

MERCY-USA FOR AID & DEVELOPMENT, INC.

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

AND

SINGLE AUDIT REPORT

DECEMBER 31, 2016

Mercy-USA for Aid & Development, Inc.

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Alan C. Young & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740
Detroit, MI 48202

(313) 873-7500 (Tel.)
(313) 873-7502 (Fax)
www.alancyoung.com

INDEPENDENT AUDITOR'S 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. (a nonprofit organization) (the Organization) and its overseas operations, which comprise the consolidated statements of financial position as of December 31, 2016 and 2015, 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 Organization'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 Organization'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.

**Independent Auditor's Report
(Continued)**

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, 2016 and 2015, 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for federal awards, the 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 September 13, 2017 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.

Alan C. Young, Assoc.

Detroit, Michigan
September 13, 2017

Mercy-USA for Aid & Development, Inc.

Consolidated Statements of Financial Position December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current Assets:		
Cash and Cash Equivalents (Note 2)	\$ 4,094,895	\$ 2,909,691
Pledges & Accounts Receivable (Note 5)	912,203	808,421
Notes Receivable - Micro-lending/SED	10,000	12,000
Prepaid Insurance & Expenses	20,472	12,074
Total Current Assets	<u>5,037,570</u>	<u>3,742,186</u>
Fixed Assets:		
Building, Vehicles, Furniture & Equipment (Note 6)	1,338,381	1,189,663
Less: Accumulated Depreciation (Note 6)	(403,192)	(346,060)
Total Fixed Assets	<u>935,189</u>	<u>843,603</u>
Other Assets:		
Security Deposits	7,623	6,676
Travel Advance	1,500	-
Total Other Assets	<u>9,123</u>	<u>6,676</u>
Total Assets	<u>\$ 5,981,882</u>	<u>\$ 4,592,465</u>
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts Payable	\$ 905,987	\$ 891,965
Deferred Revenue	715,587	79,062
Tenant Security Deposit	6,893	6,893
Accrued Payroll & Taxes	2,413	984
Total Current Liabilities	<u>1,630,880</u>	<u>978,904</u>
Net Assets:		
Unrestricted	2,454,836	1,756,148
Temporarily Restricted (Note 9)	1,896,166	1,857,413
Total Net Assets	<u>4,351,002</u>	<u>3,613,561</u>
Total Liabilities and Net Assets	<u>\$ 5,981,882</u>	<u>\$ 4,592,465</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, 2016 and 2015

	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE						
Contributions From Public	\$ 962,768	\$ 3,715,274	\$ 4,678,042	\$ 515,322	\$ 3,291,697	\$ 3,807,019
US Agency for International Development (USAID)	-	1,925,749	1,925,749	-	1,695,389	1,695,389
United Nation (UN) Grants	-	2,479,837	2,479,837	-	1,908,878	1,908,878
Global Fund to Fight AIDS, Tuberculosis & Malaria (GFATM) Grants	-	468,646	468,646	-	435,186	435,186
Contribution In-Kind - UN agencies (Note 4)	-	2,102,767	2,102,767	-	3,439,695	3,439,695
Rental Income	71,737	-	71,737	65,757	-	65,757
Dividend Income	9,103	-	9,103	5,330	-	5,330
Gain/Loss on Foreign Currency Fluctuation	30,095	-	30,095	50,156	-	50,156
Gain/Loss on Sale of Equipment	-	-	-	41	-	41
Program Fees	20,315	-	20,315	-	-	-
Net Assets Released From Restrictions:						
Satisfaction of Service Restrictions (Note 9)	10,653,520	(10,653,520)	-	10,576,901	(10,576,901)	-
Total Support and Revenue	11,747,538	38,753	11,786,291	11,213,507	193,944	11,407,451
EXPENSES						
Program Services:						
Food, Shelter and Orphan Assistance	6,671,110	-	6,671,110	5,491,830	-	5,491,830
Economic Vitalization	356,107	-	356,107	243,187	-	243,187
Health	3,595,215	-	3,595,215	4,721,450	-	4,721,450
Education	130,240	-	130,240	129,685	-	129,685
Total Program Services	10,752,672	-	10,752,672	10,586,152	-	10,586,152
Supporting Services:						
Management and General	94,897	-	94,897	155,829	-	155,829
Fund Raising	201,281	-	201,281	197,901	-	197,901
Total Supporting Expenses	296,178	-	296,178	353,730	-	353,730
Total Expenses	11,048,850	-	11,048,850	10,939,882	-	10,939,882
Change In Net Assets	698,688	38,753	737,441	273,625	193,944	467,569
Net Assets - Beginning of Year	1,756,148	1,857,413	3,613,561	1,482,523	1,663,469	3,145,992
Net Assets - End of Year	\$ 2,454,836	\$ 1,896,166	\$ 4,351,002	\$ 1,756,148	\$ 1,857,413	\$ 3,613,561

