

MERCY-USA FOR AID & DEVELOPMENT, INC.

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2013 AND 2012

AND

SINGLE AUDIT REPORT

YEAR ENDED DECEMBER 31, 2013

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Mercy-USA for Aid & Development, Inc.
Plymouth, Michigan

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Mercy-USA for Aid and Development, Inc (the Organization) and its overseas operations, which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of activities, 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 consolidated 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 consolidated 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 consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Organization as of December 31, 2013 and 2012, 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.

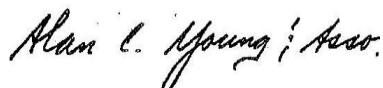
Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, statement of functional expense and other supplemental information as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 7, 2014 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Organization's internal control over financial reporting and compliance.



Detroit, Michigan
July 7, 2014

Mercy-USA for Aid & Development, Inc.

Consolidated Statements of Financial Position December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
<u>ASSETS</u>		
Current Assets:		
Cash and Cash Equivalents	\$ 2,703,731	\$ 3,291,369
Pledges & Accounts Receivable	713,218	730,988
Notes Receivable - Micro-Lending/SED	-	6,000
Prepaid Insurance & Expenses	11,263	10,377
Total Current Assets	<u>3,428,212</u>	<u>4,038,734</u>
Fixed Assets:		
Building, Vehicles, Furniture & Equipment	1,105,972	1,058,240
Less: Accumulated Depreciation	(247,631)	(195,656)
Total Fixed Assets	<u>858,341</u>	<u>862,584</u>
Other Assets:		
Security Deposits	500	500
Total Other Assets	<u>500</u>	<u>500</u>
Total Assets	<u><u>\$ 4,287,053</u></u>	<u><u>\$ 4,901,818</u></u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities:		
Accounts Payable	\$ 718,244	\$ 830,944
Deferred Revenue	80,743	356,861
Tenant Security Deposit	6,625	6,625
Accrued Payroll & Taxes	2,576	353
Advance Rent	-	1,283
Total Current Liabilities	<u>808,188</u>	<u>1,196,066</u>
Net Assets:		
Unrestricted	1,351,708	1,535,800
Temporarily Restricted	2,127,157	2,169,952
Total Net Assets	<u>3,478,865</u>	<u>3,705,752</u>
Total Liabilities and Net Assets	<u><u>\$ 4,287,053</u></u>	<u><u>\$ 4,901,818</u></u>

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

Mercy-USA for Aid & Development, Inc.

Consolidated Statements of Activities Years Ended December 31, 2013 and 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Contributions From Public	\$ 333,307	\$ 2,315,893	\$ 2,649,200	\$ 333,002	\$ 2,305,999	\$ 2,639,001
US Agency for International Development (USAID)	-	2,953,498	2,953,498	-	3,032,110	3,032,110
United Nation (UN) Grants	-	1,217,897	1,217,897	-	1,620,833	1,620,833
Global Fund to Fight AIDS, Tuberculosis & Malaria (GFATM) Grants	-	277,727	277,727	-	273,899	273,899
Contribution In-Kind - UN agencies	-	1,792,170	1,792,170	-	2,099,922	2,099,922
Rental Income	72,600	-	72,600	27,769	-	27,769
Dividend Income	3,543	-	3,543	3,458	-	3,458
Gain/Loss on Foreign Currency Fluctuation	6,146	-	6,146	19,121	-	19,121
Gain/Loss on Sale of Equipment	-	-	-	110	-	110
Program Fees	500	-	500	1,000	-	1,000
Net Assets Released From Restrictions:						
Satisfaction of Service Restrictions	8,599,980	(8,599,980)	-	9,516,175	(9,516,175)	-
Total Support and Revenue	<u>\$ 9,016,076</u>	<u>\$ (42,795)</u>	<u>\$ 8,973,281</u>	<u>\$ 9,900,635</u>	<u>\$ (183,412)</u>	<u>\$ 9,717,223</u>
EXPENSES						
Program Services:						
Food, Shelter and Orphan Assistance	\$ 2,797,042	\$ -	\$ 2,797,042	\$ 1,224,989	\$ -	\$ 1,224,989
Economic Vitalization	217,707	-	217,707	205,726	-	205,726
Health	5,354,849	-	5,354,849	7,528,404	-	7,528,404
Education	365,620	-	365,620	606,457	-	606,457
Total Program Services	<u>\$ 8,735,218</u>	<u>\$ -</u>	<u>\$ 8,735,218</u>	<u>\$ 9,565,576</u>	<u>\$ -</u>	<u>\$ 9,565,576</u>
Supporting Services:						
Management and General	\$ 247,146	\$ -	\$ 247,146	\$ 134,882	\$ -	\$ 134,882
Fund Raising	217,804	-	217,804	167,711	-	167,711
Total Supporting Expenses	<u>\$ 464,950</u>	<u>\$ -</u>	<u>\$ 464,950</u>	<u>\$ 302,593</u>	<u>\$ -</u>	<u>\$ 302,593</u>
Total Expenses	<u>\$ 9,200,168</u>	<u>\$ -</u>	<u>\$ 9,200,168</u>	<u>\$ 9,868,169</u>	<u>\$ -</u>	<u>\$ 9,868,169</u>
Change In Net Assets	(184,092)	(42,795)	(226,887)	32,466	(183,412)	(150,946)
Net Assets - Beginning of Year	1,535,800	2,169,952	3,705,752	1,503,334	2,353,364	3,856,698
Net Assets - End of Year	<u>\$ 1,351,708</u>	<u>\$ 2,127,157</u>	<u>\$ 3,478,865</u>	<u>\$ 1,535,800</u>	<u>\$ 2,169,952</u>	<u>\$ 3,705,752</u>

