MERCY CONFERENCE AND RETREAT CENTER
FINANCIAL STATEMENTS
JUNE 30, 2013

Contents

Purk
& Associates, P.C.
CPAs and Business Advisors

Independent Auditors' Report

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

We have audited the accompanying financial statements of Mercy Conference and Retreat Center (the "Center"), a not-for-profit organization, which comprise the statement of financial position as of June 30, 2013, 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 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.

Auditors' 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, 2013, 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.

Purk & Associates, P.C.

December 16, 2013 | Certified Public Accountants
St. Louis, MO

MERCY CONFERENCE AND RETREAT CENTER

STATEMENT OF FINANCIAL POSITION

June 30, 2013

Assets

Current Assets		
Cash	$	26,650
Accounts receivable		46,743
Promises to give		38,650
Inventory		12,278
Total Current Assets		124,321
Furniture and Equipment, Net		18,783
Investments		3,162,308
Total Assets	$	3,305,412

Liabilities and Net Assets

Current Liabilities		
Accounts payable	$	18,049
Accrued payroll and salary related expenses		36,330
Deferred revenue		86,336
Total Current Liabilities		140,715
Net Assets		
Unrestricted		
Undesignated		(39,706)
Board designated		3,162,308
Total unrestricted		3,122,602
Temporarily restricted		42,095
Total Net Assets		3,164,697
Total Liabilities and Net Assets	$	3,305,412

MERCY CONFERENCE AND RETREAT CENTER

STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Total
Support and Revenue:			
Program services:			
Hosted conferences/retreats	$ 784,980	$ -	$ 784,980
CRM sponsored programs	83,233	-	83,233
Spiritual direction/private retreats	76,665	-	76,665
Gift shop and other	39,578	-	39,578
Allowances	(44,714)	-	(44,714)
Total program services	939,742	-	939,742
Managed services revenue	83,583	-	83,583
Contributions	68,530	38,240	106,770
In-kind service contributions	11,700	-	11,700
Release from temporary restrictions	50,336	(50,336)	-
Total Support and Revenue	1,153,891	(12,096)	1,141,795
Expenses:			
Program services:			
Hosted conferences/retreats	794,549	-	794,549
Spiritual, private and sponsored programs	284,839	-	284,839
Total program services	1,079,388	-	1,079,388
Supporting activities:			
Management and general	135,266	-	135,266
Fundraising	60,936	-	60,936
Total supporting activities	196,202	-	196,202
Total Expenses	1,275,590	-	1,275,590
Change in Net Assets Before Investment Income, Net	(121,699)	(12,096)	(133,795)
Investment Income, Net			
Interest and dividends	94,617	-	94,617
Unrealized gains on investments	197,175	-	197,175
Realized losses on investments	(29,714)	-	(29,714)
Investment fees	(17,330)	-	(17,330)
Total Investment Income, Net	244,748	-	244,748
Change in Net Assets	123,049	(12,096)	110,953
Net Assets, Beginning of Year	2,999,553	54,191	3,053,744
Net Assets, End of Year	$ 3,122,602	$ 42,095	$ 3,164,697

MERCY CONFERENCE AND RETREAT CENTER

STATEMENT OF FUNCTIONAL EXPENSES
For The Year Ended June 30, 2013

	Program Services			Supporting Activities		
	Hosted Conferences/ Retreats	Spiritual, Private and Sponsored Programs	Total Program Services	Management and General	Fundraising	Total
Lay salaries	$ 216,192	$ 59,020	$ 275,212	$ 68,187	$ 35,420	$ 378,819
Sisters salaries	-	90,000	90,000	-	-	90,000
Lay benefits	53,981	14,700	68,681	16,977	8,814	94,472
Sisters benefits	-	6,300	6,300	-	-	6,300
Total personnel expenses	270,173	170,020	440,193	85,164	44,234	569,591
Administrative	10,860	2,507	13,367	2,507	836	16,710
Chapel	2,791	-	2,791	-	-	2,791
Computer	14,670	3,386	18,056	3,386	1,129	22,571
CRM speaker fees	-	12,253	12,253	-	-	12,253
Depreciation	4,308	995	5,303	995	332	6,630
Dietary	288,109	44,197	332,306	-	-	332,306
Gift shop	-	7,288	7,288	-	-	7,288
Housekeeping	4,682	979	5,661	-	-	5,661
In-kind services	11,700	-	11,700	-	-	11,700
Insurance	18,692	4,314	23,006	4,314	1,438	28,758
Rent	168,564	38,900	207,464	38,900	12,967	259,331
Total Functional Expenses	$ 794,549	$ 284,839	$ 1,079,388	$ 135,266	$ 60,936	$ 1,275,590

