statements
June 30, 2020 and 2019

Note 5: Property and Equipment

	2020	2019
Land	\$ 27,000	\$ 27,000
Leasehold improvements	431,274	408,285
Building and improvements	1,712,979	1,704,802
Equipment, furniture and software	252,652	209,184
	2,423,905	2,349,271
Accumulated depreciation and amortization	(1,171,503)	(1,051,038)
	\$ 1,252,402	\$ 1,298,233

Note 6: Loan Payable:

On March 27, 2020, President Trump signed into law the *Coronavirus Aid, Relief, and Economic Security Act*. On April 27, 2020, the Center received a loan in the amount of \$411,680 pursuant to the Paycheck Protection Program (PPP). The Center has elected to account for the funding as a loan in accordance with Accounting Codification Standards (ACS) Topic 470, *Debt*. The loan is due two years from the date of the first disbursement under the loan and has a fixed interest rate of 0.98 percent per year. Any forgiveness of the loan will be recognized as a gain in the financial statements in the period the debt is legally released. PPP loans are subject to audit and acceptance by the U.S. Department of Treasury, Small Business Administration, or lender; as a result of such audit, adjustments could be required to any gain recognized.

Annual maturities of the loan payable as of June 30, 2020 are:

2021	\$	193,970
2022		217,710
	\$	411,680

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Note 7: Net Assets with Donor Restrictions

Net Assets with Donor Restrictions

Net assets with donor restrictions at June 30, 2020 and 2019 are available for the following purposes or periods:

	<u>2020</u>	<u>2019</u>
Periods after June 30	\$ 9,475	\$ 12,000
Family development/Familia Adelante	675,626	360,000
Youth	-	15,000
Immigration services	25,000	-
Other	85,000	10,000
Tuition	1,234	1,234
Thanksgiving	12,996	8,731
Stripe	7,989	-
Unappropriated endowment fund investment return	<u>293,085</u>	<u>278,175</u>
	1,110,405	685,140
Endowments		
Subject to appropriation and expenditure when a specified event occurs		
Available for operations	<u>465,575</u>	<u>465,575</u>
	<u>\$ 1,575,980</u>	<u>\$ 1,150,715</u>

Net Assets Released from Restrictions

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes:

	<u>2020</u>	<u>2019</u>
Lapse of time restrictions	\$ 2,525	\$ 6,000
Employment readiness	5,000	54,600
Family development/Familia Adelante	446,875	360,000
Immigration services	32,471	36,071
Youth	102,809	115,000
Social services	-	15,322
Stripe	20,960	-
Other	100,000	12,100
Thanksgiving	<u>184</u>	<u>862</u>
	<u>\$ 710,824</u>	<u>\$ 599,955</u>

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Note 8: Endowment

General

The Center's endowment consists of one donor restricted endowment fund established to support operations.

Interpretation of Relevant Law

The Board of Directors of the Center follows the guidelines of the *New York Prudent Management of Institutional Funds Act* (NYPMIFA).

The NYPMIFA spending policy establishes a maximum prudent spending limit of 7 percent of the average of the endowments' previous five years' balances. As a result of this interpretation, the Center classifies as endowment net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the endowment restricted in perpetuity, and (c) accumulations to the endowment restricted in perpetuity made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Return Objectives, Strategies Employed and Spending Policy

The Center's investment objectives are to preserve and protect the assets of the endowment while earning an appropriate rate of return. The Center monitors its investments throughout the year for consistency of investment philosophy, return relative to objectives, and investment risk as measured by asset concentration, exposure to extreme economic conditions, market volatility, and performance of the funds' managers. Appropriation of endowment earnings is subject to the annual review and approval by the Board of Directors. To date, no endowment earnings have been appropriated.

Funds with Deficiencies

The Center does not have any funds with deficiencies.

Endowment Net Asset Composition by Type of Fund

Investments to be held in perpetuity totaled \$758,660, which includes \$465,575 of endowment subject to perpetuity and \$293,085 of unappropriated investment earnings thereon as of June 30, 2020 and \$743,750, which includes \$465,575 of endowment subject to perpetuity and \$278,175 of unappropriated investment earnings thereon as of June 30, 2019. The income is expendable to support operations.