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

Mercy-USA for Aid & Development, Inc.

Consolidated Statements of Cash Flows Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (226,887)	\$ (150,946)
Adjustments to reconcile Change in Net Asset to Cash Provided by (Used in) Operations:		
Loss (Gain) on Disposal of Assets	-	(46)
Depreciation	57,432	53,287
Uncollectable Accounts Receivable	164,162	-
Change in:		
Repayments from/(Payments for) Notes Receivable	6,000	4,000
Prepaid Insurance and Expenses	(886)	(340)
Pledges and Accounts Receivable	(146,392)	(649,921)
Other Assets	-	5,100
Accounts Payable	(112,700)	389,157
Deferred Revenue	(276,118)	58,550
Accrued Payroll and Taxes	2,223	20
Other Liabilities	(1,283)	7,908
Net Cash Used in Operating Activities	<u>(534,449)</u>	<u>(283,231)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Equipment/Building	(53,189)	(854,840)
Proceeds from Sale of Assets	-	110
Net Cash Used in Investing Activities	<u>(53,189)</u>	<u>(854,730)</u>
Net Decrease in Cash	(587,638)	(1,137,961)
Cash and Cash Equivalents - Beginning of Year	<u>3,291,369</u>	<u>4,429,330</u>
Cash and Cash Equivalents - End of Year	<u>\$ 2,703,731</u>	<u>\$ 3,291,369</u>

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

1) NATURE OF ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activity

Mercy-USA for Aid & Development, Inc. (the Organization) is a nonprofit organization exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code. It was incorporated in the State of Michigan on September 23, 1988. The Organization is also licensed by the States of Michigan, Illinois, New Jersey and California to solicit public funds. Mercy-USA is involved in the relief and development for individuals and communities providing economic vitalization, health care, food and shelter and education mainly in Kenya, Somalia, Bosnia, Indonesia, Lebanon and Albania and also in the United States and other countries around the world with the help of the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), United States Agency for International Development (USAID), United Nations Children Fund (UNICEF), World Food Program (WFP) and other United Nations grants as well as through public contributions.

Basis of Accounting

The financial statements of Mercy-USA for Aid & Development, Inc. have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The financial statements include the amounts of the Organization and its various overseas locations. All significant inter-branch transactions and accounts are eliminated.

Translation of Currencies

Financial statements in currencies other than United State dollars are revalued for accounting as per FASB Accounting Standards Codification Topic 830, *Foreign Currency Matters*. The adjustments for currency exchange rates are included in the net income for those transactions that impact cash flow and are excluded for those that do not.

Financial Statement Presentation

In accordance with accounting standards applicable to not-for-profit organizations, the Organization 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.

To ensure proper usage of restricted and unrestricted assets, the Organization maintains its accounting according to fund accounting principles. The assets, liabilities and net assets are classified in accordance with specified restrictions and objectives. The Organization's funds are described below and are placed in the following categories:

**1) NATURE OF ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)**

Unrestricted Fund:

Unrestricted net assets are those currently available for use of the Organization's Board.