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, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 737,441	\$ 467,569
Adjustments to reconcile Change in Net Asset to Cash Provided by Operations:		
Loss (Gain) on Disposal of Assets, net	571	(41)
Depreciation	79,345	68,741
Change in:		
Prepaid Insurance and Expenses	(8,398)	7,164
Pledges and Accounts Receivable	(103,782)	(467,228)
Notes Receivable - Micro-lending/SED	2,000	-
Other Assets	(2,447)	-
Accounts Payable	14,022	429,714
Deferred Revenue	636,525	(7,002)
Accrued Payroll and Taxes	1,429	(19)
Other Liabilities	-	(3,645)
Net Cash Provided by Operating Activities	<u>1,356,706</u>	<u>495,253</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Fixed Assets	(181,502)	(50,145)
Proceeds from Sale of Assets	10,000	270
Net Cash Used in Investing Activities	<u>(171,502)</u>	<u>(49,875)</u>
Net Increase in Cash	1,185,204	445,378
Cash and Cash Equivalents - Beginning of Year	<u>2,909,691</u>	<u>2,464,313</u>
Cash and Cash Equivalents - End of Year	<u>\$ 4,094,895</u>	<u>\$ 2,909,691</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 Somalia, Syria, Kenya, Bosnia, Indonesia, Lebanon and Albania and also in the United States and other countries around the world with the help of the United States Agency for International Development (USAID), Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), , 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. Consolidated branches include:

- Albania
- Bosnia
- Indonesia
- Kenya, Somalia
- Lebanon
- Turkey

Translation of Currencies

Financial statements in currencies other than United States 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.

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

Financial Statement Presentation (Continued)

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:

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.

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

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.

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, The Organization 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 \$1,000 and over, and a useful life in excess of one year are capitalized.

Mercy-USA for Aid & Development, Inc.

Notes to Financial Statements (Continued)
December 31, 2016 and 2015

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

Advertising:

The Organization expenses advertising costs as incurred. Advertising expense was \$106,008 and \$121,684 for the years ending December 31, 2016 and 2015, respectively.

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.

Revenue Reorganization

Funds provided under grant or contract, which are not considered contributions, are deemed to be earned and reported as revenue when the Organization has either incurred expenditures or completed the deliverables in compliance with the specific terms and conditions of the grant or contract. Grants or contract funds received for which no corresponding expenditures or performance has yet been made are accounted for as deferred revenue. Expenditures and performance made in advance of funds received are recorded as grants or accounts receivables.

Commodities are received and reported at fair value and recognized as revenue as the commodities are distributed for program purposes.

Contributions, including unconditional promises to give, are recognized initially at fair value as revenue in the period received at net realizable value.

Comparative Financial Information

The accompanying consolidated financial statements include certain prior year summarized information. With respect to the consolidated statements of functional expenses and statement of revenue and program expenses, information from the prior year is presented in the aggregate and not presented by functions. Accordingly, such information should be read in conjunction with the Organization's prior year consolidated financial statements from which the summarized information was derived.