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Changes in Endowment Net Assets for the Years Ended June 30, 2020 and 2019

	With Donor Restrictions	
	2020	2019
Endowment net assets, beginning of year	\$ 743,750	\$ 701,341
Investment return	14,910	42,409
Endowment net assets, end of year	\$ 758,660	\$ 743,750

Note 9: Contingencies

A substantial amount of the Center’s revenues are from government reimbursements. Revenue and related expenses are subject to audit verification by the funding entities. Accordingly, any amounts which are determined to be non-program related would require repayment to such entities. Although such disallowances could be substantial in amount, in the opinion of management, any actual disallowances would only be immaterial. Management is not aware of any circumstances that would lead to any material disallowances.

Note 10: Operating Lease

The Center has a lease for office space that expires in September 2025. Under this lease agreement the Center was required to fund a security deposit in the amount of \$54,167. Rent expense for the years ended June 30, 2020 and 2019 was \$186,265 and \$186,279, respectively.

Future minimum rental payments are due as follows:

Year Ending June 30,	
2021	\$ 187,925
2022	193,563
2023	198,884
2024	204,851
2025	212,496
Thereafter	53,006
	\$ 1,050,725

The Center incurred costs to renovate its space. The lease included a provision whereby the landlord contributed up to \$260,000 to the cost of “Qualified Renovations” as defined in the lease, which was to serve as a “work allowance.” The work allowance is being treated like deferred rent and, therefore, is being amortized over the life of the lease. This related offset to rent expense is included in occupancy costs on the statements of functional expenses.

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Note 11: Retirement Plan

The Center has a tax-sheltered annuity plan under IRS Section 403(b) wherein all employees are eligible to contribute pre-tax amounts up to IRS maximum limits. The Center is not required to contribute to the plan. For the years ended June 30, 2020 and 2019, the Center did not contribute to the plan.

Note 12: Concentrations

Investments

The Center invests in various investment securities. 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 at least reasonably possible that changes in the values of investment securities will occur in the near-term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

Contributions and Grants Receivable and Related Revenues

Contributions receivable in the amount of \$620,000 as of June 30, 2020 were due from two sources and \$350,000 as of June 30, 2019 was due from one source. Grants receivable in the amount of \$326,368 and \$252,000 as of June 30, 2020 and 2019, respectively, was due from one source. Contributions in the amount of \$785,000 in 2020 and \$510,000 in 2019 each were recognized from two sources. Government grants in the amount of \$1,366,504 in 2020 and \$1,166,000 in 2019 was recognized from one source. These represent concentrations of revenue and credit risk to the Center.

Note 13: Economic Uncertainties

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, changes in net assets and cash flows of the Center. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Note 14: Subsequent Events

Subsequent events have been evaluated through November 30, 2020, which is the date the financial statements were available to be issued.

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Note 15: Liquidity and Availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date, comprise the following for 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Financial assets		
Cash	\$ 501,643	\$ 144,254
Investments	2,466,318	2,379,187
Contributions receivable, current	662,472	415,687
Government support receivable	<u>363,876</u>	<u>333,914</u>
Total financial assets	3,994,309	3,273,042
Donor-imposed restrictions		
Funds with donor restrictions	<u>(1,575,980)</u>	<u>(1,150,715)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,418,329</u>	<u>\$ 2,122,327</u>

The Center's net assets with donor restrictions consist of endowment funds and funds restricted by donors. Income from donor-restricted endowments is not restricted. The corpus of donor-restricted endowment funds are not available for general expenditure.

The Center manages its liquidity and reserves following three guiding principles: operating within a prudent range of financial soundness and stability, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term obligations will be discharged. The Center forecasts its future cash flows and monitors its liquidity quarterly and monitors its reserves annually.

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Note 16: Future Changes in Accounting Principle

Accounting for Leases

FASB amended its standard related to the accounting for leases. Under the new standard, lessees will now be required to recognize substantially all leases on the statements of financial position as both a right-of-use asset and a liability. The standard has two types of leases for statements of activities recognition purposes: operating leases and finance leases. Operating leases will result in the recognition of a single lease expense on a straight-line basis over the lease term similar to the treatment for operating leases under existing standards. Finance leases will result in an accelerated expense similar to the accounting for capital leases under existing standards. The determination of lease classification as operating, or finance will be done in a manner similar to existing standards. The new standard also contains amended guidance regarding the identification of embedded leases in service contracts and the identification of lease and nonlease components in an arrangement. The new standard is effective for annual periods beginning after December 15, 2021, and any interim periods within annual reporting periods that begin after December 15, 2022. The Center is evaluating the effect the standard will have on the financial statements; however, the standard is expected to have a material effect on the financial statements due to the recognition of additional assets and liabilities for operating leases.