Temporarily Restricted Fund:

Temporarily restricted net assets are those assets received with donor stipulations that limit the use of the donated assets. When stipulated time restrictions expire or purpose restrictions are accomplished, these net assets are reclassified as unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

The Organization does not have any permanently restricted net assets.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence or the nature of any donor restrictions.

Certain restricted contributions are required to be reported as temporarily restricted support and are then reclassified to unrestricted net assets upon expiration of the donor restrictions.

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor.

Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in subsequent years are reported at the present value of their net realized value, using risk-free interest rates applicable to the years in which the promises are to be received.

Income Taxes

Accounting Standards Codification Topic, *Accounting for Uncertainty in Income Taxes*, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addresses de-recognition, classification, interest and penalties on income taxes, and accounting interim periods. The Organization's federal tax returns for the prior three years remain subject to examination by the Internal Revenue Service.

Mercy-USA for Aid & Development, Inc.

Notes to Financial Statements (Continued)
December 31, 2013 and 2012

1) NATURE OF ACTIVITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Grants

Grant support is recognized as revenue when expenditures are incurred for the specific purpose established under the grant agencies.

Functional Allocation of Expenses

The cost of providing the various programs and other activities has been summarized on a program basis in the statement of activities. Costs are allocated between fund raising, management and general and the appropriate program based on evaluations of the related benefits. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide the overall support and direction of the Organization.

Cash and Cash Equivalents

Cash includes cash on hand and cash in checking and savings accounts. For financial statement purposes, Mercy-USA for Aid & Development, Inc. considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents. Cash equivalents are carried at cost, which approximates market value.

Fixed Assets

Fixed assets are stated at cost if purchased or, at fair market value when received as contributions. Depreciation is recorded on a straight-line basis over the estimated useful life of the assets. Costs of normal repair and maintenance that do not add to the value or materially extend asset life are not capitalized. Assets with an individual cost of \$ 250 and over are capitalized.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. This will affect the reported amounts of assets and liabilities, 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 these estimates.

2) CASH AND CASH EQUIVALENTS

The total cash held by the Organization at December 31, 2013, includes \$1,313,049 not covered by insurance provided by the Federal Deposit Insurance Corporation. As of December 31, 2012 the uninsured amount was \$456,265.

3) PROGRAM AND SUPPORTING SERVICES

Mercy-USA for Aid & Development, Inc.'s program and supporting services are as follows:

Program Services

Economic Vitalization

The provision of ways for needy individuals and their communities to sustain themselves and to improve their quality of life; and assistance in reviving the economies of communities devastated by natural and man-made disasters.

Health Services

The improvement of individual and community health through education, immunization, nutrition support, safe water, hygiene, sanitation and other preventive measures. It also includes the operation or funding of clinics, hospitals, and other health care institutions; improvement, rehabilitation and renovation of the existing health care infrastructure; and the provision of medicines, medical supplies and medical equipment to health care facilities.

Food and Shelter

The provision of all types of food and shelter, winterization materials, and necessary household and personal items.

Orphan Assistance

The orphan assistance includes specific projects or other assistance for orphans around the world.

Education

The improvement of attendance and academic performance, especially among girls, through daily school lunch programs. It also includes construction of school buildings, as well as repairs and renovations to existing schools. Additionally, the provision of vocational and technical training especially to orphans and other vulnerable children and youth.

Management and General

Includes the services necessary to maintain an adequate working environment, provide proper administrative support for the Organization's programs, and manage the financial and budgeting responsibilities of the Organization.

Fundraising

Provides the structure necessary to encourage and secure support from individuals and organizations.

Mercy-USA for Aid & Development, Inc.

Notes to Financial Statements (Continued)
December 31, 2013 and 2012

4) CONTRIBUTIONS IN-KIND

These consist of food, medicines and medical supplies etc. provided by UNICEF and World Food Program for distribution to needy people. The amounts recognized in the statement of activities are based on fair value of the goods received at the time of donation. The Organization received \$1,792,170 and \$2,099,922 in fiscal years 2013 and 2012, respectively.