2) CASH AND CASH EQUIVALENTS

The total cash held by the Organization at December 31, 2016 includes \$3,335,292 not covered by insurance provided by the Federal Deposit Insurance Corporation. As of December 31, 2015, the uninsured amount was \$2,185,079.

3) PROGRAM AND SUPPORTING SERVICES

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

Program Services

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.

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.

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, 2016 and 2015

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 \$2,102,767 and \$3,439,695 in fiscal years 2016 and 2015, 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, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Grants Receivable	\$ 785,896	\$ 747,483
Pledges Receivable	126,244	60,938
Others	63	-
	<u>\$ 912,203</u>	<u>\$ 808,421</u>

6) FIXED ASSETS

Fixed assets are comprised of the following:

	<u>Balance January 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2016</u>
Fixed Assets:				
Building	\$ 856,410	\$ 77,700	\$ -	\$ 934,110
Office Equipment	176,120	10,525	(12,704)	173,941
Office Furniture	16,159	5,425	(1,230)	20,354
Audio Visual Equipment	9,639	4,000	(350)	13,289
Automobiles	120,740	83,852	(18,500)	186,092
Others	10,595	-	-	10,595
TOTAL	<u>1,189,663</u>	<u>181,502</u>	<u>(32,784)</u>	<u>1,338,381</u>
Less Accumulated Depreciation	<u>(346,060)</u>	<u>(79,345)</u>	<u>22,213</u>	<u>(403,192)</u>
NET FIXED ASSETS	<u>\$ 843,603</u>	<u>\$ 102,157</u>	<u>\$ (10,571)</u>	<u>\$ 935,189</u>

Mercy-USA for Aid & Development, Inc.

Notes to Financial Statements (Continued)
December 31, 2016 and 2015

6) FIXED ASSETS (Continued)

	Balance January 1, 2015	Additions	Deletions	Balance December 31, 2015
Fixed Assets:				
Building	\$ 820,000	\$ 36,410	\$ -	\$ 856,410
Office Equipment	163,829	12,560	(269)	176,120
Office Furniture	16,159	-	-	16,159
Audio Visual Equipment	8,464	1,175	-	9,639
Automobiles	121,542	-	(802)	120,740
Others	10,595	-	-	10,595
TOTAL	<u>1,140,589</u>	<u>50,145</u>	<u>(1,071)</u>	<u>1,189,663</u>
Less Accumulated Depreciation	<u>(278,161)</u>	<u>(68,741)</u>	<u>842</u>	<u>(346,060)</u>
NET FIXED ASSETS	<u>\$ 862,428</u>	<u>\$ (18,596)</u>	<u>\$ (229)</u>	<u>\$ 843,603</u>

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 \$11,637 and \$12,347 in fiscal years 2016 and 2015, 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, 2016 and 2015 the Organization collected \$65,023 and \$82,517 respectively, on behalf of Mercy-USA for Aid & Development, (Canada) and received \$75,632 and \$143,433, respectively, from Mercy-USA for Aid & Development, (Canada). As at December 31, 2016 and 2015, an amount of \$19,700 and \$20,000, respectively, 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:

Mercy-USA for Aid & Development, Inc.

Notes to Financial Statements (Continued)
December 31, 2016 and 2015

9) TEMPORARILY RESTRICTED NET ASSETS (Continued)

Purpose restriction accomplished:

	<u>2016</u>	<u>2015</u>
Albania Programs	\$ 70,464	\$ 97,082
Bosnia Programs	67,318	98,344
Indonesia Programs	139,418	249,378
Lebanon Programs	99,910	171,762
Somalia & Kenya Programs	7,416,915	8,000,399
Syria Programs	2,693,090	1,914,497
Gaza Programs	-	5,294
United States Programs	151,172	24,169
India Programs	15,233	15,976
Total Restrictions Released	<u>\$ 10,653,520</u>	<u>\$ 10,576,901</u>

The details of the temporarily restricted net assets are as below:

	<u>2016</u>	<u>2015</u>
Albania	\$ -	\$ 6,419
Lebanon	5,879	30,157
Bosnia	-	2,760
Somalia and Kenya	177,474	32,259
India	-	2,113
Syria	768,966	889,334
Indonesia	-	17,323
Gaza	489,070	423,665
USA	1,394	-
Others	453,383	453,383
Total	<u>\$ 1,896,166</u>	<u>\$ 1,857,413</u>

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 September 13, 2017 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.