MERCY CONFERENCE AND RETREAT CENTER

STATEMENT OF CASH FLOWS

For The Year Ended June 30, 2013

Cash Flows From Operating Activities:		
Change in Net Assets	$	110,953
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation		6,630
Unrealized gains on investments		(197,175)
Realized lossed on investments		29,714
Change in assets and liabilities:		
Accounts receivable		8,516
Promises to give		10,988
Inventory		1,199
Prepaid expenses		4,430
Accounts payable		(10,953)
Accrued payroll and salary related expenses		5,137
Deferred revenue		(12,601)
Net Cash Used In Operating Activities		(43,162)
Cash Flows from Investing Activities:		
Proceeds from sale of investments		130,000
Purchase of investments		(77,287)
Net Cash Provided by Investing Activities		52,713
Net Increase in Cash		9,551
Cash - Beginning of Year		17,099
Cash - End of Year	$	26,650

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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.

Basis of Presentation

The accompanying financial statements of the Center have been prepared on the accrual basis of accounting.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board ("FASB") ASC 958-205, *Presentation of Financial Statements for Not-For-Profit Entities*. Under FASB ASC 958-205, the Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted net assets represent those net assets that are not subject to donor-imposed stipulations. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Temporarily restricted net assets represent those net assets whose use has been limited by donor-imposed stipulations that either can be fulfilled or removed by actions of the Center pursuant to those stipulations or expire by the passage of time.

Permanently restricted net assets represent those net assets whose use has been limited by donor-imposed stipulations that must be maintained permanently by the Center. The Center has no permanently restricted net assets.

Use of Estimates

The Center uses estimates and assumptions in 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.

Accounts Receivable

Management considers accounts receivable 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 was $630 for the year ended June 30, 2013.

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.

Sisters of Mercy provides funding for the Center's activities. During 2013, the Sisters of Mercy notified the Center it would receive $37,000 of funding during fiscal year 2014. The Center recorded this amount as a promise to give and temporarily restricted contribution as of June 30, 2013.

Inventory

Inventory consists of gift shop merchandise, dietary food, and dietary supplies inventory recorded at cost on a the first-in-first-out basis.

Furniture and Equipment

Furniture and equipment purchased by the Center are valued at cost. Donated assets are recorded at fair value at the date of the donation. Depreciation is computed on a straight-line method over the estimated useful life of four years. Accumulated depreciation as of June 30, 2013 was $7,735. Depreciation expense was $6,630 during 2013.

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.

Deferred Revenue

Deferred revenue represents 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.

Restricted and Unrestricted Support and Revenue

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. As permitted under FASB ASC 958-205, the Center reports temporarily restricted contributions as unrestricted support in the current year when the Center meets the donor restrictions in the same period.

Donated Services

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. During 2013, the Center recorded in-kind service revenue of $11,700.

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.

Spiritual, Private and Sponsored Programs – All activities sponsored by the Center, including: retreats, days of reflection, book studies, musical experiences, and spiritually based yoga classes; programs for individuals who stay for one or more days for private reflection or individually directed retreats; services of spiritual direction, healing touch, and therapeutic massage/bodywork; and gift shop and spiritual book sales.

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.

Functional Expense Allocation

Expenses are charged to program services and supporting activities on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Center.