5) PLEDGES AND ACCOUNTS RECEIVABLE

Accounts receivable consist of Somalia/Kenya grant funding receivable from the USAID and the United Nations Grant agencies. Details of Accounts Receivable as of December 31, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Grants Receivable	\$ 696,540	\$ 709,527
Pledges Receivable	<u>16,678</u>	<u>21,461</u>
	<u>\$ 713,218</u>	<u>\$ 730,988</u>

During the year, \$164,162 was written off as uncollectibles.

6) FIXED ASSETS

Fixed assets are comprised of the following:

	<u>2013</u>	<u>2012</u>
Automobiles	\$ 93,629	\$ 75,129
Office Equipment	157,125	133,563
Office Furniture	16,159	11,194
Audio Visual Equipment	8,464	8,464
Building	820,000	820,000
Others	<u>10,595</u>	<u>9,890</u>
	1,105,972	1,058,240
Less: Accumulated Depreciation	<u>(247,631)</u>	<u>(195,656)</u>
Total	<u>\$ 858,341</u>	<u>\$ 862,584</u>

The depreciation for the years ended December 31, 2013 and 2012 was \$ 57,432 and \$53,287 respectively.

Mercy-USA for Aid & Development, Inc.

Notes to Financial Statements (Continued)
December 31, 2013 and 2012

7) PENSION PLAN

The Organization started a 401(k) pension plan on January 1, 2000 for all employees in the headquarters in the USA, who have attained the age of 20 ½ years. Employees may join the plan on January 1 or July 1 that coincides with or follows the date of employment after the completion of one year of service. The employer provides a 50% match on eligible employee contributions to the plan up to a maximum allowable by the plan. The Organization contributed \$10,183 and \$9,882 in fiscal years 2013 and 2012, respectively, to the plan.

8) RELATED PARTY TRANSACTIONS

The Organization partners with Mercy-USA for Aid & Development, (Canada) towards providing relief and development activities. For the years ended December 31, 2013 and 2012 the Organization, collected \$40,024 and \$68,208 respectively, on behalf of Mercy-USA for Aid & Development, (Canada) and received \$58,343 and \$87,204, respectively, from Mercy-USA for Aid & Development, (Canada). As at December 31, 2013, an amount of \$ 951 was payable to Mercy- USA for Aid and Development, (Canada) and no amount was receivable from them.

9) TEMPORARILY RESTRICTED NET ASSETS

Net assets were released from donor restrictions by incurring expenses satisfying the purpose specified by donors as follows:

Purpose restriction accomplished:

Albania Programs	\$ 87,058
Bosnia Programs	89,014
Indonesia Programs	51,245
Lebanon Programs	165,669
Somalia & Kenya Programs	6,697,866
Syria Programs	1,285,137
Gaza Programs	122,181
Bangladesh Programs	62,492
United States Programs	15,000
India Programs	22,764
Other Programs	1,554
Total Restrictions Released	\$ 8,599,980

Temporarily restricted net assets are available for specific programs and have a balance of \$2,127,157 and \$2,169,952 at December 31, 2013 and 2012 respectively.

10) CONTINGENCY

The Organization is the recipient of several grants. The expenditures for each program are subject to audit by appropriate agencies. Any disallowed claims, including amounts already collected, may constitute a liability. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Organization expects such amounts, if any to be immaterial.

11) SUBSEQUENT EVENTS

The Organization has evaluated events through July 7, 2014 the date that the accompanying financial statements were available to be issued. No significant subsequent event was noted that required adjustment or disclosure in the financial statements.

Since the end of the year, the Organization has established an office in Turkey.

Mercy-USA for Aid & Development, Inc.

Schedule of Expenditures of Federal Awards Year Ended December 31, 2013

<u>FEDERAL/PASS THROUGH GRANTOR PROGRAM TITLE</u>	<u>FEDERAL CFDA NUMBER</u>	<u>GRANT IDENTIFYING NUMBER</u>	<u>AWARD AMOUNT</u>	<u>EXPENDITURES</u>
U.S. Agency for International Development (USAID)				
Emergency Nutrition and WASH Support Program in Kenya	98.001	AID-OFDA-G-12-00064	\$ 1,868,060	\$ 988,189
Integrated Health, Nutrition and WASH Project in Somalia	98.001	AID-OFDA-G-11-00145	5,466,773	1,965,309
Total Federal Financial Assistance			<u>\$ 7,334,833</u>	<u>\$ 2,953,498</u>

See Notes to Schedule of Expenditures of Federal Awards.