Mercy-USA for Aid & Development, Inc.

Schedule of Expenditures of Federal Awards Year Ended December 31, 2016

<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)				
Integrated Health, Nutrition, WASH and Agro-Pastoral Food Security Project	98.001	AID-OFDA-G-15-00235	\$ 1,993,679	\$ 1,730,996
Integrated Health, Nutrition WASH and Pastoral Food Security Program	98.001	AID-OFDA-G-16-00126	<u>2,088,743</u>	<u>194,753</u>
Total Federal Financial Assistance			<u>\$ 4,082,422</u>	<u>\$ 1,925,749</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, 2016

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, 2016. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). 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 Uniform Guidance, 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) INDIRECT COST RATE

The Organization has elected not to use the percent de minimis indirect cost rate allowed under the Uniform Guidance.

5) SUBSEQUENT EVENTS

All subsequent events related to the major programs were evaluated through September 13, 2017, the date the accompanying reports were available to be issued. No significant event was noted that required adjustment or disclosure in the accompanying reports.



Alan C. Young & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740
Detroit, MI 48202

(313) 873-7500 (Tel.)
(313) 873-7502 (Fax)
www.alancyoung.com

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

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, 2016 and the related consolidated statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 13, 2017.

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 C. Young, Assoc.

Detroit, Michigan
September 13, 2017



Alan C. Young & Associates, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

7310 Woodward Ave, Suite 740
Detroit, MI 48202

(313) 873-7500 (Tel.)
(313) 873-7502 (Fax)
www.alanccyoung.com

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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 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, 2016. The Organization's major federal program is 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 Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.

**Independent Auditor's Report On Compliance
For Each Major Program And On
Internal Control Over Compliance
Required by Uniform Guidance
(Continued)**

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, 2016.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Alan C. Young, Assoc.

Detroit, Michigan
September 13, 2017

Mercy-USA for Aid & Development, Inc.

Schedule of Findings and Questioned Costs Year Ended December 31, 2016

SECTION I - SUMMARY OF AUDITOR'S 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 2CFR 200.516(a) 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;

Dollar Threshold used to Distinguish Between Type A and Type B programs: \$750,000

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, 2016

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 Consolidated Functional Expenses Year Ended December 31, 2016 (With Combined Comparative Totals for 2015)