Income Taxes

Prior to 2013, the Center was recognized by the Internal Revenue Service ("IRS") as an exempt organization under Section 501(c)(3) of the Internal Revenue Code ("Code") through its inclusion in the Official Catholic Directory published by P.J. Kenedy & Sons ("OCD") and consequently being covered by the Group Ruling Exemption Letter issued by the IRS to the United States Conference of Catholic Bishops ("Group Ruling"). This was based on the Center being organized and operated for religious and charitable purposes as required by Section 501(c)(3) of the Code and being operated as a religious or charitable institution of the Roman Catholic Church as evidenced by the Center being an apostolic work of the Sisters of Mercy (See Note 1). For the purposes of having its own separate determination, on March 22, 2013, the Center submitted an application for recognition of exemption from federal income tax as a not-for-profit organization under Section 501(c)(3) of the Code. The application is currently under review by the IRS. Management believes the IRS will issue an individual determination letter recognizing the exempt status of the Center under Section 501(c)(3) of the Code. While the application is pending, the Center will again be included in the OCD and will continue to be covered by the Group Ruling. Additionally, management believes the Center continues to be an exempt organization because it is organized and operated as required by Section 501(c)(3) of the Code. Therefore, no income taxes have been recorded.

Generally accepted accounting principles ("GAAP") prescribe a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than not to be sustained upon examination by taxing authorities. Management believes there are no material uncertain tax positions to be accounted for in the financial statements in accordance with GAAP as of June 30, 2013. Management's evaluation of uncertain tax positions has been made under its belief that the IRS will determine the Center is exempt from income taxes under Section 501(c)(3) of the Code. The Center's Form 990 informational returns are subject to examination by taxing authorities generally for three years after filing.

Fair Value of Financial Instruments

The carrying amounts of accounts receivable, promises to give, accounts payable, accrued payroll and salary related expenses, and deferred revenue approximate fair value due to the short period to maturity.

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 2 regarding the Center's investments and the appropriate classification according to this fair value hierarchy.

Subsequent Events

Management has evaluated the impact on the financial statements, if any, of subsequent events through December 16, 2013, which is the date the financial statements were available to be issued.

2. INVESTMENTS AND BOARD DESIGNATED ENDOWMENT

Investments consist of 2,538,605 units of the 45/55 Fund, a diversified ministry fund managed by Mercy Investment Services, Inc, a party related by the common corporate governance of the Sisters of Mercy. The 45/55 Fund is a balanced fund which targets a 45% holdings in equities and 55% holdings in bonds and fixed income securities. Withdrawals from the investment fund are limited to $100,000 per day and require one business day's notification for each $100,000 requested. At June 30,2013, fair value was $3,162,308 and cost was $2,825,894, resulting in a cumulative unrealized gain of $336,414.

All investments are classified within Level 2 of the fair value hierarchy as the unit value of the 45/55 Fund is based on the unit values calculated for the pooled fund. The calculated unit values are based on aggregation of values for the individual securities comprising the pool, 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. As of April 1, 2013, the fair value of the endowment investments was $3,237,061, and therefore, the Center was limited to $226,594 for use during fiscal year 2013 for operations. During 2013, the Center transferred $130,000 of investments to cash accounts for use in operations. Under this spending policy, Board designated net assets represent the entire investment balance of $3,162,308 as of June 30, 2013.

Changes in endowment net assets for the year ended June 30, 2013 are as follows:

Board designated endowment net assets - July 1, 2012	$	3,047,560
Investment income		244,748
Appropriation of endowment assets for expenditure		(130,000)
Board designated endowment net assets - June 30, 2013	$	3,162,308

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are subject to the following donor-imposed time and purpose restrictions as of June 30, 2013:

Time restricted - Sisters of Mercy	$	37,000
Purpose restricted:		
EAP Fund		2,500
Miriam Nolan Scholarship Fund		2,595
	$	42,095

Net assets were released from donor restrictions during fiscal year 2013 as follows:

Time restricted - Sisters of Mercy	$	49,638
Purpose restricted:		
EAP Fund		-
Miriam Nolan Scholarship Fund		698
	$	50,336

4. LEASES

The Center's facilities are currently being leased from the Sisters of Mercy, a related party. The current lease commitment, which commences July 1, 2013 and expires June 30, 2014, requires monthly payments of $11,158. Total rent expense during fiscal year 2013 was $259,331.

5. 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 $8,025 during fiscal year 2013.