Mercy-USA for Aid & Development, Inc.

Notes to Schedule of Expenditures of Federal Awards December 31, 2013

1) BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards presents the activity of federal award programs of Mercy-USA for Aid & Development, Inc. (the Organization) for the year ended December 31, 2013. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Organization.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, cost principles for non-profit organizations, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

3) EXPENDITURE REPORTS

Management has reconciled the expenditures reported in the Schedule of Expenditures of Federal Awards to those amounts reported in the annual or final cost reports.

4) SUBSEQUENT EVENTS

All subsequent events related to the major programs were evaluated through July 7, 2014, the date the accompanying reports were available to be issued. No significant event was noted that required adjustment or disclosure in the accompanying reports.



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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Mercy-USA for Aid & Development, Inc.
Plymouth, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Mercy-USA for Aid & Development, Inc. (the Organization), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated July 7, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Independent Auditor's Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An
Audit Of Financial Statements Performed In
Accordance With Government Auditing Standards
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alan L. Young, Assoc.

Detroit, Michigan
July 7, 2014



Alan C. Young & Associates, P.C.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of
Mercy-USA for Aid & Development, Inc.
Plymouth, Michigan

Report on Compliance for Each Major Federal Program

We have audited Mercy-USA for Aid & Development, Inc.'s (the Organization) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Organization's major federal programs for the year ended December 31, 2013. The Organization's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Organization's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

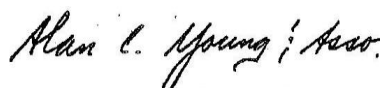
Report on Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Organization's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Detroit, Michigan
July 7, 2014

Mercy-USA for Aid & Development, Inc.

Schedule of Findings and Questioned Costs Year Ended December 31, 2013

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of Auditor's Report Issued: Unmodified

Internal Control over Financial Reporting:

- Material Weakness(es) Identified? Yes No
- Significant Deficiency(ies) Identified Yes None Reported
- Noncompliance Material to Financial Statements Noted? Yes No

Federal Awards

Internal Control over Major Program(s):

- Material Weakness(es) Identified? Yes No
- Significant Deficiency(ies) Identified Yes None Reported

Type of auditor's report issued on compliance for major program(s): Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes No

Identification of Major Program(s):

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
98.001	U.S. Agency for International Development (USAID) Integrated Health, Nutrition and WASH Program for Somalia; Emergency Nutrition and WASH Support Program in Kenya.

Dollar Threshold used to Distinguish Between Type A and Type B programs: \$ 300,000

Auditee Qualified as Low-Risk Auditee? Yes No

Mercy-USA for Aid & Development, Inc.

**Schedule of Findings and Questioned Costs (Continued)
Year Ended December 31, 2013**

SECTION II – FINANCIAL STATEMENT AUDIT FINDINGS

No Financial Audit Findings.

SECTION III – FEDERAL PROGRAM AUDIT FINDINGS

No Federal Program Audit Findings.

PRIOR YEAR FINDINGS

SECTION II - FINANCIAL STATEMENT AUDIT FINDINGS

None

SECTION III - FEDERAL PROGRAM AUDIT FINDINGS

None

OTHER SUPPLEMENTAL INFORMATION

Mercy-USA for Aid & Development, Inc.

Statement of Functional Expenses Year Ended December 31, 2013 (With Combined Comparative Totals for 2012)