Expenditures	Food, Shelter & Orphan Assistance	Health	Economic Vitalization	Education	Total Program Services	Management & General	Fund Raising	Total Expenditures	2015 Total Expenditures
Grants	\$ 29,365	\$ -	\$ 80,000	\$ -	\$ 109,365	\$ -	\$ -	\$ 109,365	\$ 29,840
Salaries & Wages	1,464,517	1,271,356	101,217	45,541	2,882,631	9,003	20,794	2,912,428	2,756,262
Employee Benefits	20,125	147,016	12,802	-	179,943	17,312	-	197,255	174,989
Advertising & Promotion	-	-	-	-	-	1,097	104,911	106,008	121,684
Transportation Expenses	352,925	279,336	19,366	2,117	653,744	1,712	-	655,456	629,378
Commercial Insurance	-	-	79	-	79	259	-	338	1,158
Conference, Meeting & Seminars	-	4,602	-	-	4,602	473	1,175	6,250	3,536
Consultants & Other Professional Services	22,131	1,000	3,713	14,278	41,122	504	16,500	58,126	47,216
Dues, Subscriptions, Fees, etc.	960	3,670	-	-	4,630	511	908	6,049	6,463
Legal	5,023	2,496	211	-	7,730	126	-	7,856	2,943
Accounting	1,567	26,596	-	-	28,163	456	-	28,619	33,090
Occupancy & Warehousing	124,181	78,752	12,873	7,489	223,295	4,375	18,900	246,570	216,241
Postage & Shipping, etc.	850	1,652	542	250	3,294	1,221	-	4,515	19,809
Printing & Copying	6,363	366	1,046	81	7,856	1,484	-	9,340	18,888
Program Materials	4,058,451	900,887	47,096	24,484	5,030,918	-	-	5,030,918	5,391,563
Telephone	18,703	46,812	2,129	979	68,623	416	-	69,039	67,716
Travel	145,662	151,870	19,978	1,587	319,097	2,067	4,766	325,930	254,655
Bank Charges/Currency Adjustment	56,323	66,188	5,774	3,167	131,452	352	33,327	165,131	122,655
Office Supplies and Equipment	28,359	48,436	3,014	4,099	83,908	1,926	-	85,834	110,622
Payroll Taxes	-	486	-	-	486	1,949	-	2,435	4,460
Loss on Sale of Assets	-	-	-	-	-	571	-	571	-
Uncollectible Accounts Receivables	-	-	-	-	-	-	-	-	18,483
Indirect cost	320,727	555,102	42,628	23,015	941,472	-	-	941,472	839,490
Depreciation	14,878	8,592	3,639	3,153	30,262	49,083	-	79,345	68,741
Total	\$ 6,671,110	\$ 3,595,215	\$ 356,107	\$ 130,240	\$ 10,752,672	\$ 94,897	\$ 201,281	\$ 11,048,850	\$ 10,939,882

Mercy-USA for Aid & Development, Inc.

Supplemental Statement of Revenue and Program Expenses Year Ended December 31, 2016 (With Combined Comparative Totals for 2015)

	ALBANIA	LEBANON ¹	BOSNIA	INDONESIA ²	SOMALIA ³ & KENYA	SYRIA	GAZA	INDIA	USA	NOT DESIGNATED	TOTAL	TOTAL 2015
REVENUES												
Contributions from Public:												
General	\$ 5,810	\$ 12,204	\$ 7,676	\$ 29,095	\$ 192,211	\$ 1,738,230	\$ 65,405	\$ 2,253	\$ 1,616	\$ 962,768	\$ 3,017,268	\$ 2,446,398
Food Aid	14,000	41,647	14,000	22,000	99,000	97,115	-	7,367	15,950	-	311,079	382,450
Orphan Fund	9,000	-	8,882	11,000	-	-	-	-	-	-	28,882	42,209
Education	3,235	-	4,000	-	-	-	-	-	-	-	7,235	11,448
Zakat	32,000	5,000	30,000	60,000	900,000	148,078	-	3,500	135,000	-	1,313,578	924,514
US Government Grants												
US Agency for International Development (USAID)	-	-	-	-	1,925,749	-	-	-	-	-	1,925,749	1,695,389
United Nations (UN) Grants	-	16,781	-	-	1,873,756	589,300	-	-	-	-	2,479,837	1,908,878
Global Fund to Fight AIDS, Tuberculosis & Malaria (GFATM) Grants	-	-	-	-	468,646	-	-	-	-	-	468,646	435,186
Gifts In Kind - UN Agencies	-	-	-	-	2,102,767	-	-	-	-	-	2,102,767	3,439,695
Rental Income	-	-	-	-	-	-	-	-	-	71,737	71,737	65,757
Dividend Income	-	-	-	-	-	-	-	-	9,103	9,103	9,103	5,330
Gain/Loss on Foreign Currency Fluctuation	-	-	-	-	-	-	-	-	30,095	30,095	30,095	50,156
Gain/Loss on Sale of Equipment	-	-	-	-	-	-	-	-	-	-	-	41
Events Ticket Sale	-	-	-	-	-	-	-	-	-	20,315	20,315	-
Total Revenues	\$ 64,045	\$ 75,632	\$ 64,558	\$ 122,095	\$ 7,562,129	\$ 2,572,723	\$ 65,405	\$ 13,120	\$ 152,566	\$ 1,094,018	\$ 11,786,291	\$ 11,407,451
EXPENDITURES												
Program Services:												
Food, Shelter & Orphan Assistance	\$ 16,225	\$ 72,799	\$ 17,940	\$ 66,454	\$ 3,892,144	\$ 2,529,623	\$ -	\$ 15,233	\$ 60,692	\$ -	\$ 6,671,110	\$ 5,491,830
Economic Vitalization	8,232	-	71,436	91,644	94,315	-	-	-	90,480	-	356,107	243,187
Health	-	1,292	-	-	3,430,456	163,467	-	-	-	-	3,595,215	4,721,450
Education	74,339	25,819	20,627	9,455	-	-	-	-	-	-	130,240	129,685
Total Program Services	\$ 98,796	\$ 99,910	\$ 110,003	\$ 167,553	\$ 7,416,915	\$ 2,693,090	\$ -	\$ 15,233	\$ 151,172	\$ -	\$ 10,752,672	\$ 10,586,152