Expenditures	Food, Shelter & Orphan Assistance	Health	Economic Vitalization	Education	Total Program Services	Management & General	Fund Raising	Total Expenditures	2012 Total Expenditures
Grants	\$ 59,000	\$ -	\$ -	\$ 145,879	\$ 204,879	\$ -	\$ -	\$ 204,879	\$ 493,989
Salaries & Wages	284,103	1,832,947	74,448	59,673	2,251,171	15,551	7,082	2,273,804	2,117,237
Employee Benefits	2,282	157,233	12,391	590	172,496	14,424	-	186,920	190,126
Advertising & Promotion	-	-	-	-	-	508	162,124	162,632	105,369
Transportation Expenses	8,285	800,379	12,961	4,309	825,934	1,271	-	827,205	935,807
Commercial Insurance	-	-	-	-	-	992	-	992	1,877
Conference, Meeting & Seminars	-	-	1,774	-	1,774	1,083	2,685	5,542	5,102
Consultants & Other Professional Services	9,225	14,287	1,380	10,820	35,712	-	4,500	40,212	25,516
Dues, Subscriptions, Fees, etc.	243	53	-	61	357	988	-	1,345	9,585
Legal	7,323	65	11	1,217	8,616	-	-	8,616	4,919
Accounting	517	23,769	-	517	24,803	1,953	-	26,756	26,892
Occupancy & Warehousing	5,042	140,405	4,779	9,429	159,655	5,460	-	165,115	168,410
Postage & Shipping, etc.	93	5,179	384	388	6,044	407	11,107	17,558	13,559
Printing & Copying	1,980	1,670	278	240	4,168	293	7,857	12,318	16,128
Program Materials	2,247,141	1,535,815	64,895	91,096	3,938,947	-	-	3,938,947	4,742,353
Telephone	2,760	63,038	2,685	1,795	70,278	2,270	-	72,548	69,975
Travel	50,081	199,411	14,717	1,493	265,702	1,925	217	267,844	258,483
Bank Charges/Currency Adjustment	13,345	54,712	3,975	1,972	74,004	353	22,232	96,589	105,068
Office Supplies and Equipment	4,179	140,158	1,208	1,273	146,818	467	-	147,285	122,929
Payroll Taxes	-	1,165	-	-	1,165	2,431	-	3,596	5,574
Loss on Sale of Assets	-	-	-	-	-	-	-	-	64
Uncollectible Accounts Receivables	-	-	-	-	-	164,162	-	164,162	-
Indirect cost	98,878	365,907	19,851	33,235	517,871	-	-	517,871	395,920
Depreciation	2,565	18,656	1,970	1,633	24,824	32,608	-	57,432	53,287
Total	\$ 2,797,042	\$ 5,354,849	\$ 217,707	\$ 365,620	\$ 8,735,218	\$ 247,146	\$ 217,804	\$ 9,200,168	\$ 9,868,169

Mercy-USA for Aid & Development, Inc.

Supplemental Statement of Revenue and Program Expenses Year Ended December 31, 2013 (With Combined Comparative Totals for 2012)

	ALBANIA	LEBANON*	BOSNIA	INDONESIA	SOMALIA & KENYA	SYRIA	BANGLADESH	GAZA	INDIA	USA	OTHERS**	NOT DESIGNATED	TOTAL	TOTAL 2012
REVENUES														
Contributions from Public:														
General	\$ 4,570	\$ 3,248	\$ 2,098	\$ 3,245	\$ 118,231	\$ 829,863	\$ 8,600	\$ 27,414	\$ 8,442	\$ -	\$ 11,290	\$ 333,307	\$ 1,350,308	\$ 1,525,836
Food Aid	13,820	41,000	12,000	21,000	50,000	112,000	936	-	8,019	15,000	-	-	273,775	257,668
Orphan Fund	5,775	1,838	4,473	7,000	740	-	-	-	-	-	-	-	19,826	18,596
Zakat	60,000	50,000	20,000	20,000	9,291	740,000	-	100,000	6,000	-	-	-	1,005,291	836,901
US Government Grants														
US Agency for International Development (USAID)	-	-	-	-	2,953,498	-	-	-	-	-	-	-	2,953,498	3,032,110
United Nations (UN) Grants	-	-	-	-	1,217,897	-	-	-	-	-	-	-	1,217,897	1,620,833
Global Fund to Fight AIDS, Tuberculosis & Malaria (GFATM) Grants	-	-	-	-	277,727	-	-	-	-	-	-	-	277,727	273,899
Gifts In Kind - UN Agencies	-	-	-	-	1,792,170	-	-	-	-	-	-	-	1,792,170	2,099,922
Rental Income	-	-	-	-	-	-	-	-	-	-	-	72,600	72,600	27,769
Dividend Income	-	-	-	-	-	-	-	-	-	-	-	3,543	3,543	3,458
Gain/Loss on Foreign Currency Fluctuation	-	-	-	-	-	-	-	-	-	-	-	6,146	6,146	19,121
Gain/Loss on Sale of Equipment	-	-	-	-	-	-	-	-	-	-	-	-	-	110
Program Fees	-	-	-	-	-	-	-	-	-	-	-	500	500	1,000
Total Revenues	\$ 84,165	\$ 96,086	\$ 38,571	\$ 51,245	\$ 6,419,554	\$ 1,681,863	\$ 9,536	\$ 127,414	\$ 22,461	\$ 15,000	\$ 11,290	\$ 416,096	\$ 8,973,281	\$ 9,717,223
EXPENDITURES														
Program Services:														
Food, Shelter & Orphan Assistance	\$ 18,100	\$ 54,396	\$ 19,344	\$ 17,624	\$ 1,374,519	\$ 1,249,532	\$ 23,000	\$ -	\$ 22,764	\$ 16,209	\$ 1,554	\$ -	\$ 2,797,042	\$ 1,224,989
Economic Vitalization	11,198	-	67,365	139,144	-	-	-	-	-	-	-	-	217,707	205,726
Health	-	16,632	-	-	5,302,612	35,605	-	-	-	-	-	-	5,354,849	7,528,404
Education	65,915	94,641	20,880	1,776	20,735	-	39,492	122,181	-	-	-	-	365,620	606,457
Total Program Services	\$ 95,213	\$ 165,669	\$ 107,589	\$ 158,544	\$ 6,697,866	\$ 1,285,137	\$ 62,492	\$ 122,181	\$ 22,764	\$ 16,209	\$ 1,554	\$ -	\$ 8,735,218	\$ 9,565,576

Mercy-USA for Aid & Development, Inc.

Indirect Cost Allocation Year Ended December 31, 2013

Expenditures	Total Cost	Allowable Indirect	Unallowable Indirect	Fund Raising Cost	Program Cost	Excluded Program Cost*	Total Direct Cost
Grants	\$ 204,879	\$ -	\$ -	\$ -	\$ 204,879	\$ -	\$ 204,879
Salaries & Wages	2,273,804	15,551	-	7,082	2,251,171	-	2,258,253
Employee Benefits	186,920	14,424	-	-	172,496	-	172,496
Advertising & Promotion	162,632	508	-	162,124	-	-	162,124
Transportation Expenses	827,205	1,271	-	-	825,934	-	825,934
Commercial Insurance	992	992	-	-	-	-	-
Conference, Meetings & Seminars	5,542	1,083	-	2,685	1,774	-	4,459
Consultants & Other Professional Services	40,212	-	-	4,500	35,712	-	40,212
Dues, Subscription, Fees etc.	1,345	988	-	-	357	-	357
Legal	8,616	-	-	-	8,616	-	8,616
Accounting	26,756	1,953	-	-	24,803	-	24,803
Occupancy & Warehousing	165,115	5,460	-	-	159,655	-	159,655
Postage & Shipping	17,558	407	-	11,107	6,044	-	17,151
Printing & Copying	12,318	293	-	7,857	4,168	-	12,025
Program Materials	3,938,947	-	-	-	3,938,947	1,792,170	2,146,777
Telephone	72,548	2,270	-	-	70,278	-	70,278
Travel	267,844	1,925	-	217	265,702	-	265,919
Bank Charges/Currency Adjustment	96,589	353	-	22,232	74,004	-	96,236
Office Supplies & Equipment	147,285	467	-	-	146,818	-	146,818
Payroll Taxes	3,596	2,431	-	-	1,165	-	1,165
Indirect Cost	517,871	-	-	-	517,871	-	517,871
Uncollectible Accounts Receivables	164,162	-	164,162	-	-	-	-
Depreciation	57,432	32,608	-	-	24,824	-	24,824
Total	<u>\$ 9,200,168</u>	<u>\$ 82,984</u>	<u>\$ 164,162</u>	<u>\$ 217,804</u>	<u>\$ 8,735,218</u>	<u>\$ 1,792,170</u>	<u>\$ 7,160,852</u>
Reclassify Overhead Charged to Program Costs	-	517,871	-	-	-	-	(517,871)
Total	<u>\$ 9,200,168</u>	<u>\$ 600,855</u>	<u>\$ 164,162</u>	<u>\$ 217,804</u>	<u>\$ 8,735,218</u>	<u>\$ 1,792,170</u>	<u>\$ 6,642,981</u>
Base = Total Direct Cost							
Pool Cost	\$ 600,855						
Base Cost	\$ 6,642,981						
Indirect Rate	9.04%						

* Excluded program costs include in-kind program material expenses and administrative costs included in the indirect cost.