1 Includes Palestinian refugees in Lebanon.

2 Includes Rohingya refugees from Myanmar/Burma

3 Includes refugees from Yemen

Mercy-USA for Aid & Development, Inc.

Indirect Cost Allocation Year Ended December 31, 2016

Expenditures	Total Cost	Allowable Indirect	Unallowable Indirect	Fund Raising Cost	Program Cost	Excluded Program Cost*	Total Direct Cost
Grants	\$ 109,365	\$ -	\$ -	\$ -	\$ 109,365	\$ -	\$ 109,365
Salaries & Wages	2,912,428	9,003	-	20,794	2,882,631	-	2,903,425
Employee Benefits	197,255	17,312	-	-	179,943	-	179,943
Advertising & Promotion	106,008	1,097	-	104,911	-	-	104,911
Transportation Expenses	655,456	1,712	-	-	653,744	-	653,744
Commercial Insurance	338	259	-	-	79	-	79
Conference, Meetings & Seminars	6,250	473	-	1,175	4,602	-	5,777
Consultants & Other Professional Services	58,126	504	-	16,500	41,122	-	57,622
Dues, Subscription, Fees etc.	6,049	511	-	908	4,630	-	5,538
Legal	7,856	126	-	-	7,730	-	7,730
Accounting	28,619	456	-	-	28,163	-	28,163
Occupancy & Warehousing	246,570	4,375	-	18,900	223,295	-	242,195
Postage & Shipping	4,515	1,221	-	-	3,294	-	3,294
Printing & Copying	9,340	1,484	-	-	7,856	-	7,856
Program Materials	5,030,918	-	-	-	5,030,918	2,102,767	2,928,151
Telephone	69,039	416	-	-	68,623	-	68,623
Travel	325,930	2,067	-	4,766	319,097	-	323,863
Bank Charges/Currency Adjustment	165,131	352	-	33,327	131,452	-	164,779
Office Supplies & Equipment	85,834	1,926	-	-	83,908	-	83,908
Payroll Taxes	2,435	1,949	-	-	486	-	486
Loss on Sale of Assets	571	-	571	-	-	-	-
Indirect Cost	941,472	-	-	-	941,472	-	941,472
Depreciation	79,345	49,083	-	-	30,262	-	30,262
Total	11,048,850	94,326	571	201,281	10,752,672	2,102,767	8,851,186
Reclassify Overhead Charged to Program Costs	-	941,472	-	-	-	-	(941,472)
Total	\$ 11,048,850	\$ 1,035,798	\$ 571	\$ 201,281	\$ 10,752,672	\$ 2,102,767	\$ 7,909,714

Base = Total Direct Cost

Pool Cost \$1,035,798

Base Cost \$7,909,714

Indirect Rate 13.10%

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